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**A STAKEHOLDER REPORTING MODEL FOR SEMI-AUTONOMOUS
PUBLIC SECTOR AGENCIES: THE CASE OF THE WORKERS'
COMPENSATION AGENCY IN NEWFOUNDLAND, CANADA**

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A Stakeholder Reporting Model for Semi-Autonomous Public Sector Agencies: The Case of the Workers' Compensation Agency in Newfoundland, Canada.

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Thesis Summary

There is increased public pressure for governments to be more accountable for their actions. A particular area of concern relates to the trend of many governments to delegate responsibility for certain public services to agencies. This thesis develops a reporting model that can be used by public sector agencies to demonstrate accountability to their stakeholders. The model encompasses three main strands of accountability: financial reporting, performance outcome reporting and stakeholder consultation.

Stakeholders are identified using Clarkson's (1984) primary/secondary typology and are further delineated through Mitchell, Agle and Wood's (1997) salience framework. The prominence of financial reporting in a stakeholder reporting model is examined through a discussion of the application of commercial versus public sector accounting standards. Non-financial performance outcome reporting is a fundamental element of a stakeholder accountability model.

Stewart's (1994) Ladder of Accountability is utilized to identify the various aspects of accountability: probity/legality, process, performance, programme and policy. An important element of accountability centers on stakeholder consultation and involvement. The thesis employs Friedman and Miles' (2006) Ladder of Stakeholder Management and Engagement as an approach not only to elicit feedback from stakeholders, but to truly engage them in the accountability process.

This research study examines how the conceptual frameworks, convergence of accounting standards, designation of a government organization as a government business enterprise (GBE) and the introduction of accountability legislation impacts the ability of an agency to adequately demonstrate accountability to its stakeholders.

This study uses the case of the workers' compensation agency in the Province of Newfoundland, Canada to develop a stakeholder accountability model which addresses the needs of stakeholders. This is one of the oldest public sector agencies in Newfoundland, and it operates at arm's length from government owing to its legislative right to levy its own revenue to fund programs. Further, as it is a mandatory system for the funders (employers) and beneficiaries (injured workers), arguably it should be held to a higher level of accountability.

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TERMINOLOGY

This section provides definitions for some of the workers' compensation terminology, acronyms and abbreviations used throughout this research:

TERM	DEFINITION
AASB	Auditing and Assurance Standards Board (Canada)
AASOC	Auditing Assurance Oversight Council (Canada)
AcSB	Accounting Standards Board (Canada)
AOCI	Accumulated Other Comprehensive Income
AsSOC	Accounting Standards Oversight Council (Canada)
AWCBC	Association of Workers Compensation Boards of Canada
BSC	Balanced Scorecard
Case Manager	The adjudicator determines whether or not a claim is accepted and the case manager manages the claim until the claimant returns to work or is placed on long-term disability benefits.
CALM	Canadian Asset Liability Method
CIA	Canadian Institute of Actuaries
CICA	Canadian Institute of Chartered Accountants
CPI	Consumer Price Index
CPP	Canada Pension Plan. This is a retirement plan administered by the federal Government. All employees in Canada contribute to this plan and are eligible to receive benefits upon retirement. Benefits are based on wage at retirement and level of contributions made.
CRA	Canada Revenue Agency – Canadian taxation department
EI	Employment Insurance – benefits provided by government to workers who become unemployed
ESRTW	Early and Safe Return-to-Work
FASB	Financial Accounting Standards Board
GAAP	Generally Accepted Accounting Principles
GBE	Government Business Enterprise (as defined by the CICA)
IAIABC	International Association of Industrial Accident Boards and Commissions.
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
KPI	Key Performance Indicator
KSM	Key Statistical Measure
LTD	Long-term Disability
MDA	Management Discussion and Analysis
NLHC	Newfoundland and Labrador Hydro Corporation
NPM	New Public Management
OHS	Occupational Health and Safety
PSAB	Public Sector Accounting Board (Canada)
RTW	Return-to-Work
WCB	Workers' Compensation Board
WCBSU	Workers' Compensation Board Staff Union
WHSCC	Workplace Health, Safety and Compensation Commission

Dedication

This thesis is dedicated to my parents, Dorothy and the late John Rixon, who provided much encouragement and support.

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CHAPTER 1: INTRODUCTION

1.0 Introduction

The thesis examines a stakeholder accountability model for government agencies. Public sector accountability in Canada has come to the forefront of Canadian politics over the past five years as a result the federal government's Sponsorship Program. The federal Liberal government started this program in 1994 to promote national unity in the Province of Quebec; this was done to counteract separatism, as evidenced by that province's 1995 referendum on whether to separate from Canada. The federal government aimed to increase its visibility and promote the advantages of a unified country through advertising. During the period 1994-2003 total spending on the Sponsorship Program amounted to \$332 million, of which \$147 was paid to several Quebec advertising firms (Gomery, 2005). By 2000, rumours had emerged of irregularities with the Sponsorship Program. In 2002, the Auditor General reported irregularities to the police. In response to increasing public pressure, the then Prime Minister Paul Martin appointed Justice John Gomery to conduct an investigation. When Justice Gomery's investigation revealed excessive commissions were paid to Quebec advertising firms, there were demands for the minority Liberal government to call an election. In January, 2006 the Conservative party won a minority government under Stephen Harper. One of Prime Minister Harper's key election promises was to introduce accountability legislation.

The sponsorship scandal, a source of sustained media coverage, had a profound impact on Canadians' trust in the federal government and its elected officials. An article in a national newspaper highlights the immediate impact on public opinion:

‘The popularity of Paul Martin’s Liberals has plunged dramatically in the wake of this week’s indictment of the federal sponsorship program...A poll, conducted immediately after the release of Auditor General Sheila Fraser’s report, shows the government dropped nine percentage points this month [February], down from 48 per cent in January. “Outside of an election period, I’ve never seen numbers move like this,” said Darrell Bricker, president of the polling firm. Mr. Bricker said Mr. Martin’s assertion that he wasn’t aware of the breadth of the scandal is being doubted by rank-and-file Canadians, who think he either knew about it or should have.’ (Laghi, 2004)

Another newspaper columnist noted that public anger over the sponsorship scandal adds to an already cynical view of government:

‘The snowballing response to Auditor General Sheila Fraser’s report indicates she has tapped into a wave of profound cynicisms and anger toward the federal Liberals that goes far beyond a particular scam involving a handful of advertising and communications firms in Quebec. That wave has so much fury...the sponsorship scandal may just have become the tipping point, that coalescence in the collective Canadian consciousness of the notion that it is time to throw the rascals out’. (Winsor, 2004).

Furthermore, the government’s own internally commissioned survey confirms the declining public trust in government:

‘The percentage of people who said they had ‘high trust’ in the federal government dropped to 25 per cent in the autumn of 2004 from 32 per cent before the release of the Auditor-General’s report.’ (Bronskill, 2004).

Public sector accountability has also taken on heightened focus in the Province of Newfoundland as a result of its Auditor General’s identification of inappropriate spending related to constituency allowances paid to provincial politicians. In late 2005, the Newfoundland government introduced its Transparency and Accountability legislation. This legislation extends beyond line government departments to include all government agencies. In Canada in general and Newfoundland in particular, the public is demanding and setting high expectations for governments and their agencies to be accountable to their stakeholders.

Public expectations for government at the national and provincial levels to demonstrate accountability permeates through to public sector agencies.

Governments in recent years have devolved various key services to agencies. This trend largely stems from the perception that services can be provided more efficiently and effectively by the private sector. Throughout the past two decades, there has been increased pressure on public sector managers to demonstrate the efficiency and responsiveness of public services. Western European and North American governments have responded to this public demand through a variety of improvement initiatives. According to Humphrey et al (1993) the U.K. government response, which was largely led through the market-oriented policies of Margaret Thatcher, introduced greater accountability in government through such initiatives as performance indicators, budgets, value-for-money audits, and internal markets to evaluate public sector service delivery. Increased demand for public sector accountability in the United States and Canada has also taken place (Werher-Seebach, 1996).

While most government services in Canada have not been privatized, the devolution to agencies represents an attempt to attain the efficiency of the private sector while at the same time ensure that essential services are provided to all citizens. The semi-autonomous nature of certain government agencies leads to difficulties in holding these agencies sufficiently accountable, since they often operate in an arm's length manner from government. Authority for operations of such semi-autonomous agencies is delegated by the Minister to a CEO and Board of Directors. Compounding the accountability issue is the fact that some of these agencies are self-funding and thus do not require government funding. It can be argued that public sector agencies ought to be held to a higher standard of accountability than government departments or agencies which receive direct

government funding since they are not subject to the same level of budgetary scrutiny, government control and monitoring as a funded agency. Consequently, it is imperative that government ensure agencies are held accountable to stakeholders in fulfilling their mandate.

The objective of this research study is to identify the elements that a stakeholder reporting model for public sector agency could encompass. This includes financial reporting, performance outcome reporting and stakeholder consultation. The model includes an underlying definition of accountability along with a determination of the stakeholders to whom public sector agencies should be held accountable. While the thesis is important to public sector agencies in general, it is particularly relevant for self-funded government agencies. The intent of this research is the development of a stakeholder reporting model which can be used by public sector agencies to demonstrate accountability to their multiple stakeholders.

This research will use the case of the workers' compensation agency in the Province of Newfoundland and Labrador, Canada, as an example of how public sector semi-autonomous agencies may demonstrate accountability to their stakeholders. The workers' compensation agency has been selected for this case study since it is an example of a government agency that has existed in Canada since 1915 and in the province of Newfoundland since 1951. (A history of workers' compensation is provided in Appendix 1). It is a well-established public sector agency, and it operates at arm's length from government. It is more autonomous than most other agencies owing to its funding arrangements. It levies

its own revenue; it is not dependent on government for funding and is consequently not subject to the same level of government scrutiny and monitoring as line government departments.

Workers' Compensation Boards (WCBs) are public sector agencies established by provincial government legislation to provide wage loss, health care, rehabilitation and long-term disability benefits to workers who are injured during the course of their employment. It is a mandatory, collective liability system that is compulsory for employers and workers. WCB agencies are funded solely through employer premiums based on the risk level of their industry and do not receive any government funding. WCBs are operated by a government-appointed Board of Directors and Board Chairperson. The Board is comprised of three union representatives, three employer representatives, three public members and the Assistant Deputy Minister of Labour. The Board is responsible for the hiring of the CEO. While Canada's workers' compensation schemes are a totally public system, the United Kingdom has a dual system comprised of Industrial Injuries Disablement Benefits administered by the Department of Work and Pensions and privately through employers' liability insurance.

Stakeholder accountability is important for the workers' compensation agency since government has given the agency broad legislative authority to levy sufficient revenue from employers to provide benefits to injured workers through a mandatory, no fault system, and workers have relinquished the right to sue their employers. This means neither employers nor workers can be found 'at fault' for a workplace injury. The WCB agency through its executives and Board of Directors

is held accountable by multiple stakeholders such as employers, injured workers, government, health care providers and its own staff who have multiple and often diverse and conflicting needs.

In addition to demonstrating accountability to funder and beneficiary stakeholders, researchers like Jennissen et al (2000) stress the importance of the WCB agencies demonstrating accountability to government through formal reporting relationships, strategic planning and performance reporting processes. They also point out government's legislative and governance role in ensuring accountability to the stakeholders. Jennissen et al specifically recommend that the following mechanisms be implemented to improve accountability:

Table 1.2 WCB and Government Accountability

Accountability Mechanism	Responsibility	Characteristic
1. Legislation should specify the reporting relationship between the WCBs and the responsible minister;	Government	Legislation Governance
2. Annual reports and five-year strategic plans with specific goals be developed and submitted to the government	WCB Agency	Reporting
3. Board structures should be changed to ensure meaningful public representation	Government	Legislation Governance
4. Deputy Ministers or Assistant Deputy Ministers be appointed to the Board of Directors	Government	Legislation Governance
5. Public involvement in policy development should be mandated	Government	Legislation Governance
6. Formal performance reporting systems, which operate on a regular cycle and involve stakeholders, should be established.	WCB Agency	Reporting

Source: Adapted from Jennissen et al (2000: p. 40)

Clearly, government has a key role in ensuring that the WCB agency is accountable to its stakeholders from a governance perspective. However, the agency itself is responsible for the implementation of specific financial and

performance reporting mechanisms. It is important that the accountability needs of stakeholders be examined in order to provide relevant reports.

The term 'agency' is used throughout this study in an interchangeable manner with 'board' and 'commission'. According to Christensen and Laegreid (2006) the term 'agency' has been described in a number of different ways: non-departmental public bodies, quasi-autonomous public organization, and distributed public governance. In drawing on Pollitt (2004) and Pollitt et al, (2004), agency is further defined as a body that is formally separated from the ministry, which carries out public tasks on a permanent basis. Agencies are typically staffed by public servants and are generally financed by the state budget. According to Christensen and Laegreid, agencies have some autonomy from their respective ministry in policy decision-making and over personnel, finance and managerial matters, but they are not totally independent, because government has ultimate responsibility for their activities.

The term 'semi-autonomous' adopted for this study, is differentiated from autonomous since the WCB is answerable to a Minister and is required to comply with legislation. Therefore, it is not totally autonomous. When agencies are created, they may take several forms in terms of their funding arrangements. For example, hospitals and school boards receive direct government funding whereas others such as hydroelectric corporations and workers' compensation agencies generate their own revenue. For the purpose of this research, this latter type of agency is described as a mandated or semi-autonomous agency. Compared to line government departments, semi-autonomous agencies generally have considerably more flexibility and freedom to carry out their mandate. They are not dependent

on government to provide funding and are, consequently, not subject to the same degree of budgetary restrictions and monitoring. These semi-autonomous agencies are typically at arm's length from government, and are self-funded through legislative authority. Some agencies such as hydroelectric crown corporations provide services and generate revenue which is remitted to government. Workers' compensation agencies generate sufficient revenue to provide services and programs to citizens, but they do not generate revenue for government.

Most provinces in Canada refer to their workers' compensation agencies as "Workers' Compensation Boards" (WCBs). Others such as New Brunswick and Newfoundland use the term "Commission". However, for simplicity, the term WCB will be used to refer to all workers' compensation agencies in Canada. The WCBs operate under provincial legislative authority. In addition, all WCBs in Canada are members of an industry organization known as the Association of Workers' Compensation Boards of Canada (AWCBC). This association facilitates networking, the exchange of information among the WCBs, along with national statistical and financial reporting.

The motivation for this research stems from the researcher's employment with the Newfoundland WCB agency as its Director of Finance. Interest in this topic was further heightened through membership on the Association of Workers' Compensation Boards of Canada (AWCBC) Financial Comparability Committee. This Committee was formed to establish standardized financial reporting, develop key statistical measures to evaluate the WCB agencies and provide inter-jurisdictional comparisons.

1.1 Identification of Research Problem

The research question investigated in this study is how public sector agencies can utilize a stakeholder reporting model to demonstrate accountability to diverse groups of stakeholders. The study uses the case of the workers' compensation agency in the province of Newfoundland and Labrador as an example of a semi-autonomous agency, with the aim of developing a stakeholder reporting framework to address the multi-dimensional accountability needs of its stakeholders. In developing the reporting framework, stakeholder groups are identified and their accountability needs and stakes are determined along with their respective accountability criteria.

To develop the stakeholder reporting model, the research study examines how conceptual frameworks, convergence of accounting standards, designation of a government organization as a government business enterprise (GBE) and the introduction of transparency and accountability legislation impact the proposed model's underlying assumptions.

To develop a reporting model which can be employed to demonstrate accountability, it is necessary to first ascertain what the term 'accountability' means to stakeholders. Accountability is defined in different ways by various authors. The commercial definition of accountability typically involves the accountant providing an account to the accountee (Ijiri, 1983). This view of accountability is traditionally thought of in a stewardship context, with the provision of financial statements to assess management's use of the resources

entrusted to them (Chen, 1975). This view of accountability has been expanded over recent decades to decision making with a focus on investor needs. This is supported by the Canadian Institute of Chartered Accountants (CICA) which considers the objectives of financial statements for profit-oriented enterprises to be meeting the informational needs of investors and creditors. The public sector view of accountability is much broader than the decision-making role of information provided to the commercial sector. Public sector accountability is often characterized as the obligation of those who have resources entrusted to them to answer publicly for the discharge of their responsibilities (Coy and Pratt, 1998; Glynn and Murphy, 1996; McCandless, 1993). Accountability in the public sector encompasses the multi-dimensional needs of a broad spectrum of stakeholders. These needs range from financial results to efficiency and effectiveness of the organization's operations to how well it meets the service expectations of stakeholders. This research explores accountability in order to determine the various definitions employed by stakeholders of public sector agencies and to identify how such agencies should fulfil their accountability obligations.

When developing a stakeholder reporting model, it is also essential to identify and classify the stakeholders to whom the agency is accountable. As with the term 'accountability', the term 'stakeholder' can also be viewed from both broad and narrow perspectives. Freeman (1984: p. 46) broadly defines stakeholder as "any group or individual who can affect or is affected by the achievement of the organization's objectives". According to this definition, organizations can be affected by or they can affect almost anyone (Mitchell et al, 1997). Other scholars

define accountability in a much narrower sense. For example, Clarkson (1995) defines stakeholders as those who have something at risk, and as persons or groups that have, or claim, ownerships, rights or interests in a corporation and its activities. Clarkson also considers the various stakeholder classification typologies, such as primary and secondary and Mitchell et al (1997) seek to identify stakeholder salience as reflected through their relative power, legitimacy and urgency. Various aspects of stakeholder theory, descriptive, instrumental and normative (Donaldson and Preston, 1995), are examined to broaden the understanding of how public sector agencies approach stakeholder management and demonstration of accountability. The stakeholder management ladder, as proposed by Friedman and Miles (2006), is explored to determine how it might be utilized to enhance accountability.

This case study involves eight exploratory interviews and eighteen semi-structured interviews (consisting of a series of open-ended questions and a questionnaire component) with a stratified non-random sample which represents the key stakeholders (sub groups) in the population. In addition, three semi-structured interviews are held with senior executives of the WCB agency. The purpose of these interviews is to identify the issues of interest to stakeholders and to discern how the agency can discharge its accountability obligations. In addition to the semi-structured interviews, a documentary analysis is undertaken of the various reports issued by the workers' compensation agency to its stakeholders. This case study identifies and categorizes the various stakeholder groups, identifies their accountability needs and develops a stakeholder reporting model which is appropriate for public sector agencies.

The research approach adopted involves first conducting exploratory interviews with knowledgeable stakeholders. The purpose of these exploratory interviews is to identify the key issues of concern. The information derived from the exploratory interviews is utilized to develop the main research instrument: semi-structured interviews. These interviews are comprised of three elements: open-ended questions, checklist questions and Likert-scale questions. This research approach combines the advantages of using open-ended questions (to probe for additional detail and facilitate gathering additional pertinent information) with the quantitative benefits of using Likert-scale and checklist questions. The employment of qualitative and quantitative data collection methods contributes to the robustness of this case study and is suggested as an effective way to develop a user-needs stakeholder reporting model.

There are advantages and disadvantages associated with conducting a case study on an organization in which the researcher is employed. While the researcher's role with the agency could potentially compromise independence, her extensive knowledge of the WCB aids in identifying the issues and in interpreting the research results. It must also be noted that the author's position with the agency contributes to the access and willingness of respondents to participate in this study.

1.2 Contribution of research to theory

This research makes the following three significant contributions to the public sector stakeholder accountability literature:

1. The major contribution of this research is to enhance the understanding and knowledge of the multi-dimensional accountability expectations of stakeholders of a semi-autonomous public sector agency. This research contributes to stakeholder literature through the identification and classification of key stakeholder groups, their stakes and the means through which their accountability needs are to be met. This research enhances the understanding of stakeholder accountability for public sector agencies through its two-level approach of classifying stakeholders. Firstly, Clarkson's primary/secondary typology is used to identify the primary stakeholder groups which are the focus of this study. Secondly, Mitchell et al's (1997) stakeholder salience framework informs further classification of the primary stakeholders into high, medium or low salience. This combined typology enables the agency to prioritize its focus on the highly salient stakeholders.
2. This research culminates in the development of a comprehensive reporting model to aid the WCB and other public sector agencies demonstrate accountability to their stakeholders. It provides an integration of Stewart's (1984) Ladder of Accountability with Friedman and Miles' (2006) Ladder of Stakeholder Management and Engagement. This combined approach associates the high rung on Stewart's ladder, programme with the high rungs on Friedman and Miles' ladder, consultation, negotiation, involvement, collaboration, and partnership.

3. This research may also contribute to the reform of the accountability arrangements of the Newfoundland WCB agency. The author has been requested to present the research findings to the CEO and WCB senior executives. The model will also be presented to the AWCBC Financial Comparability Committee. This may lead to consideration of industry-specific accounting standards and changes to the calculation of certain key statistical measures.

This research is topical within the Canadian context of increased concern over government accountability, particularly in light of government's increased devolution of essential services to increasingly autonomous agencies. Governments at both national and provincial levels have recognized the need for accountability and transparency, as evidenced by their introduction of accountability legislation. While there has been considerable research in the area of public sector accountability, there is a paucity of research on accountability of public sector agencies to their stakeholders. Since public sector organizations place significant reliance on the provision of information to demonstrate accountability, it is important to examine the financial and non-financial reporting mechanisms used by the workers' compensation agency to evaluate effectiveness in meeting stakeholders' accountability needs.

The proposed model is based on an underlying stakeholder management style which fosters stakeholder consultation and involvement whereby they play a vital role in setting organizational direction. Essentially, the model is comprised of stakeholder consultation combined with financial and non-financial performance outcome information. The proposed model is based on the adoption of commercial

accounting standards since WCB meets the criteria of a government business enterprise (GBE) and is thus governed by commercial accounting standards. In addition, it is suggested that the stakeholder reporting model incorporate the introduction of industry accounting standards where the existing standards are not appropriate for a semi-autonomous public sector agency in terms of meeting the stakeholders' needs. This will ensure that financial and performance reporting provides information that is relevant for stakeholders. Finally, this model calls for the provision of expanded explanatory information to accompany the financial statements and non-financial performance outcome measures as a method of ensuring that the agency is responding to stakeholder needs. Overall, this model provides a way to identify and classify stakeholders, analyze their accountability needs and demonstrate accountability. While the stakeholder accountability reporting model is developed for the Newfoundland WCB, it is transferable to other WCB's as well as to other public sector organizations.

1.3 Thesis Structure

This chapter has provided an overview of the research topic and how it contributes to the various theories surrounding stakeholder accountability for a public sector agency. The remainder of the thesis is organized in the following manner:

- Chapter 2 reviews the literature on stakeholder accountability theory;
- Chapter 3 reviews the literature concerning stakeholder reporting frameworks and generally accepted accounting principles (GAAP);
- Chapter 4 evaluates the possible research methods and outlines the research approach for this study;

- Chapter 5 consists of a documentary review of the Canadian WCBs' reporting;
- Chapter 6 discusses the results of the semi-structured interviews as it pertains to stakeholders' perceptions of accountability;
- Chapter 7 examines mechanisms of stakeholder accountability as derived from the semi-structured interviews;
- Chapter 8 introduces the stakeholder reporting model; and
- Chapter 9 provides contributions, limitations and conclusions of this research study.

CHAPTER 2: LITERATURE REVIEW – ACCOUNTABILITY

2.0 Introduction

This chapter provides a review of the relevant literature on accountability and stakeholders. To develop a stakeholder reporting model, it is necessary to define what the agency is accountable for and to whom it is held to account. The literature review starts with a critical examination of what is embodied in accountability and explores stakeholder accountability in a broad context, progressing from a private sector/commercial perspective toward an analysis from the public sector and a government agency's point of view. The literature review is undertaken to establish the context for accountability in general and to discuss public sector accountability in particular. The literature review examines various definitions of accountability to identify a definition suitable for government agencies. The specific concerns of stakeholders in terms of how agencies demonstrate accountability through adherence to performance reporting are also explored.

The second major thrust of the literature review is a typology of stakeholder classification to identify those of interest for public sector agencies. The stakeholder literature is explored to identify a typology as an appropriate method of categorizing the public sector agency stakeholders. The literature is also examined to determine appropriate methods of stakeholder management.

The third section of the literature review encompasses performance reporting. Presented in Chapter 3, it begins by examining financial reporting frameworks before concentrating on wider performance issues. The literature is explored to

provide a definition, to review the historical development performance reporting and to examine the various issues surrounding performance reporting as a method of meeting stakeholders' accountability expectations.

2.1 Accountability – Private Sector/Commercial Perspective

Accountability is defined by Rosenfield (1974: p. 125) as the “justifiable holding of one to account for personal actions where justifiability is conferred by an authority relationship between the persons involved”. When defining accountability, it is important to distinguish between the terms ‘accountability’ and ‘responsibility’. Throughout the literature the term accountability is often used interchangeably with responsibility. However, these concepts do not necessarily have the same meaning. Hoskin (in Munro and Mouritsen, 1996) differentiates between accountability and responsibility. Under Hoskin’s definition, responsibility is considered to be encompassed within accountability. Hoskin maintains that responsibility involves stewardship of goods/money and answers for past performance whereas accountability involves connecting performance reports to plans and forecasts.

The focus of this research is largely centred on issues concerning the broader concept of accountability. This concept originated with the separation of ownership and management as owners of companies delegated responsibility for the operation of their businesses to professional managers. This created a situation whereby managers were viewed as agents of the principals (owners/shareholders). Agency theory is used to explain the relationship between one party (the principal) who delegates work and the agency (who performs the work). One of the key assumptions of agency theory is that the agent’s self interests conflict with the

objectives of the principal (Eisenhardt, 1988). Initially, the focus of accountability was on stewardship as managers provided an account to the principals of how they discharged their responsibilities for the resources entrusted to them. This was a fairly narrow view of accountability as it was based on the accountee (agent) providing an account to the accountor (principal). Although managers still have a stewardship responsibility as agents, the focus has now shifted to capital market relationships where information is required for decision-making purposes. This issue is discussed in more detail in Chapter 3. Furthermore, commercial entities are increasingly expected to be accountable to a broad group of stakeholders, not just shareholders. Stakeholder theory, with its broader perspective, subsumes agency theory (Shankman, 1999).

The traditional view of accountability is based on the concept of management providing an account to the shareholders, owners and creditors on how the resources of the company have been managed. This form of accountability is typically based on financial accountability which is usually fulfilled through the provision of audited financial statements. Financial statements are needed to assess management's use of resources entrusted to them, and this is described as stewardship (social) responsibility (Chen, 1975). As well, financial statements are used by investors for economic decision-making (Gjesdal, 1981). The usefulness of accounting information is explored by Stanton (1997) who notes that the main justification of accounting historically was to achieve accountability under a stewardship definition whereas the current primary objective is decision usefulness. Stanton distinguishes between these two concepts by describing accountability as concern for individual interest, whereas decision usefulness is

concerned with the efficient allocation of resources (investment decisions). Accountability may exist inside the firm with officers and employees held to account to their superiors and outside the firm with responsibility to shareholders, creditors, government, unions, consumers and the general public (Ijiri, 1983). Ijiri maintains that accounting information can fulfil both functions of accountability and decision making. It can be decision-based (centred on providing information to make economic decisions), or it can be accountability-based with a focus on the relationship between the accountant (supplier of information) and the accountee (user of information).

The principal accountability mechanism of most organizations is the annual report, comprised of financial statements and other key performance information. Annual reports use marketing, management and communication to present a picture of the organization. Corporate annual reports are generally divided into two sections: the financial statements (usually placed towards the end of the report) and the larger upfront section which is comprised of non-statutory information (Stanton and Stanton, 2002). While the informational component of accountability can be provided through a variety of mechanisms including formal and informal, routine and ad hoc, written, spoken, electronic and other media, Coy et al (2001) contend that annual reports provide a wide range of summarized information in a single concise document, thereby enabling stakeholders to gain a comprehensive understanding of an organization's objectives and performance in both financial and non-financial terms. Although the annual report is a comprehensive source of information, it represents a form of one-way

communication with stakeholders and may therefore play a limited role in demonstrating accountability.

In the wake of the recent Enron and WorldCom scandals, the serious problems in accounting and auditing have undermined the perceived quality and integrity of financial reporting (Imhoff, 2003). Imhoff contends that accounting and auditing are only components of the broader system of corporate governance and cannot be corrected without substantive changes in the overall governance process. He argues that in order to address the problems blamed on accounting quality and auditing, it is first necessary to address the weaknesses of corporate governance. This suggests that total reliance on financial reporting without due consideration to an organization's governance model may be misguided.

In addition to the provision of financial and other performance information to support decision making as it pertains to capital markets, commercial reporting has become much broader. Business enterprises are expected to provide an account to a wider range of stakeholders, not just to shareholders. This account now extends beyond the financial report to include the environmental and social dimensions of their activities. Many commercial enterprises are adopting various reporting tools to aid them in providing broader social accounts to their stakeholders. These tools include the Global Reporting Initiative, Accountability 1000 and the Balanced Scorecard (BSC).

The Global Reporting Initiative (GRI) is a framework which can be used by organizations to guide the preparation of their sustainability reports (GRI, 2000).

Accountability 1000 is another reporting framework which may be utilized by businesses for their social and ethical accounting and reporting. It encompasses standards for accounting, auditing, reporting and stakeholder engagement. Stakeholder consultation is central under the AA1000 framework. Until the introduction of AA1000, there were few common principles surrounding stakeholder consultation (Beckett and Jonker, 2002). AA1000 provides a tool to guide dialogue, question assumptions and identify areas of interest regarding measurement and performance. Both GRI and AA1000 have become important tools in assisting businesses with the narrative aspect of their accountability reporting to a broad range of stakeholders.

In addition to the financial statements, Management Discussion and Analysis (MDA) and other information contained within the annual report, many commercial organizations are also utilizing the BSC as a reporting tool. Although the BSC was originally intended to be used as an internal management tool by commercial enterprises, it is now also employed as a method of external reporting to stakeholders. The BSC framework introduced in 1992 by Kaplan and Norton has gained widespread acceptance in both the private and public sectors. It organizes strategic objectives into the following four perspectives:

- 1) Financial – growth, profitability and risk
- 2) Customers – strategy to create value to customers
- 3) Internal Business Processes – create customer and shareholder satisfaction
- 4) Learning and Growth – climate that supports organizational change, innovation and growth

Since its introduction, Kaplan and Norton (2001a) have expanded on the application of the original BSC concept by adding a strategy map that specifies how critical elements of these perspectives are linked to organizational strategy. According to Kaplan and Norton (2001b), the BSC has evolved from a performance measurement system to an organizing framework for strategy implementation. Although the BSC is intended to reflect more balance between financial and non-financial measures, Kaplan and Norton (1996a) also emphasize the importance of having financial measures for each stage of the product life cycle.

An example of BSC implementation in Canada's banking industry has been examined by Atkinson and Epstein (2000) and Atkinson, Waterhouse and Wells (1997). The Bank of Montreal in Canada employed the BSC to manage its relationships with shareholders (return on investment), customers (good service and competitive rates), employees (working environment and pay), and communities (social leadership) (Atkinson and Epstein, 2000). According to Atkinson et al (1997), the bank's BSC helped integrate the components of its performance management system, improved decision making by providing people the necessary information, encouraged organizational focus on results and redirected attention to its main goals.

Various researchers have emphasized the BSC's role as an external communication tool. Forgione (1997) points out that in the insurance and financial services industry, one Swedish company, Skandia, uses the BSC to communicate information to external market participants. Similarly, Aidemark's (2001) study

also found that the BSC was regarded as a communications tool since it clarified goals, fostered dialogue and articulated the complex work of health care professionals to management and politicians.

In spite of the purported benefits of including non-financial indicators in the BSC, some measures such as employee and customer satisfaction are lagging (outcome) measures and consequently exhibit some of the same limitations as financial measures (Kaplan and Norton, 1996b). Other concerns related to non-financial measures include the fact that they often are generic, they are not always tied to specific objectives, and they tend to focus on how well the organizational strategy worked in the past. Scorecards built on lagging and non-strategic indicators do not take advantage of the full power of the BSC. Rather, the financial and non-financial measures should be derived from the organizational strategy. Another area of concern with the BSC is the tendency of some organizations not to include a balance of lagging measures and leading indicators (performance drivers). Performance drivers communicate how the outcomes are to be achieved, and outcome measures reveal how well the organization is performing. The authors contend that although corporations may have hundreds of measures to monitor performance to identify when corrective action is needed, these are actually diagnostic measures and are not reflective of the drivers of organizational success. They maintain that the BSC is not intended to replace an organization's day-to-day measurement systems. Instead, BSC measures are chosen to direct the organization toward achievement of its strategic objectives. According to Kaplan and Norton (1996a), the BSC is most effective when it is used to drive organizational change. They suggest the BSC include short-term targets to enable

managers to monitor how well the strategy is working. They also maintain that strategic planning and operational budgeting should not be treated as separate, distinct activities; rather, they need to be linked to the strategic plan.

Despite the widespread use of the BSC, it is not without critics. Norreklit (2000) argues that the BSC does not include all stakeholders, particularly suppliers and institutional stakeholders, and that its top-down nature may also inhibit its acceptance by staff and management. Norreklit contends that an effective BSC includes a combination of outcome (lag) indicators and performance drivers (lead indicators) since non-financial measures are often used to predict financial performance. Norreklit questions the BSC's assumptions regarding the causal relationship among the four perspectives. While agreeing that customers who are not satisfied will not lead to financial success, the author asserts that it cannot be assumed that satisfied customers will result in financial success. The BSC is a useful tool to aid management in reporting not just to shareholders, but to stakeholders on a broad range of issues. Its extensive use by commercial enterprises marks a departure from the traditional focus on financial results as a consequence of the changing environment of performance reporting and the multidimensional needs of stakeholders. As commercial enterprises are increasingly expected to broaden their reporting to include stakeholders, they may rely on tools such as AA1000 and the BSC to expand their reporting beyond financial statements.

2.2 Accountability – Public Sector Perspective

Typically, accountability in the public sector is significantly broader in scope than that associated with the private sector. While the private sector focuses on

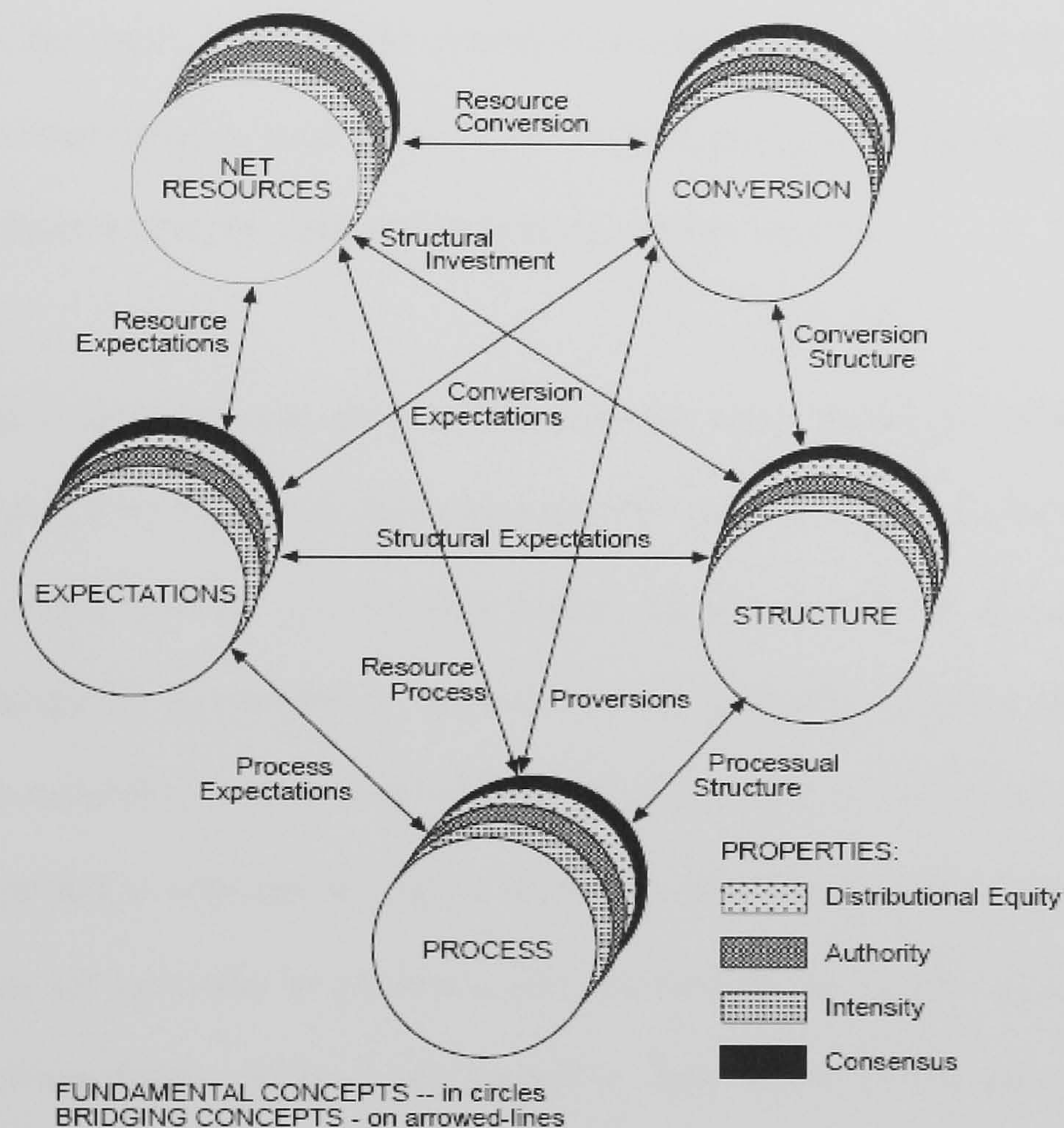
financial results and the creation of shareholder value, the public sector encompasses a diverse group of stakeholders, which often includes most citizens, taxpayers, funders, consumers, elected officials, professional groups and public sector managers, along with myriad of accountability expectations (Brignall and Modell, 2000, Kloot and Martin, 2000, Mayston, 1985).

As in the private sector use, the BSC has been employed increasingly in the public sector. Indeed, Wisniewski and Olafsson (2004) and McAdam and Walker (2003) have analyzed its role in assisting with the implementation of the UK government's Best Value initiative introduced in 1997 as part of the government's modernization program. Modell (2004) sees multidimensional models such as the BSC as counteracting the emphasis on financial measures. When adapting the BSC for the public sector, Johnsen (2001) concurs with Kaplan (2001) that the focus on shareholders, employees, customers and financial results must be replaced with public management concerns with other stakeholders such as clients and citizens. Indeed, Kaplan (2001) acknowledge the difficulty in implementing a BSC in non-profit government organizations (NPGO's) and recommend that the agency's mission (as the overarching objective) be featured with customers/constituents placed at the highest level on the BSC. Further studies examine public sector use of performance measurement and the BSC.¹

¹ Chan (1984) focused on the BSC in municipalities in Canada and the US. Chow et al (1998) studied the BSC in the healthcare sector. Kaplan and Norton (1996 and 1993) advocate employing the BSC to implement strategic planning while Likierman (1993) explored the role of performance indicators as managerial tools in the public sector. Johnsen (2005), Propper and Wilson (2003) and Freer (2002) examined how performance measurement has impacted the public sector.

In addition to the BSC, another way of addressing public sector reporting has been advanced by Van Peurseem (1999) in her skeletal model as depicted in Figure 2.1. Van Peurseem's model is beneficial in explaining how an organization utilizes its resources to ensure citizens receive essential goods and services.

Figure 2.1: Skeletal Model



Source: Van Peurseem (1999), p. 420.

As depicted in the Figure 2.1, Van Peurseem's model is based on five fundamental concepts: net resources, conversions, structure, expectations and processes. The author defines fundamental concepts as a universal opinion regarding what aspects of an entity should be disclosed in a report. These fundamental concepts are linked through ten bridging concepts (illustrated in Figure 2.1 through the two-way

arrows) and represented through four properties of distributional equity, authority, intensity and consensus.

These five fundamental concepts are beneficial in explaining how the organization utilizes its financial, human and physical resources and structure to carry out processes to meet performance expectations. Van Peurseem contends that the model forms a foundation to structure and analyze discourse on social preferences for the report. Overall, Van Peurseem's model provides a useful framework to gain a comprehensive understanding of how organizational resources and activities interact during the course of delivering a public service.

The contrast between the public and private sector definitions of accountability is explored by Stewart (1984) who maintains that the range of public accountability is much broader and extends higher up the Ladder of Accountability than managerial accountability, which involves primarily program and performance accountability rather than policy, and commercial accountability, which is expected to compare to market standards. Conversely, for public accountability, there are generally no predetermined standards at the high levels on the Ladder of Accountability. Stewart acknowledges that while public accountability may appear simple, its application, particularly to the various forms of government organizations, is challenging.

In its narrowest terms, accountability is viewed as the provision of an account or information (Stewart, 1984). His definition is based not only on the provision of information, but also on the judgment of that information – the “holding to account involves both evaluation and consequence” (Stewart, 1984: p. 15). The

author argues that information forms the elements of the account. In order for the account to be beneficial, Stewart contends that the account must be given in a manner that is easy to understand and reflects several languages other than financial, such as a legal account and a policy account. He maintains that accountability is contingent on the existence of a capacity for action by those who hold others to account. The whole process of providing the account and the holding others to account can be described as a relationship or a bond since “only the person to whom the account is given has the power to hold to account the person who gives the account” (Stewart, 1984: p. 16). To summarize, Stewart’s (1984: p. 18) framework includes the following components:

- a) the account
- b) the holding to account
- c) the bond of accountability (which is the relationship of power between the accountor and the accountee)
- d) the link of account (where there is no bond of accountability; rather, there is an obligation or custom to account)
- e) the field of accountability (activities for which the account is given)
- f) the ladder of accountability (sets out the bases of accountability)

In the public sector, accountability is broader than Rosenfeld’s (1974) definition for the private sector as simply holding to account and providing the account. The relationship or bond of accountability is comprised of several steps which Stewart describes as a Ladder of Accountability. As illustrated in the following table, this ladder has significant application for public sector agencies.

Table 2.1: Ladder of Accountability

Bases of Accountability	Description	Accountability Of Public Sector Agencies
1. Probity and legality	Probity – ensures that the funds are used properly and in the manner authorized; fiscal accountability is concerned with whether the funds were expended appropriately. Legality – ensures that the powers given by the law are not exceeded.	Audited financial statements and Legislative compliance
2. Process	Encompasses whether the procedures used were adequate in terms of time and effort; considers efficiency to ensure there is no waste in the use of resources and administration to ensure that there is no maladministration	Audited financial statements Systems reviews Ombudsman
3. Performance	Considers whether the performance achieved meets required standards – output data must be added to financial data	Audited financial statements Strategic plan Balanced Scorecard
4. Programme	Concerns whether the work carried out met the goals; is the agency achieving its objectives.	Audited financial statements Strategic plan Balanced Scorecard Board of Directors
5. Policy	There are no set standards used in the formulation of policy; government is ultimately accountable to the electorate for its policies	Transparency and Accountability legislation

Source: Adapted from Stewart (1984: pp. 17 – 18)

The preceding table identifies potential mechanisms which public sector agencies may use for each type of accountability. For example, it is expected that probity would be satisfied through audited financial statements, while legality would be addressed through a legislative compliance audit by the Auditor General. Wider performance outcome information in the form of systems reviews, appeals, ombudsman, a strategic plan and BSC are employed to demonstrate accountability for the process, performance and programme steps on Stewart's ladder. Although the BSC is identified as a mechanism to demonstrate accountability, it is recognized that other tools such as AA1000 may also be employed. The main

point is that agencies need to supplement their financial reporting with performance outcome information.

While the role of information is critical in forming the raw material for the account, it does not constitute the whole of accountability (Stewart, 1984). However, information in the account enables stakeholders to evaluate and to identify appropriate action or response. According to Stewart, the information required for the higher levels on the Ladder of Accountability are more difficult to define as there are fewer standards. Consequently, there is greater reliance on judgment. For example, the informational requirements for financial and legal accountability can be defined with a high degree of precision while it is more difficult to define standards for policy accountability.

At the performance step, outcome data must be added to the financial data and at the programme level, the account must provide information on objectives and how well they are met. Stewart contends that performance and programme information should relate financial inputs to the outputs (goods or services provided). Overall, to be meaningful, the account must be relevant to stakeholders and recognize their values, beliefs and perceptions. The provision of relevant accountability information is contingent on the organization compiling the necessary data. Clarkson (1995) contends that availability of data is critical in evaluating performance. He argues that if data about an issue are not available, then the issue is not being managed. Furthermore, Clarkson maintains that an organization will compile data when a stakeholder issue is considered to be important enough to be managed.

In addition to Stewart's Ladder of Accountability, other scholars such as Goddard and Powell (1994) contend that the concept of accountability should be broadened to include interest groups who would like to have access to decision making and performance monitoring information. Goddard and Powell suggest that information be provided to address the following accountability relationships:

- a. Administrative/bureaucratic: requires information of an accounting or performance indicator nature
- b. Professional/client: needs service efficiency information
- c. Social/communal: requires qualitative information

The concept of accountability has expanded well beyond its core sense of being called to account for one's actions. It has been extended to include internal responsibility of public servants to professional standards and external responsiveness to the needs of clients and public dialogue (Mulgan, 2000). This broadening of accountability leads to various complexities due to the multi-dimensional nature of the public sector environment. For example, Mulgan notes that the accountability of professionals such as doctors could potentially lead to a conflict between practitioner accountability to professional bodies and to the public.

Communication is one of the main mechanisms through which accountability is achieved. The demonstration of accountability is very dependent on dialogue, as evidenced by the expectations for officials to answer, explain and justify their action (Mulgan, 2000). Effective public dialogue requires the flow of information and effective forums for discussion and cross-examination, analogous to round

table meetings. Another key component of accountability relates to the importance of various mechanisms to ensure that an organization meets its accountability obligations. According to Mulgan, these include audit offices, ombudsmen, administrative tribunals, legislatures and courts. Special interest groups hold governments accountable by lobbying for their members' interests. Accountability is viewed by other researchers as a mechanism to improve communication among stakeholders, which necessitates solicitation of input from citizens, customers, stakeholders, and constituents regarding their desired performance measurement information (Shelton and Albee, 2000).

When considering accountability in the public sector, various authors maintain that accountability lies between the organization and government. Coy and Pratt (1998) contend that it is the responsibility of government, through politicians, to ensure that those entrusted with public assets are held accountable. In the case of public sector agencies, government has the power to hold these agencies to account. Other stakeholder groups also expect an account but often lack the power. Ultimately, the power rests with government to ensure that agencies provide an account to stakeholders. Another aspect of accountability relates to the obligation of public sector agencies to government. The relationship between public sector agencies and government reflects the 'bond of accountability' as advanced by Stewart (1984).

The relationship aspect of accountability also extends to the relationship between the agency's Chief Executive Officer (CEO) and government. Through her research with 15 CEO's of Australian public sector organizations, Sinclair (1995)

argues that accountability can be improved by understanding the ways in which managers perceive and portray a sense of being accountable. Sinclair maintains that accountability can be understood as something a person feels, something that a person has been granted (an obligation or part of a job contract) or something a person exchanges for authority. Furthermore, she contends that accountability is viewed differently by various actors. For example, auditors view accountability as a financial matter, while political scientists view it from a political perspective and the legal community approaches it from a constitutional stance.

Sinclair's (1995) research reveals that five forms of accountability are evident in the CEO's understanding: political, public, managerial, professional and personal. It can be argued three of these forms (political, public and managerial) are included in Stewart's (1984) ladder of accountability under his respective bases of policy, performance and programme. To a degree, it can also be argued that professional accountability is encompassed under Stewart's process category since professional accountability includes not just one's duty as a member of a professional group, but also extends to upholding public service ethics and introducing business-like professional management. The main form of accountability advanced by Sinclair that was not explicitly examined by Stewart relates to personal accountability which focuses on personal conscience regarding moral and ethical values. This is an extremely important form of accountability, as noted by Sinclair, since it is driven by psychological rather than external controls and is more powerful. Sinclair asserts that accountability is not independent of the person occupying a position of responsibility. It is internalized and defined in terms of the incumbent views as proper. Therefore, when analyzing how an

organization demonstrates accountability, one must be cognizant of the personal accountability views of CEO's and how this impacts their approach to managing stakeholders.

Clearly, the term 'accountability' holds a wide variety of meanings for various scholars. For example, it may guide management in the public sector where there is no profit motive or market mechanism (Pallot, 1992). Furthermore, accountability is often associated with acceptable performance, as demonstrated through the three E's – efficiency, effectiveness and economy (Pollitt, 1986). However, other scholars (Clarke, 1984; Hopwood, 1984) have argued that other performance criteria such as availability (amount and type of service), awareness (users' knowledge of the service), extensiveness (quantity of service) and acceptability (user satisfaction) are also extremely important in evaluating efficiency and effectiveness. The concept of the three E's, along with availability, awareness, extensiveness and acceptability, are embodied in the process and performance categories of Stewart's Ladder of Accountability. Ultimately, Stewart's (1984) broad based definition is best suited for this research study into accountability to stakeholders for multiple performance dimensions of public sector agencies since it is comprehensive.

Although accountability is much broader in the public sector than in the commercial sector, the lines between commercial and public sector accounting standards are becoming more blurred as standard-setting bodies move toward common accounting standards. In particular, the Canadian Institute of Chartered Accountants (CICA) is moving toward the adoption of International Financial

Reporting Standards (IFRSs). Although the public sector is accountable to a wider group of stakeholders than the private sector, they are expected to adopt many of the commercial accounting standards.

While public sector accounting standards have moved closer to commercial standards, at the same time, the private sector has increasingly broadened its non-financial performance reporting to include stakeholders, not just shareholders. Although non-financial reporting in the commercial sector is still much narrower than the public sector, it has broadened over time. Overall, there appears to be a convergence of reporting approaches in the private and public sectors.

2.3 Evolution of Public Sector Accountability

The concept of public sector accountability has grown over the past four decades. The United Kingdom and Canada have experienced growing public expectations for government to demonstrate accountability to their respective stakeholders. The increased demand for accountability can be attributed to the growth, complexity and impact of government coupled with an underlying dissatisfaction due to declining trust in professionals and politicians (Coy and Pratt, 1998; Stewart, 1984).

According to Humphrey et al (1993), the concept of accountable management in the public sector was popularized in the United Kingdom during Prime Minister Margaret Thatcher's administration. Her government's desire to demonstrate efficiency and cost accountability resulted in a focus on accountable management. For example, various instruments or mechanisms such as performance indicators,

budgets, value-for-money audits, and internal markets have been used to evaluate public sector service delivery.

Canadian Federal and provincial governments have recognized the need to improve accountability and to focus on results management (Werhar-Seebach, 1996). The provision of performance information to governing bodies may lead to improved management and enhanced performance. For example, in the mid-1990's, Ontario's Financial Review Commission recommended more timely and relevant information to improve decision-making and public accountability. They also recommended that each ministry prepare three-year business plans that would identify performance measures and targets, explain the delivery structure and accountability, and provide semi-annual progress summaries to monitor performance (Werhar-Seebach, 1996).

The prominence of accountability was further heightened in western Canada when British Columbia issued a report in 1995 entitled "Enhancing Accountability for Performance in the British Columbia Public Sector". Meanwhile, Alberta was the first province to pass legislation regarding the implementation of an accountability regime for its public sector. This legislation required all public sector agencies to prepare three-year business plans setting out their goals and performance measures. The Auditors General of Saskatchewan, Manitoba, Prince Edward Island, and Newfoundland have all identified the need for improved governance and accountability.

The increased public demand for government organizations to be operated in an efficient and effective manner, has led to an increased emphasis on managerialism. This is defined by Guthrie and English (1997) as a public sector management philosophy that involves performance measurement, clear objectives, corporate plans, managerial autonomy, performance evaluation, rewards and sanctions for senior public servants and competitive neutrality for commercial authorities. Indeed, Guthrie (1993) argues that governments are starting to rely on managerialism as a way to administer the public sector, and this has resulted in more segments of the public sector developing performance indicators, particularly those that encompass outputs and outcomes in both financial and non-financial terms. The continued public perception that markets are better than government at delivering economic outcomes has been largely responsible for the increased emphasis on managerialism (Broadbent and Guthrie, 1992). Consequently, managerialism has evolved in a manner similar to the private sector with its focus on reducing staff along with improving efficiency, outputs and accountability.

New Public Management (NPM)

The increased emphasis on managerialism as the public sector continues to introduce private sector management practices can be described as New Public Management (NPM). Essentially, NPM is the culmination of various government responses to the demands for improved public sector efficiency and reduced costs by introducing private sector processes to the public sector. Hyndman and Eden (2000) define NPM as the collective changes that have occurred in public sector agencies in many western countries during the past 20 years. It is a reform process

which started in the 1980's and 1990's in an effort to restrict the size of government, reduce spending and introduce private sector management models (Glynn and Murphy, 1996). Hood (1995) notes that the growth of NPM can be attributed primarily to efforts of Ronald Reagan and Margaret Thatcher who both sought to reduce big government by introducing private sector management principles to the public sector. Hood maintains that the term NPM was used in order to be more generic than individual initiatives such as the United Kingdom's 'Next Steps' and Canada's 'Public Service 2000'. NPM is based on the premise that the public and private sectors should be managed on the same basis. It focuses more on management than policy making, on accountability for results rather than process, decentralization, modernization, increased client focus, changes from providers to enablers of services, increased contracting out and increased attention on efficiency and effectiveness (Hoque and Moll, 2001; Hyndman and Eden, 2000; Mwita, 2000). One of the main goals of NPM is to reduce the differences between public and private sectors by focusing on greater accountability for the attainment of results.

NPM, with its emphasis on private sector management approaches combined with a focus on efficiency, effectiveness and economy, is believed to increase public sector accountability. Conversely, some scholars contend that although NPM is touted as the best way to govern organizations and enhance accountability, it is unclear as to whether it will actually improve accountability (Gendron et al, 2000). In spite of the widely held notion that the public sector is less efficient than the private sector, Gagne (1996) contends that public agencies operate in a political not a market environment. Therefore, public institutions cannot select

their customers as would be the case for the private sector. Consequently, this may limit the efforts of the public sector in its quest to adopt private sector management practices. As NPM has evolved, governments have introduced mechanisms such as Value-for-Money and Best Value to demonstrate they are operating efficiently.

Value-for-money can be best characterized as a concept rather than a reporting framework. It is an approach that some public sector organizations are implementing in order to demonstrate that they are operating in an economical, efficient and effective manner to achieve their mandate. Economy is defined as the organization's ability to acquire resources in the appropriate quantity and quality at minimal cost. Efficiency refers to maximum output with minimum input to produce a given quality and quantity of outputs. Effectiveness is the extent to which program objectives are met (Palmer, 1993). In addition to the three E's (economy, efficiency and effectiveness), Bovaird et al (1995) suggest that an additional 'E' be added for equity, since this is a crucial issue for public service organizations. The concept of Value for Money is key in meeting stakeholders' demands for government to be more accountable for how their taxpayer dollars are spent.

Best Value is an example of a government's response to public demand for increased accountability. It was introduced by the British government and has been in place since early 2000 (Boyne et al, 2002). Best Value is defined as the duty to deliver services to clear standards, including cost and quality, by the most effective, economic and efficient means. Essentially, it is an extension of Value-

for-Money (Keenan, 2000). It involves a rolling programme of performance reviews and accountability through performance plans. Best Value is intended to facilitate fast reaction to poor performance and complaints from users. It involves measuring intangible benefits through reliance on performance indicators, standards and benchmarking against other service providers. This includes comparisons between providers and the competitiveness of the service. Keenan asserts that Best Value is not a budgeting technique; rather, it is a performance reporting framework which includes planning and programming.

Boyne et al (2002) disagrees with Keenan and argues that Best Value is neither an extension of Value-for-Money, nor is it a reinvention of previous management reforms; rather, it is a major innovation. They maintain that Best Value is a public sector form of Total Quality Management (TQM) since it conforms to the principles of TQM. Regardless of whether Best Value is an entirely new management tool or is an extension of another, it is a particularly relevant mechanism for public sector agencies since it encompasses quality, performance level and benchmarking, and may consequently assist in demonstrating accountability to stakeholders.

The concept of NPM and the various tools, such as Value-For-Money and Best Value, are examples of how governments have responded to calls for increased accountability. These concepts are particularly relevant for public sector agencies which are typically established by government to deliver goods and services in a cost efficient and effective manner. Overall, the characteristics embodied in NPM are reflected in Stewart's Ladder of Accountability. In particular, the process,

performance and programme rungs encompass principles of Value-For-Money, Best Value as well as managerialism.

Although there are many benefits emanating from the increased public focus on accountability, there are concerns with the ability of government to respond to multiple stakeholder needs. This has added to the complexity of fulfilling accountability expectations. Brignall and Modell (2000) contend that when there is significant pressure on public sector organizations to meet the needs of a large number of stakeholders, the beneficiaries of public sector agencies are unlikely to have sufficient power to influence the compiling and reporting of performance information. As well, the existence of multiple stakeholders tends to place greater demand on public sector agencies to make trade offs in order to balance inconsistent and conflicting demands. The devolution of essential services from government to public sector agencies has an inherent assumption that such agencies operate like commercial enterprises and may therefore achieve a greater level of efficiency and effectiveness than a government department. As pointed out by Brignall and Modell, this assumption does not always hold true.

2.4 Stakeholder Identification and Classification

Although the focus of this study is on stakeholder accountability the narrower concept of shareholder accountability provided the initial focus before the wider needs of stakeholders became prominent. Moore (1999) points out that it is difficult to reconcile the differences between stakeholder and shareholder theories in terms of whether directors owe a fiduciary duty to shareholders alone or multi-fiduciary duty to stakeholders. Moore offers a compromise approach which he

calls “Tinged Stakeholder Theory”. Tinged stakeholder theory takes an instrumental approach, but allows for moral and social obligations. That is, firms can take their responsibilities to stakeholders seriously, while retaining the fiduciary duties of directors and accountability to shareholders. Under pure shareholder theory, the ends are set by the shareholders and management contracts with other stakeholders to satisfy these ends. Under pure stakeholder theory the same argument is made, but it involves many fiduciary relationships rather than one. According to Moore (1999), under tinged stakeholder theory, management is accountable to shareholders alone, but also responsible for balancing the interests of all stakeholders (including shareholders). Accountability to shareholders (financiers) is tinged with responsibility to balance the needs of other stakeholders.

Prerequisite to embarking on a process to demonstrate accountability, it is necessary to identify those stakeholders to whom the agency should provide an account. The term stakeholder has been defined in a number of different ways by various scholars. There are at least 55 definitions, starting with the Stanford Research Institute (Friedman and Miles, 2006). However, Friedman and Miles credit the seminal work of Freeman (1984) in his book *Strategic Management: A Stakeholder Approach*, with popularizing the stakeholder approach. One of the broadest definitions was advanced by Freeman (1984: p. 46) as “any group or individual who affect or is affected by the achievement of the organization’s objectives”. According to Mitchell et al (1997), this definition is so broad that it encompasses virtually anyone as a stakeholder. Such a broad definition challenges management in terms of identifying all the stakeholders and their stakes (needs).

Instead, it is beneficial to narrow stakeholders to a more manageable size. It is noteworthy that Freeman (1994) eventually refines his original definition of stakeholders as groups who are vital to the survival of the corporation.

Clarkson (1994) proposes two definitions to illustrate his narrow view of stakeholders. He distinguishes between voluntary stakeholders who bear some risk as a result of having invested some form of human or financial capital in a firm from involuntary stakeholders who are placed at risk as a result of a firm's activities. This definition is based on the concept that without the element of risk there is no stake. Clarkson (1995) provides a clearer definition in a further attempt to narrow the view of stakeholders by describing them as:

‘Persons or groups that have, or claim, ownership, rights, or interests in a corporation and its activities, past, present, or future. Such claimed rights or interests are the result of transactions with, or actions taken by, the corporation, and may be legal or moral, individual or collective’.

(Clarkson, 1995: p. 106)

This definition, as proposed by Clarkson (1995), is a practical and workable definition of stakeholders. Its view of stakeholders as having a claim, ownership, rights or interests in the corporation's activities assists in identifying the stakeholders and its inclusion of legal or moral rights or claims is sufficiently broad to be meaningful. Ultimately, Clarkson's finite view of stakeholders is the definition which is best suited for this research study since public sector agencies are established by government to serve selected constituents. Mitchell et al (1997) contend that those scholars who prefer a narrow definition of stakeholders are those who are searching for a normative core of legitimacy which would enable managers to focus on the claims of a few legitimate stakeholders.

As a result of a 10-year study on corporate social responsibility of 70 large Canadian corporations, Clarkson (1995) concluded that corporations manage relationships with groups rather than with society as a whole. According to Clarkson (1995: p. 106) “stakeholders with similar interests, claims, or rights can be classified as belonging to the same group: employees, shareholders, customers, and so on”. To further refine the stakeholder groups of interest for public sector agencies, the literature was reviewed to identify potential classification typologies. The primary/secondary model advanced by Clarkson (1995) is particularly relevant for such agencies. He defines a primary stakeholder groups as:

‘One without whose continuing participation the corporation cannot survive as a going concern. Primary stakeholder groups typically are comprised of shareholders and investors, employees, customers, and suppliers together with what is defined as the public stakeholder group: the governments and communities that provide infrastructures and markets...’

(Clarkson, 1995: p. 106)

This definition is based on the notion that if any primary stakeholder group, such as customers or suppliers, becomes dissatisfied and withdraws from the organization, it will be seriously damaged or unable to continue. Clarkson (1995) defines secondary stakeholder groups as those who influence or affect, or are influenced or affected by, the organization. They are not engaged in transactions with the organization and they are not essential for its continued operation. Examples of secondary stakeholders include the media and special interest groups. Since there are typically multiple stakeholders who have an interest in the outcomes of a public sector agency, the primary/second typology is useful in identifying those whose continued support and involvement is crucial for its success. Miller and Wilson (1998) contend that in order to effectively manage an organization, it is beneficial to identify and prioritize stakeholders. Their research revealed that while there is consensus about the stakeholders’ identity, there are

considerable differences in perceptions of their relative power, dynamism and interest. Consequently, this results in difficulties in prioritizing and meeting stakeholders' needs.

Categorizing individual stakeholders into primary and secondary groups is the first step of the narrowing process. The next step involves examining various approaches to further delineate the primary stakeholder groups. Two potential methods to narrow the primary stakeholders are resource dependency theory and stakeholder salience theory. Resource dependency theory (Pfeffer and Salancik, 1978) addresses the extent to which an organization is dependent upon external organizations and stakeholders in terms of the importance of a particular resource to the organization. The premise is that organizations will be concerned with and pay more attention to sources of critical resources in order to ensure survival. Therefore, resource dependency can be employed to identify the relative importance of stakeholders.

Not only can stakeholders be classified as primary or secondary, they can be further categorized according to their salience level. Such detailed classification may assist management of an agency in the stakeholder management process. Stakeholder salience describes the degree to which managers give priority to multiple stakeholders. It is a theory that is used to explain to whom and to what managers pay attention. The concept of relative importance of one stakeholder group over another is supported by Mitchell et al (1997) who propose a theory of stakeholder salience. This theory suggests that stakeholders can be identified by their possession of one, two or three of the following attributes:

- 1) Power to influence the firm;
- 2) Legitimacy of their relationship with the firm; and
- 3) Urgency of their claim on the firm.

Mitchell et al stress that although groups can be identified as stakeholders based on their possession of power, legitimacy and urgency; it is the firm's managers who determine which stakeholders are salient. The authors maintain that the classes of stakeholders are based on possession of one, two or all three of the attributes – power, legitimacy and urgency. Stakeholder salience is related to the cumulative number of attributes as illustrated in the following table.

Table 2.2: Stakeholder Salience

Attribute	Stakeholder classification
No power, legitimacy or urgency	Not stakeholders
One attribute	Low salience (latent stakeholders) <ul style="list-style-type: none"> • Dormant – possess power to impose will, but does not have legitimacy or urgency (fired employees who shoot supervisors, file lawsuits or speak to the media) • Discretionary – legitimacy, but no power or urgency (charities which accept donations or voluntary labour) • Demanding – urgency, but no power or legitimacy (picketers outside a corporation)
Two attributes	Moderate salience (expectant stakeholders) <ul style="list-style-type: none"> • Dominant – power and legitimacy (investors) • Dependent – legitimacy and power, no urgency (citizens) • Dangerous – urgency and power, no legitimacy (strike, sabotage)
Three attributes	Highly salient <ul style="list-style-type: none"> • Definitive

Source: Mitchell et al (1997) p. 872

When examining the role of power, Mitchell et al point out that in addition to a firm's dependence on stakeholders, there may be situations where the stakeholders are dependent on the firm and where the firm and the stakeholders are mutually dependent. In describing the bases of power, Mitchell et al propose Etzioni's

(1964) categorization of power as coercive, based on force or threat or other physical means; utilitarian, based on material rewards consisting of goods and services; and normative, based on symbolic resources such as prestige and esteem. According to Mitchell et al, a party has power when it has the means (coercive, utilitarian or normative) to impose its will on others. Power does not automatically translate into high salience; rather, it gains authority through legitimacy.

Mitchell et al posit that legitimacy is contingent on a contract, claim, legal or moral right and the stakeholder having something at risk. The authors contend that power and legitimacy are different. For example, some influencers may have power over the firm regardless of whether they have valid claims, while there may be claimants who have legitimate claims but may not have the power to influence the firm. Mitchell et al argue that scholars who advocate a broad definition of stakeholders emphasize the stakeholders' power to influence the firm, while supporters of a narrow definition focus on legitimacy. Mitchell et al (1997) adopt Suchman's (1995: p. 574) definition of legitimacy as: "a generalized perception that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs and definitions".

The final component of Mitchell et al's (1997) approach to stakeholder salience theory is urgency which they define as the degree to which stakeholder claims require immediate action. They argue that urgency is based on time sensitivity, the degree to which delay in responding to a claim is unacceptable and criticality, the importance of the claim. Mitchell et al contend that those stakeholders with power are not necessarily considered salient, but when power is combined with

legitimacy, these stakeholders gain authority. When power and legitimacy are combined with urgency, this results in a high level of salience.

The stakeholder salience framework is based on the assumption that managers pay attention to certain classes of stakeholders; that managers' perceptions determine stakeholder salience; and that salience is based on possession of the attributes of power, legitimacy and urgency. The primary stakeholder groups exhibit varying degrees of power, legitimacy and urgency. Mitchell et al's (1997) salience classification scheme contends that those exhibiting all three characteristics are highly salient while those groups with two characteristics are moderately salient. Although Mitchell et al do not advocate addressing the needs of highly salient groups over moderately salient stakeholders; this classification typology may be of assistance to an agency in prioritizing and managing the accountability needs of multiple stakeholders.

Jawahar and McLaughlin (2001) contend that this model does not address how management deals with stakeholders who vary in terms of salience. Jawahar and McLaughlin assert that their comprehensive stakeholder theory describes which stakeholders will be salient, when they will be important or salient and how firms will deal with stakeholders who vary in terms of importance. In addition to prioritizing stakeholders based on salience level, Jawahar and McLaughlin note that several scholars suggest that an organization can also adopt different approaches to deal with each primary group: reaction, defence, accommodation and proaction. For example, when interacting with a highly salient group, depending on the issue, the agency can take a proactive approach if the concerns

are identified in advance. Jawahar and McLaughlin's theory contends that different strategies are used to deal with different stakeholders, but also different strategies will be used with the same stakeholders over time, depending on the organization's life cycle.

To enhance the understanding of stakeholders, it is important to examine the underlying stakeholder theory. Donaldson and Preston (1995) contend that stakeholder theory is comprised of three different aspects: descriptive, instrumental and normative. They argue that the three approaches are mutually supportive, but that the normative serves as the underpinning for the theory. They define descriptive as a mode which explains the past, present and future of the corporation and its stakeholders. Instrumental theory examines the linkage of stakeholder management with the achievement of various goals. Normative theory involves the identification of moral or philosophical guidelines for the operation and management of a corporation and is based on two premises: stakeholders are persons/groups with legitimate interests in the corporation; and the interests of all stakeholders have intrinsic value in that each stakeholder group warrants consideration for its own sake (Donaldson and Preston, 1995).

Donaldson and Preston argue that stakeholder theory, from a normative perspective, can be based on the theory of property. Property is viewed as a 'bundle' of many rights which are embedded in human rights and encompass the interests of others such as non-owner stakeholders. They contend that if a pluralistic theory of property rights is accepted, then the connection between the theory of property and the stakeholder theory becomes explicit. Furthermore,

stakeholder theory is managerial since the combination of attitudes, structures and practices constitute a stakeholder management philosophy. They maintain that the ultimate justification for stakeholder theory is found in its normative base and that the theory of property rights lends further support. Indeed, the central core of the theory is normative since it presumes that managers act as if all stakeholder interests have intrinsic value. Recognition of these ultimate moral values and obligations gives stakeholder management its fundamental normative base.

Donaldson and Preston (1995) contend that the three types of stakeholder theory are mutually supportive. Jones and Wicks (1999), on the other hand, argue that there is a much closer connection, a hybrid form that they call convergent stakeholder theory that is superior to the existing forms. Convergent theory involves applying instrumental theory (what happens if) to normative cores to see if they result in personally and organizationally viable outcomes, while instrumental theory helps evaluate the practicability of the behavioural contingency (normative core) of the convergent theory. Jones and Wicks present the argument that instrumental theory, without a morally sound normative foundation, violates the premise of stakeholder theory and is incomplete as a social science theory. Furthermore, instrumental stakeholder theory based on values inherent in a morally based normative core, gains credibility. According to Jones and Wicks, stakeholder theory is simultaneously normative and instrumental since it implies that adherence to normative standards of behaviour results in outcomes that are normatively and practically acceptable.

Convergent theory has been challenged by other scholars. For example, Friedman and Miles (2002) argue that such integration is premature since not enough work has been done on the organization/stakeholder relationship to combine the different strands of stakeholder theory into a single meaningful framework. Secondly, they contend that a convergent theory based on normative cores could subject stakeholder theory to Gioia's (1999) criticism of naivety (as cited by Friedman and Miles, 2002). Thirdly, Friedman and Miles maintain that this approach is somewhat limited since it analyzes stakeholders from the limited perspective of the organization rather than in their own right. Friedman and Miles point out that other scholars also reject Jones and Wicks' convergent theory. For example, Freeman (1999, p. 233) argues that more narratives of better ways to understand organizations in stakeholders' terms are needed rather than more theory that converges.

Friedman and Miles (2006) contend that Donaldson and Preston (1995) and Jones and Wicks (1999) view stakeholder theory as focused on management. However, Friedman and Miles advocate a broader view that encompasses the values of stakeholders and intermediaries: it is a more embracing normative stakeholder theory. This view of stakeholder theory is more compatible with public sector agencies than convergent theory. While elements of convergent theory apply to agencies, the adoption of normative values is thought to help the organization demonstrate accountability to its stakeholders. Convergent theory does not entirely address the need to incorporate the views and values of the stakeholders themselves, rather than just the views of management. Consequently, the

normative stakeholder theory as advanced by Friedman and Miles (2006) is adopted as the underlying theoretical basis for this research study.

2.5 Stakeholder Management

Ultimately, accountability requires the identification of stakeholders and their stakes. Stakeholder consultation is a critical component in the accountability relationship. One school of thought argues that consultation not only improves the relationship of an organization with its stakeholders, it also contributes to more meaningful public accounts. The importance of facilitating stakeholder involvement in the accountability process cannot be overstated. The importance of soliciting stakeholder input is recognized by Van Peurse (1999) and Sanderson (2001). Van Peurse's study on New Zealand's public health sector concludes that accountee preferences should drive the report content. Sanderson contends that the viewpoints of all major stakeholders should be considered in the selection of key measures and targets and that a more participative approach to performance measurement and evaluation is needed.

Daake and Anthony (2000) argue that much of the stakeholder literature focuses on managing stakeholder groups, rather than seeking their input. They contend that most stakeholder analysis is based on subjective managerial perceptions of what they believe stakeholders want. On balance, stakeholder management and stakeholder consultation do not have to be regarded as mutually exclusive. Rather, consultation can be viewed as a component of the overall stakeholder management process as illustrated by Friedman and Miles (2006).

In their 12-Step Ladder of Stakeholder Management and Engagement, Friedman and Miles use a variety of management tools. The ladder is displayed by presenting the tools that range from the highest level of stakeholder control (step 12) to the lowest levels of manipulation and therapy (steps 1 and 2).

Table 2.3: Ladder of Stakeholder Management and Engagement

Management Tool	Description
12. Stakeholder control	Stakeholder control occurs if they obtain the majority of decision-making seats or full managerial power in an organization – this is extremely rare.
11. Delegated power	In this situation stakeholders are empowered by recourse of law
10. Partnership	Organizations engage in joint ventures and joint committees with a range of stakeholders. The difference between partnerships and collaborations is a matter of degree with partnerships being more substantial joint activities. Collaborations are focused on joint outcomes while partnerships also involve joint processes leading up to joint outcomes.
9. Collaboration	Strategic alliances are collaborations between organization and stakeholders
8. Involvement	Stakeholder involvement is positioned above negotiation because the balance of power is less extreme. Stakeholder roundtables are resource-intensive and tend only to be used for major policy matters. A degree of decision-making power is afforded to the roundtable since participants are expected to draft proposals, rather than just provide advice or recommendations as is the case with a focus group or advisory panel.
7. Negotiation	Negotiations may be direct or indirect (through an intermediary such as a trade union, industry association, professional association).
6. Consultation	Corporations historically have used stakeholder surveys
5. Placation	Advisory panels, task forces and focus groups involve two-way dialogue prior to a decision being made. Such methods of stakeholder management can be used for political purposes such as tasks forces or advisory panels – this offers a degree of legitimacy. For acceptance all groups should be represented and participants should be authorized to speak on behalf of the stakeholder groups they represent.
4. Explaining	Holding workshops would be an example of explaining – the lowest level of tokenism.
3. Informing	Viewed to be genuine transparency when reports include both good news and negative information. Still considered to be one-way communication.
2. Therapy	The most basic form of stakeholder management; involves information releases via the web, briefing sessions, leaflets, newsletters, etc. There is no dialogue – only one-way communication, usually self-laudatory information. An example of this is CESAR – corporate environment, social, and ethical reporting.
1. Manipulation	

Source: Friedman and Miles (2006) p. 162

In this classification, the lower levels (manipulation, therapy and informing) include situations where the organization is merely informing stakeholders about decisions that have already taken place. This style of stakeholder management is autocratic and does not involve participation between the organization and its stakeholders. Friedman and Miles note that the lower two rungs are distinguished from the third in that they are contrived attempts to indicate true participation.

At the middle levels (Steps 4 to 7) are token gestures of participation – stakeholders have opportunities to voice their concerns prior to decisions, but no guarantee that their concerns will have an impact. Mitchell et al describe Step 4, explaining, as giving the powerless a voice, but they still lack the power to ensure their concerns are heard. Although this level involves holding workshops, there is minimal opportunity for stakeholders to have any degree of influence. The fifth level, placation, is a direct response to stakeholder unrest requiring some form of appeasement. Placation is also regarded as tokenism since some organizations do not respond to input from task forces and advisory panels. Also at issue, is how the stakeholders are selected to represent underlying groups and whether they are authorized to speak on behalf of the groups they represent. Friedman and Miles explain that consultation is rated only at the sixth level because consultation through a survey involves soliciting opinions on issues which have been determined by the organization, and consequently the concerns of stakeholders may be ignored in the survey. Furthermore, the survey results may not necessarily influence decisions. Negotiation (Step 7) is described as a way of attaining stakeholder appeasement. In certain cases, stakeholders have some power through their control of resources such as human capital. In other instances, stakeholders

may be disadvantaged if the organization is not truthful during negotiations about its intentions. Steps 8 and 9 provide an opportunity to involve stakeholders in a two-way consultative process and to facilitate their participation in a collaborative manner to jointly help the organization achieve its goals and objectives. At the involvement level (Step 8), it is critical that stakeholder representation be unbiased and comprehensive. Otherwise, the process would lose credibility. Collaboration (Step 9) occurs when organizations and stakeholders pursue mutually beneficial objectives. Benefits associated with collaboration include access to expert opinion, improved markets and improved public image. To ensure success, it is important to ensure that the partners' objectives are compatible.

The highest levels of engagement involve empowering stakeholders in corporate decision making. Partnerships (Step 10) imply joint decision-making. According to Friedman and Miles, partnerships are similar to collaboration, but imply more substantial joint activities. For example, collaboration encompasses endorsements and sponsorships while partnerships involve joint processes. Delegated power and stakeholder control (Steps 11 and 12) are managerial tools within the domain of the government rather than the agency. It is government's decision as to the level of power and control delegated to stakeholders. Since the focus of this research is on the accountability of the agency, these managerial tools are outside the scope of this study. Consequently, only the first 10 steps of this ladder inform the understanding of the approaches taken by organizations in managing their stakeholder relationships.

2.6 Conclusions

The literature presented in this chapter provides a conceptual foundation for the empirical processes used in this research. This study is informed by a broad-based definition of accountability which includes financial and non-financial performance reporting. The main theoretical underpinning of accountability adopted for this research is based on Stewart's Ladder of Accountability in that it encompasses the various elements of accountability which are taken into consideration. Public sector agencies are expected to fulfil accountability obligations related to the first four steps on the ladder: probity/legality, process, performance and programme, while government is responsible for the fifth step, policy.

The relationship aspect of accountability is central to the theoretical underpinnings as advanced by Stewart (1984). Stewart presents the concept of the bond or relationship between the accountant and the accountee. Therefore, when developing a reporting model, the relationship between the agency and its stakeholders and between government and the agency are important factors aiding the organization in fulfilling its accountability obligations.

Clarkson's primary/secondary typology may be useful in classifying the numerous stakeholders of public sector agencies. This primary/secondary typology is beneficial in identifying individual stakeholders and classifying them into groups. It is much more feasible to manage relationships with groups rather than with many individual stakeholders. Furthermore, Mitchell et al's (1997) stakeholder salience framework is helpful in assisting organizations further delineate and

prioritize their stakeholders in order of importance or salience. Stakeholder salience is determined by each group's relative legitimacy, power and urgency. Consequently, if an accountability model is to be effective in helping manage stakeholders, the relative salience of each of the primary stakeholder groups plays a key role. The salience framework is useful in assisting an organization more effectively manage its stakeholders. It aids managers in prioritizing the accountability expectations of multiple stakeholders.

While there is merit in Jones and Wicks (1999) convergent theory, combining instrumental and normative theory, overall, Friedman and Miles' (2006) normative stakeholder theory is best suited as the theoretical underpinning for the stakeholder aspect of this research. Friedman and Miles' (2006) Ladder of Stakeholder Management and Engagement is used to help inform how agencies manage their stakeholders. It identifies the various tools used by organizations in managing their relationships with their stakeholders. By engaging stakeholders and involving them in the accountability process, agencies are in a better position to develop a meaningful and relevant stakeholder reporting model. Stewart's Ladder of Accountability is employed to identify the various elements of accountability. The next chapter reviews the implications of accounting frameworks and generally accepted accounting principles on public sector reporting.

CHAPTER 3: ACCOUNTING FRAMEWORKS AND GAAP

3.0 Introduction

This chapter commences with a review of the academic and professional literature, accounting standards and performance reporting for the commercial sector in Canada. It examines the importance of conceptual frameworks in providing guidance on the application of accounting standards and for professional judgment when suitable standards are not available. The continued development and convergence of Canada's conceptual framework with the International Financial Reporting Standards (IFRSs) is also examined.

The second section of this chapter reviews the literature, accounting standards and performance reporting for the public sector in Canada in general and in Newfoundland in particular. The differences between commercial and public sector reporting are identified and analyzed. The chapter concludes with an analysis of the reporting implications for this research study into a stakeholder reporting model for public sector agencies.

3.1 Private Sector/Commercial Reporting

The following sections outline the accounting standards which govern financial reporting in Canada. The commercial accounting standards are examined since some of the public sector agencies may be classified as a government business enterprise (GBE) and must adhere to commercial rather than public sector accounting guidelines.

Canadian Institute of Chartered Accountants (CICA)

Conceptual Framework

The importance of a conceptual framework cannot be overstated in its contribution to standard setting. It assists standard setting bodies to develop accounting standards and recommendations for financial reporting. Before discussing Canada's conceptual framework, it is helpful to examine conceptual framework issues in other countries. The accounting standard setting bodies in the United States, United Kingdom and Australia have all developed conceptual frameworks. According to Dopuch and Sunder (1980), the repeated efforts of authoritative bodies to define the conceptual framework of accounting and the elements of financial statements results from a genuine belief that precise definitions help resolve accounting controversies. Dopuch and Sunder note that the American Financial Accounting Standards Board (FASB) has claimed that the benefits of a conceptual framework include guidance for establishing standards; a frame of reference to resolve accounting questions in the absence of a specific standard; bounds for judgment in preparing financial statements; improvement in users' understanding of financial statements; and enhanced comparability. Dopuch and Sunder contend that the presence of diverse accounting practices hurts the credibility of the standard-setting bodies firstly, since the existence of alternative accounting methods could be taken as evidence that the accounting standard-setting body is not doing its work properly; and secondly, whenever the standard-setting body prescribes one accounting method, the advocates of the methods no longer permitted tend to criticize the agency for not protecting their interests.

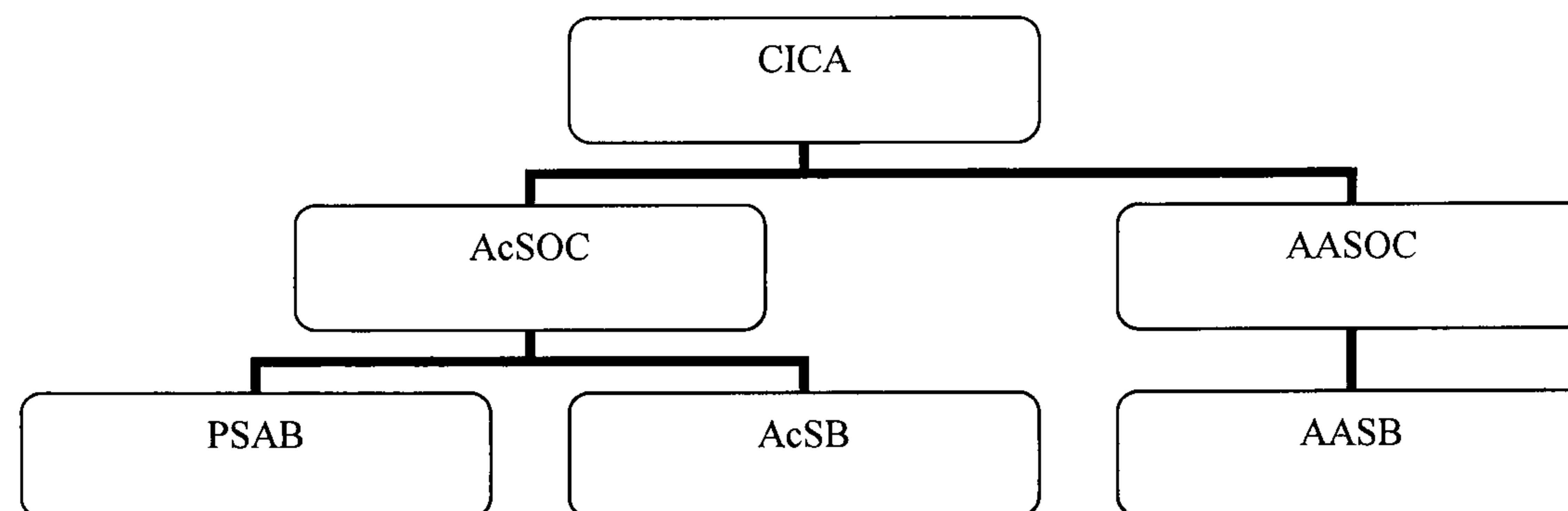
In addition to the debate concerning the usefulness of conceptual frameworks, other scholars concentrate on the argument for two conceptual frameworks: one for the commercial sector and one for the public sector. Ellwood (2003) notes that the objectives of financial reporting in the private sector are centred on wealth creation, whereas in the public sector, the accountable use of public funds is paramount. Ellwood argues that since the focus of the public sector is accountability not wealth creation, the informational needs of both sets of users differs. Thus, financial statements that focus on the interests of investors do not address the accountability needs of the public sector where the emphasis is on fiscal control, compliance and accountability.

Although proponents such as Ellwood and Newbury (2006) and Barton (1999) argue for two separate conceptual frameworks, McGregor (1999) in discussing the Australian Accounting Standards Board (PSASB) reports that PSASB recognizes that while the decision-making needs may vary from one entity to another, the focus of financial reporting is to provide financial information on which to base resource allocation decisions. For example, investors decide whether to invest, creditors decide whether to lend and governments decide whether to fund programmes delivered by the entity. The PSASB's concepts statements argue that resource allocation decisions require common types of information, regardless of the nature of the entity. The elements of the financial statements (assets, liabilities, revenues, expenses and equity) are defined from an economic/resource perspective rather than from the perspective of the reporting entity. Although there are two sets of accounting standards in Australia, they are developed using a common conceptual framework and they contain virtually the same requirements.

According to McGregor (1999), one argument in favour of a separate approach for public sector entities is based on the broader notion of public sector accountability. However, the PSASB concluded that this broad concept of accountability is compatible with the private sector objective of financial reporting which focuses on decision-making regarding the allocation of scarce resources.

Canada's conceptual framework, accounting standards and generally accepted accounting principles are established by the Canadian Institute of Chartered Accountants (CICAa). The CICA is a self-regulated and self-supported professional association responsible for setting accounting and auditing standards for business, government and not-for-profit organizations (CICAa). The standard setting structure of the CICA is depicted in the following figure:

Figure 3.1: Accounting Standard Setting in Canada



Legend

CICA – Canadian Institute of Chartered Accountants

AcSOC – Accounting Standards Oversight Council

PSAB – Public Sector Accounting Board

AcSB – Accounting Standards Board

AASOC – Auditing and Assurance Oversight Council

AASB – Auditing and Assurance Standards Board

As illustrated in Figure 3.1, the CICA has established two oversight bodies, the Accounting Standards Oversight Council (AcSOC) and the Auditing and Assurance Oversight Council (AASOC). They are charged with the responsibility for developing accounting and auditing standards respectively. The Accounting Standards Oversight Council has assigned responsibility for accounting standards to two bodies: the Public Sector Accounting Board and the Accounting Standards Board. Meanwhile, the Auditing and Assurance Oversight Council has delegated responsibility for auditing and assurance standards to the Auditing and Assurance Standards Board. There are two CICA handbooks which contain Canadian accounting principles and guidelines: one for the commercial sector and one for the public sector. These handbooks are numbered by section and paragraph. For example, Section 1000, Financial Statements and Concepts, is comprised of 58 paragraphs (1000.01-1000.58). The public sector handbook numbering sequences are similar to the commercial handbook with the exception that they are preceded by 'PS', for example: PS1000, Financial Statement Concepts – Federal, Provincial and Territorial Governments.

Although Canada sets its own accounting standards, the influence of the United States Financial Accounting Standards Board (FASB) is evident. The FASB, as well as the Accounting Standards Board (ASB) and the International Accounting Standards Board (IASB) define a conceptual framework:

A coherent system of interrelated objectives and fundamentals that can lead to consistent standards and that prescribes the nature, function, and limits of financial accounting and financial statements. (CICA, 2: 2-10)

The most important similarities between the Canadian and American conceptual frameworks relate to a similar user focus and a primary objective of economic

decision making. Both the CICA and the FASB give most of their attention to investors and creditors with virtually no attention to other user groups. Despite these commonalities, Canada includes stewardship as well as decision usefulness while FASB emphasises cash flows. Moreover, the American FASB Concepts Statement No. 1 focuses on the broader concept of financial reporting, whereas the CICA concentrates on financial statements (CICAAd, 2-57). In contrast to the United States and the United Kingdom, where the emphasis is on decision usefulness, Canada's inclusion of stewardship is due to the fact that the CICA Handbook applies to both commercial and not-for-profit (NFP) organizations:

‘The objective of financial statements is to communicate information that is useful to investors, members, contributors, creditors and other users in making their resource allocation decisions and/or assessing management stewardship’ (CICAAb 1000.14).

Canada's conceptual framework is comprised of five components: accounting postulates, objectives of financial reporting, qualitative characteristics, recognition and measurement and elements of financial statements. Each of these components closely resembles the American conceptual framework (CICAAd, 2-13). The components of Canada's conceptual framework for commercial enterprises and its implications for financial reporting for public sector agencies required to adopt commercial accounting standards are discussed in more detail in the subsequent sections. The sections in italics denote the description of the CICA conceptual framework. This is followed by a discussion of the implications of the framework for GBEs that are subject to commercial accounting standards.

1. Accounting postulates

- a. *Quantification and exchange postulate is based on the assumption that goods and services are distributed through exchange and that the exchanges are quantified through market prices. It may be difficult to*

quantify values in the public sector where there are no markets for many of the goods and services provided.

- b. *Entity postulate is based on the premise that accounting is concerned with specific and separate economic entities.* This concept applies to public sector agencies since they are typically established as separate entities.
- c. *Going concern postulate assumes that economic entities are organized for indefinite periods of operation.* This assumption can be applied to most public sector agencies.
- d. *Time period postulate assumes that the business community and society in general have a need for short-term (less than twelve months) periodic financial statements, which involves accruals and allocations.* It may be difficult for many public sector organizations to issue short-term financial statements. For example, the valuation of pension liabilities on a quarterly basis could be costly. In this instance, it is advisable to weigh the cost of providing frequent or periodic financial statements against the benefits derived from this information.
- e. *Unit of measure postulate refers to money as the common denominator in the exchange of goods and services.* It may be difficult to establish a unit of measure for some publicly provided goods and services.

2. *Objectives of financial reporting*

The objective of profit-oriented financial statements is to communicate information that is useful to investors, members, contributors, creditors and other users in making resource allocation decisions or assessment of management stewardship (CICAb, 1000.15). The framework underlying the CICA's accounting

standards is based on the concept that in the Canadian economic environment, goods and services are produced primarily by investor-owned business enterprises that obtain investment resources from debt and equity markets along with financial institutions (CICA, 1000.07).

Since the ownership of such business enterprises is generally separated from management, this has created a need to communicate economic information about the entity to investors (CICA 1000.09). The CICA has adopted the stance that since it is not practical to satisfy the needs of all users, the objective of financial statements is to concentrate on the needs of investors and creditors (CICA 1000.11). Under Canada's accounting standards, public sector organizations classified as GBEs adhere to commercial accounting standards. The application of commercial accounting standards to public sector agencies is questionable due to the significant differences in their mandates.

The CICA accounting standards have evolved from a stewardship function, with the agent providing an account to the principal, to a focus on decision usefulness for investors and creditors. The CICA has adopted a narrow view of users of commercial financial statements and concentrates on meeting the needs of only the most important (or salient) users. This narrow view of the users of financial statements as investors and creditors does not appear to sufficiently address the needs of other stakeholders such as employees and those concerned with the social responsibility of businesses. Their wider informational needs could not be met through the financial statements.

3. *Qualitative characteristics*

The third component of the Canadian conceptual framework embodies the qualitative characteristics of financial statements that enhance their usefulness to readers: understandability, relevance, reliability and comparability. The financial statements must be comprehensible by users who have limited knowledge of business and accounting and who are prepared to study the information with reasonable diligence. The extent of reader knowledge may be challenging where public sector agencies have unique accounting practices or when the agency falls under commercial rather than public sector standards. In this situation, the organization may need to consider providing additional supplementary narrative information to enhance readers' understanding of the financial statements in order to achieve accountability. Ultimately, financial reporting must be relevant for stakeholders.

Financial statement information is relevant when it has predictive value, feedback value and is timely. Certain government agencies may have difficulty in fully satisfying the reliability characteristic. For example, they typically provide only annual rather than quarterly financial statements, usually not available until six months after year-end. There are generally no particular concerns with agencies meeting the predictive value characteristic, but in cases where the agency does not provide comparative budget and actual results, this may limit the feedback value.

To be reliable, financial statement information must achieve representational faithfulness, verifiability, neutrality and conservatism. For the most part, public

sector agencies are not likely to experience difficulty in meeting the reliability criteria.

Finally, comparability is important when comparing two different entities and when comparing the same entity over two time periods (CICA 1000.18 - 1000.22). The issue of comparability to other entities is a particularly contentious issue for public sector agencies as their stakeholders typically wish to compare performance with their respective counterparts. In demonstrating accountability, public sector agencies need their financial statements to reflect these qualitative characteristics.

4. Recognition and Measurement

The Canadian conceptual framework encompasses the following recognition and measurement concepts:

- a) *Accruals – revenues and expenses are recognized in the period in which they are earned or incurred.* Accruals are helpful in ensuring intergenerational equity, particularly in GBEs where fees or premiums are charged to provide benefits over a future time period. Canadian government agencies are expected to adhere to accrual accounting.
- b) *Matching – revenues and expenses are linked in a cause and effect relationship.* This issue is important for a public sector agency because revenue is levied to meet the expenses of the current year which may be paid in future periods, as is the case with pensions.

- c) *Going concern* – financial statements are prepared on the assumption that the enterprise will continue for the foreseeable future. This characteristic does not present a challenge for government agencies.
- d) *Substance over form* – transactions accounted for to reflect economic substance rather than the legal form. This is an important issue in the public sector because there may be a tendency to account for transactions on a legal, rather than a substance basis. For example, governments tend to spend remaining budget funds toward the end of the fiscal year. This may lead to situations where an expense is recorded because the purchase order is issued, but if the goods or services have not been received, the substance of this transaction has not been achieved and should, therefore, not be recorded.
- e) *Historical cost* – transactions recorded at the value ascribed to them when they took place. Most government transactions are recorded at cost.
- f) *Nominal dollar financial capital* – no adjustment is made for changes in purchasing power. Governments generally record assets at nominal dollar value and do not adjust for purchasing power changes.

5. *Elements of financial statements*

The final component of the Canadian conceptual framework is comprised of the elements of financial statements. Elements are defined as the basic categories needed to meet the objectives of financial statements and they include assets, liabilities, equity/net assets, revenue, expenses, gains and losses (CICA 1000.25-40).

- a) *Assets are defined as economic resources controlled by an entity as a result of past transactions and are expected to provide future benefits. Capital assets include both tangible and intangible assets. Intangible assets lack physical substance and are not a financial asset. When future benefits of intangible assets are reasonably assured, the asset may be capitalized. The cost of an intangible asset includes direct development costs and overhead related to the development.* Development of information technology systems is an example of an intangible asset. Those agencies that meet the criteria of a GBE, for the most part, adhere to the definitions of the various asset categories. Unlike government departments, government agencies do not have the same challenges in accounting for assets such as natural resources. Most agencies have been established to provide goods and services to citizens and, therefore, have acquired tangible assets such as buildings, equipment and technology to deliver these services.
- b) *Liabilities are described as obligations on a determinable date, occurrence of event or on demand. Transactions creating the liability occur in the past and the entity cannot avoid the liability.* The actuarial basis of liability calculation may present challenges for certain organizations such as workers' compensation agencies where accounting guidance is not particularly clear. For example, these GBEs need to determine if they should follow the main standards, life insurance standards or develop their own industry specific standards.
- c) *Equity/net assets include the ownership interests in assets after deducting liabilities. In a commercial enterprise, equity includes share capital,*

contributed surplus and retained earnings. In GBEs the ‘equity/net assets’ terminology is not considered appropriate. Rather, the term ‘accumulated surplus/deficit’ is preferable, owing to the public sector nature of such agencies.

- d) *Revenues are comprised of increases in assets or decreases in liabilities resulting from the sale of goods or services or rent, interest, royalties and dividends.*
- e) *Expenses are reductions in assets or increases in liabilities resulting from ordinary business activities.*
- f) *Gains are differentiated from revenues in that they are derived from peripheral and incidental transactions rather than regular business activities.*
- g) *Losses are defined as decreases in equity which result from peripheral or incidental transactions outside of normal business activities.* The commercial application of revenue, gains, losses and expenses is appropriate for most public sector agencies that are classified as GBEs.

The conceptual framework serves as a source of guidance to accountants when specific accounting standards do not exist to address circumstances they may encounter. Although it is expected that financial statements will be prepared in accordance with GAAP as set out by the CICA, it is recognized that accounting pronouncements are not likely to address all issues that may arise. Consequently, accountants often exercise their professional judgment and, in effect, become ad hoc standard setters. Indeed, due to the slowness of accounting pronouncements, accountants are more apt in Canada than in other countries to be placed in

situations where they have to use their professional judgment (CICAAd, 2-4). This is particularly relevant for accountants of public sector agencies who may need to utilize this provision to set standards for specific situations where there are no clear guidelines. Some public sector agencies may fit the criteria as a GBE within the commercial accounting standards, but may also display characteristics of a public sector agency as defined by the Public Sector Accounting (PSA) guidelines. Where the standards do not adequately address their needs, arguably they have to rely on their professional judgment in setting standards. Industry specific standards would improve the relevance of the financial report for stakeholders.

The Canadian Accounting Standards Board (AcSB) is in the process of adopting the International Financial Reporting Standards (IFRSs). Over the five-year period (2006-2011), public companies in Canada will move to the IFRSs. By 2008, the definitive changeover timetable will be announced, but it is assumed that reporting under IFRSs will be effective January 1, 2011 (AcSB, 2006b). Initially, the focus is on publicly accountable companies. The adoption of IFRSs for public companies will affect other publicly accountable enterprises such as crown corporations, credit unions and cooperatives (AcSB, 2006a). The AcSB recognizes that the convergence of commercial standards may present challenges for not-for-profit (NFP) and GBEs which are governed by commercial accounting standards. Consequently, the AcSB notes that ‘one size does not necessarily fit all’ and indicates that they are assessing the extent to which IFRSs may be useful for private sector and NFP organizations.

When the CICA issued new accounting standards in April, 2005 dealing with the recognition, measurement and disclosure of financial instruments, hedges and comprehensive income, they reflected, to the extent possible, international accounting standards (Hague, 2005). These changes are effective for the fiscal years beginning on or after October 1, 2006, with early adoption permitted (CICA, 3855). The CICA defines financial instruments as any “contract that gives rise to a financial asset of one party and a financial liability or equity instrument of another party” (CICA, 3855). The Canadian guidelines on financial instruments do not apply to employee future benefits, life insurance companies, subsidiaries or joint ventures. Financial assets may be designated as held to maturity, held for trading or available for sale. Held to maturity assets are financial assets with fixed or determinable payments and fixed maturity rather than an entity that has a positive intention and ability to hold to maturity. No WCB jurisdiction has designated their investments as held to maturity since there is no intention to hold to maturity, as securities are periodically sold for funding or portfolio management purposes. Held for trading means that the asset is acquired for selling in the near term or there is evidence of a recent pattern of short-term profit taking. The available for sale assets are held for longer terms. Gains and losses resulting from a change in fair value are recognized in net income for assets designated as held for trading, while such gains and losses are recognized in Accumulated Other Comprehensive Income (AOCI) for available for sale financial assets. Consequently, the designation of an organization’s financial assets as held for trading, versus available for sale has a significant impact on its financial position and operating results. Therefore, it would be expected that accounting guidelines would be issued regarding the designation of assets as held

for trading or available for sale. Such guidelines would reduce the potential for organizations to manipulate their income.

Comprehensive income is defined by the CICA as the residual amount after expenses and losses are deducted from revenues and gains. The introduction of fair value accounting for financial instruments impacts comprehensive income as it adds another component. Barker (2004) maintains there is a loss of information when comprehensive income is reported without separate disclosure of its components, such as operating and non-operating income. Further complicating matters are situations where a transaction that is non-operating for one company can be operating for another. For example, disposal gains and losses and fair value changes in financial instruments might be classified as non-operating, unless reported by a real estate company or a financial institution. Therefore, this presents a problem for those who prefer 'one-size-fits-all'.

The gains and losses on financial instruments and actuarial gains and losses may have a significant impact on financial statements. Barker (2004) asserts that revaluation, gains or losses on financial instruments and actuarial gains/losses are best described as remeasurements. The remeasurements distinction is important in reporting financial performance because the income statement commingles income streams with capital gains and losses. Therefore, remeasurements are considered to be 'one-off'. Barker maintains that if the income statement makes a distinction between remeasurements and all other income and expenses, then there is greater clarity in presenting the income statement effects of different underlying valuation models. To facilitate this differentiation, he proposes an alternative

matrix presentation, where a total column includes all items of income and expense while additional columns allow a line-by-line desegregation between remeasurements and other income. This presentation is thought to enhance readers' understanding of the financial statements.

The change in accounting practice for financial instruments raises the issue of reliability versus relevance. Eunsup and Larkin (1998) contend that market value accounting presents the economic reality of transactions and, therefore, provides more meaningful and relevant information than historical cost reporting. However, Eunsup and Larkin point out that not all the literature supports mark-to-market accounting as it is less reliable due to subjectivity in arriving at fair market value and it leads to increased volatility in income.

3.2 Public Sector Reporting

This section examines the reporting standards governing public sector organizations from both a national perspective and a provincial viewpoint using the province of Newfoundland as an example. This examination includes the accounting and actuarial standards which influence financial reporting as well as industry guidelines and provincial reporting requirements which impact both financial and non-financial reporting.

3.2.1 Canadian reporting environment

CICA Public Sector Accounting Handbook

The CICA recognizes the unique reporting requirements for government as outlined in the CICA Public Sector Accounting Handbook. Although the

Canadian public sector has a separate conceptual framework, it is virtually identical to that of the commercial conceptual framework. The Public Sector Accounting (PSA) Handbook acknowledges the challenges faced by government in meeting the accountability expectations of many stakeholders. Consequently, government reporting envisions a multidimensional accountability report comprised of a financial report, other information about a government's financial condition, supplementary financial performance information and non-financial information (CICAac, PS1000.10). While the financial statements provide evidence of accountability, the information needed to understand and evaluate government financial operations and to promote accountability extends beyond reporting surpluses and deficits (CICAac, PS1000.21 and 1000.24). According to the PSA handbook (CICAac, PS05-06), the financial statements are only one indication of financial condition. Additional information such as narrative explanations, along with financial and non-financial indicators, is needed to supplement the financial statements in order to improve accountability for and understandability of financial condition and non-financial performance. Government financial statements should provide information that describes the purpose and nature of government spending as well as the sources of its revenues (CICAac, PS1100.12). Clearly, the PSA standards encompass a much wider accountability perspective than commercial standards and are a better fit than the CICA commercial accounting standards for many public sector agencies whose stakeholders have broad accountability needs. Those agencies that are subject to commercial accounting standards owing to the classification as a GBE will likely benefit from the wider performance reporting associated with the PSA standards.

Despite the commonalities of the public and commercial frameworks, there are distinct differences between the financial reporting and accounting standards required for commercial enterprises and those required for government since business exists to generate profits while governments exist to provide services to their constituents. Consequently, the business measure of net income is not necessarily appropriate to measure government's service output. Moreover, outcomes of government services are best measured using both financial and non-financial information including program cost/benefit analysis (CICA, PS1100.41). Another key reporting difference is that government financial statements generally provide a comparison of actual to budgeted results (CICA, PS1100.125) whereas commercial financial statements provide year-over-year comparisons. This is an area where agencies may differ from government, since those which are deemed to be GBEs may adopt commercial standards and report year-over-year actual results rather than budgets or targets. That is not to say that it would not be appropriate to provide both (prior year's actual and budget) comparative referents.

When comparing the public sector conceptual framework to that of the commercial sector, it appears that the public sector framework includes most or all of the commercial characteristics as well as a number of additional requirements. With the exception of the three characteristics noted in Table 3.1, both conceptual frameworks include the same qualitative characteristics. The following table provides a summary of the additional qualitative characteristics of public sector financial statements.

Table 3.1: Additional Public Sector Characteristics

Characteristic	Additional Public Sector Characteristics
Relevance	In addition to predictive value, feedback value and timeliness, the PSA includes 'Accountability Value' which is comprised of information that helps users assess government's stewardship of resources. Accountability is enhanced when financial statements include targets and objectives and when the annual report includes financial and non-financial information.
Reliability	Both commercial and public sector accounting standards include representational faithfulness, verifiability, neutrality and conservatism. However, PSA elaborates on neutrality by stating that it should not colour or bias the image it communicates. Also, PSA includes the category of 'Completeness' which requires that none of the data necessary to achieve representational faithfulness is lacking.
Understandability and Clear Presentation	The PSA standards include the additional category of 'Understandability and Clear Presentation'. The PSA standards note that information should be presented clearly and simply without excessive detail or overly technical descriptions.

As illustrated in the preceding table, the PSA qualitative characteristics include more categories than commercial standards. The inclusion of accountability value, completeness and understandability reflects the wider, multidimensional nature of public sector financial reporting.

The relevance of the financial report for stakeholders of public sector organizations is improved when the report has accountability value. The public sector conceptual framework defines this accountability value as the provision of targets and objectives as well as non-financial information in the annual report. The PSA conceptual framework implicitly acknowledges that additional data, over that required by the commercial conceptual framework is necessary to achieve representational faithfulness. The importance of providing financial information is

recognized by the public sector's conceptual framework in the requirement to avoid complex presentation and technical descriptions.

When comparing the elements of financial statements, both commercial and public sector standards include assets, liabilities, revenues, gains, expenses, losses and operating results (surplus or deficit). The main differences are equity versus surplus/deficit and the PSA's supplementary information on the types of assets, particularly government assets such as natural resources. Recognition and measurement criteria are largely the same for both commercial and public sectors. The main difference relates to the description of public sector natural resources and crown lands as assets.

It should be noted that all government organizations are not required to comply with the PSA guidelines. According to the Public Sector Accounting Board (PSAB), certain types of government organizations, such as government business enterprises, government business-type organizations and government not-for-profit organizations may adhere to the commercial standards.

According to CICA, (PS1300.28), a government business enterprise has all of the following characteristics:

- a) It is a separate legal entity with the power to contract in its own name;
- b) It has the financial and operational authority to carry on a business;
- c) It sells goods and services to individuals and organizations; and
- d) It can maintain its operations and meet its liabilities from revenues received from sources outside of the government reporting entity.

Many public sector agencies meet these criteria. For example, hydroelectric crown corporations, government-owned liquor stores, public insurance agencies and workers' compensation agencies all meet these four criteria. This classification appears to place these agencies in a position whereby they must comply with commercial accounting standards, while at the same time provide wider financial and non-financial performance reporting expected for a public sector entity.

Not only are there differences between the private and public sectors, but there are also significant variations amongst public sector organizations delivering various types of goods and services. Barton (1999) delineated three categories of government goods and services, as outlined in Table 3.2.

Table 3.2: Categories of Government Goods and Services

Description – Service Type	Attributes
1. General government goods and services	<ul style="list-style-type: none"> • Public goods provided for little or no charge – defence, law, education, health care. • Public goods provided for significant charge – tertiary education and some health services.
2. Community facilities open to public use	<ul style="list-style-type: none"> • Natural capital assets – parks, beaches, water • Man-made heritage assets – art galleries, botanical gardens, museums, etc.
3. Private goods and services provided by government - operating activities primarily or wholly funded from revenue receipts and capital needs supplied by government	<ul style="list-style-type: none"> • GBEs with significant externalities or natural monopoly powers – water, postal, rail, power, telecommunications. • GBEs without significant externalities or monopoly power; operate in commercial markets and compete against private firms – airlines, insurance companies

Source: Barton (1999), p. 27

Generally, public sector agencies would largely fit Category 3 and would, therefore, be classified as a GBE subject to commercial accounting standards. However, other government organizations may be classified as Category 1 and Category 2 and be subject to public sector accounting standards. This creates a situation whereby some government organizations are expected to comply with

commercial accounting standards, while others follow public sector accounting standards. This approach means there is no single system by which citizens/stakeholders can evaluate or assess government services.

Some scholars argue that the application of commercial accounting standards is not appropriate for the public sector since they are not 'identical twins' (Barton, 1999). Barton contends that the objectives of the public and private sectors are significantly different and, therefore, require different accounting standards to meet users' informational needs. This viewpoint is shared by Ellwood and Newbury (2006) who argue that public sector organizations are different from commercial enterprises since they acquire resources for public benefit, not to increase capital. Ellwood and Newbury maintain that the public sector's capacity to levy taxes, provide public goods and redistribute wealth has no parallels in commercial accounting. While Ellwood and Newbury acknowledge that many accounting rules for recognizing, quantifying, valuing and recording transactions are the same for government as for commercial enterprises, they contend that there are many unique issues in the public sector which justify the creation of its own framework. Ultimately, they argue that one underpinning conceptual framework cannot fit both the private and public sectors since the objectives and users of public sector accounting statements are much wider than those presumed for profit oriented businesses.

The challenges associated with applying private sector accounting to the public sector is examined by Hodges and Mellett (2003). They assert that accounting rules in the private sector need to be modified before they are applied to the public

sector. Through their examination of accruals based accounting in the National Health Service (NHS), they highlight examples where such a system may not be appropriate. Hodges and Mellett suggest there are risks in assuming that private sector methods are superior to those of the public sector.

Further support for separate, unique accounting standards for the public sector is provided by the American Government Accounting Standards Board (GASB, 2006) which argues that since public sector organizations have different purposes, processes of generating revenue, stakeholders, budgetary obligations and propensity for longevity, there should be separate accounting and financial reporting standards.

While the drive toward adoption of commercial accounting standards in the public sector can be partially attributed to compliance with international accounting standards, it has been argued that the move toward commercial standards was also influenced by managerial reform, a focus on efficiency and a belief in commercial approaches that has led to a revolution in public sector accounting (Ellwood, 2002). For example, Ellwood contends that the United Kingdom public sector management reforms provided the impetus for more commercial style accounting in government. Indeed, these changes in public sector accounting are a logical response to changes in the British contextual setting, a setting that has been mirrored internationally.

Canadian Institute of Actuaries (CIA)

In addition to complying with the accounting standards, certain public sector agencies are also subject to the actuarial guidelines of the Canadian Institute of Actuaries (CIA). The CIA is a self-regulated and self-supported professional body established by an Act of Parliament. In the commercial sector they govern the valuation of pension plans and the liabilities of life insurance companies. In the public sector, the CIA governs the valuation of government employees' pension plan liabilities and workers' compensation liabilities for injured workers. The CIA regulations and approach to the valuation of liabilities is influenced by the CICA. For example, the recent adoption by the CICA of fair value accounting for financial instruments had an impact on the CIA's methodology for the valuation of certain liabilities, as discussed further in Chapter 5.

3.2.2 Newfoundland's Reporting Environment

In addition to the Canadian accounting and actuarial standards, various public sector agencies in each of the Canadian jurisdictions have their own legislation and provincial reporting standards. These additional reporting standards are wider than the financial reporting standards since they are intended to address the public sector accountability requirements of government agencies. The following table depicts the standards which govern reporting for Newfoundland's public sector agencies:

Table 3.3: Newfoundland's Standard Setting Bodies

Standard Setting Body	Standards	Mandatory or Voluntary
Provincial legislation governing various agencies	<ul style="list-style-type: none"> • Submit annual report to Minister • Audited financial statements 	Mandatory Mandatory
Auditor General	<ul style="list-style-type: none"> • Submit annual report • Submit strategic plan 	Mandatory Mandatory
Office of the Comptroller General (Treasury Board)	<ul style="list-style-type: none"> • Transparency and Accountability Act 	Mandatory

Auditor General

The Auditor General is governed by the Auditor General Act and is responsible for the audit of the Government's accounts including its departments as well as some of the small agencies. Large agencies generally appoint their own external auditors. As well, each year the Auditor General performs additional examinations of certain government agencies whose financial statement audits are performed by private sector auditors. These examinations are designed to review compliance with various legislations and to ensure that the entities have adequate systems of management control in place. The results of these examinations are disclosed in the Auditor General's annual report to the House of Assembly, which is the provincial legislature of Newfoundland (Auditor General, 2005). Agencies using external auditors submit their annual report and management letter to the Auditor General for review. The Auditor General notes any concerns regarding agencies in his main report to government.

Traditionally, audited financial statements have been the primary tool used by government and its agencies to demonstrate credibility. Many public sector organizations have now extended their audit function to include value-for-money and performance audits. Heaton et al (1993) maintain that public demand for

greater government accountability has led to public sector performance initiatives and a performance audit function. However, it can be argued that most performance audits have limited utility since they do not generally include service effort and accomplishment reporting. Overall, the major benefit of the information generated from the performance audit is increased credibility for use of public funds. By identifying gaps between the object audited and the criteria, the state auditor motivates government entity executives to adopt 'best practices'. Currently, Newfoundland's Auditor General does not conduct value-for-money or performance audits. Rather, the focus is on attest auditing and legislative compliance.

Transparency and Accountability Act

Undoubtedly, the single greatest provincial influence on stakeholder reporting in Newfoundland is the Transparency and Accountability Act. This legislation was introduced in December 2005, as part of the government's ongoing efforts to ensure greater public accountability for all aspects of government operations. The stated purpose of this legislation is 'to enhance the transparency and accountability of the government and government entities to the people of the province' (Transparency and Accountability Act).

This legislation mandates that all government entities be classified as Category 1, 2 or 3. Category 1 entities are comprised of large agencies such as school boards and hospitals, Category 2 entities are often research bodies such as the Newfoundland and Labrador Centre for Health Information and the Provincial Advisory Council on the Status of Women. Category 3 entities are typically specifically mandated organizations including certification panels, advisory

boards and appeal boards such as the Teacher Certification Panel. Category 1 entities are required to prepare three-year strategic plans; Category 2 government entities must prepare business plans while Category 3 organizations are required to prepare activity plans. This legislation is very detailed and specific with respect to the development, monitoring and reporting on an organization's strategic plan. The Act specifies the minimum required elements of a reporting model, but does not preclude the agency from publishing additional information. The government provides the following description of these three categories:

Table 3.4: Criteria to Identify Public Bodies for Each of the Three Categories

Criteria	Category 1	Category 2	Category 3
Established organizational structures	Yes	Varies	No
Distinct administrative supports	Yes	Varies	No
Operating budgets	Yes	Yes	Varies
Going concerns/legal entities	Yes	Yes	Varies
Public interest in activities	Moderate to high	Low to moderate	Low to moderate
Fiscal impacts to province	Moderate to high	Low to moderate	Low

Source: Treasury Board (2000), p. 13

Government has designated the WCB as a Category 1, and the agency clearly meets this criteria. It is a separate legal entity, it has its own administrative structure and it determines its operating budgets. The 'moderate to high' public interest in its activities fits with the current environment where trade unions and employer associations represent the interests of their stakeholder groups. Therefore, there is moderate general public interest, but high interest in the WCB by the employers and (potential) injured workers.

To provide direction to the public bodies in implementing requirements of the Transparency and Accountability Act, the Treasury Board released a number of

detailed publications. The Transparency and Accountability guidelines advise public organizations to move beyond providing information on resources, activities and outputs, but to also capture information on effectiveness in achieving goals and objectives. In particular, the guidelines state that reporting must relate to broader public accountability and transparency. The guidelines stress the importance of the strategic plan including:

- 1) Vision, mission and values
- 2) Review of environmental factors
- 3) Identification of strategic issues facing the organization
- 4) Goals and objectives
- 5) Description of priorities and strategies
- 6) Performance measures to evaluate progress in achieving goals and objectives (Transparency and Accountability Office, 2005)

The WCB's compliance with the Transparency and Accountability Act is discussed in detail in Chapter 5 (Section 5.2.1). Newfoundland's Transparency and Accountability Act complements the CICA's public sector financial reporting standards. This Act widens public sector performance reporting by all government organizations.

3.3 Conclusions

This chapter has presented and analyzed the commercial and public sector conceptual frameworks along with the financial and non-financial reporting regulations and guidelines that govern public sector agencies. These financial, actuarial, and government accountability standards and guidelines form the foundation of a stakeholder reporting model. This chapter has highlighted the role

of conceptual frameworks in the development of accounting standards and the provision of guidance to accountants in situations where standards do not exist or where they are not deemed adequate to meet the reporting needs of stakeholders. It illustrates how accountants may rely on conceptual frameworks to introduce accounting standards for specific situations where the relevance of the financial report could be enhanced. This may prove advantageous for public sector entities that are classified as GBEs, particularly when there is a need to address accounting issues not identified in the accounting standards. Consequently, this may provide GBEs with an opportunity to develop industry-specific accounting standards. A stakeholder reporting model for public sector agencies needs to consider a provision for the development of industry-specific accounting standards.

Throughout the chapter the issues surrounding the potential classification of many public sector agencies as GBEs, required to adhere to commercial accounting standards, has been discussed. The objectives of commercial enterprises are significantly different than those of public sector agencies. Consequently, the application of commercial standards for public sector agencies may not necessarily provide stakeholders with sufficient and relevant information to assess performance. Since these agencies are established to provide a public good or service, it can be argued that the wider reporting standards associated with public sector accounting would be more appropriate.

The development of a stakeholder reporting model would also need to consider the impact of other government reporting guidelines. In the case of

Newfoundland, the Transparency and Accountability Act specifies several reporting requirements, including a three-year strategic plan. Evidently, an accountability model needs to incorporate a broad range of factors: CICA accounting standards for both commercial and public sector organizations, CIA standards where applicable and specific government accountability standards as reflected in the Transparency and Accountability legislation. The following chapter presents the research methodology for this study into the development of a stakeholder reporting model for the WCB agency.

CHAPTER 4: RESEARCH METHODOLOGY

4.0 Introduction

This chapter presents the methodology selected to address this study's research questions, to develop a stakeholder accountability reporting model for public sector agencies. This research examines how the application of commercial and public sector accounting standards, combined with prominent government reporting requirements influence the WCB's discharge of its stakeholders' accountability expectations. The Newfoundland WCB is used for this case study since it is a long-standing public sector agency in Newfoundland as are WCBs in all other jurisdictions in Canada. It is among the most autonomous of public sector agencies owing to its funding arrangements and governance structure. Consequently, an accountability reporting model for this agency must address a broad array of multi-dimensional issues for many stakeholders. The WCB stakeholder reporting model is expected to be comprehensive and thus transferable, with modification, to other public sector agencies. The research includes a documentary analysis to evaluate the impact of regulatory and voluntary reporting on WCBs. The wider issues pertaining to performance reporting to stakeholders are explored through semi-structured interviews with selected stakeholder groups.

The chapter begins by providing a discussion of the role of workers' compensation agencies along with an analysis of the accountability issues facing these public sector agencies. The chapter outlines the approach taken for data collection and analysis and examines the advantages and disadvantages associated with qualitative research methodologies. In particular, this research aims to

develop a stakeholder accountability reporting model by identifying how the WCBs' primary stakeholders view accountability and by discerning the reporting mechanisms and consultation approaches which would meet their accountability needs.

4.1 Role and Structure of Workers' Compensation Boards

As noted in Chapter 1, the main role of each WCB in Canada is to provide medical benefits, wage loss replacement and rehabilitation to injured workers and to provide insurance for the employer community. There are twelve WCBs in Canada, one for each Province and Territory. Each WCB is governed by its respective provincial/territorial legislation, and all WCBs report their activities and financial results to their provincial/territorial legislature. Each WCB is administered by an independent Board of Directors. The composition of these Boards varies somewhat by jurisdiction, but they usually include representatives for workers, employers and the general public.

As explained in Chapter 1, in Newfoundland, the CEO and Board of Directors administer the WCB agency. The organizational structure is depicted in Appendix 2. The authority to discharge all the responsibilities prescribed by legislation regarding the operation of the agency rests with the Board of Directors. The formal reporting relationship of the Board of Directors to the Minister of Labour complements an informal administrative arrangement whereby the CEO of the WCB reports to the CEO of the Labour Relations Agency. In effect, the CEO of the Labour Relations Agency is the intermediary between the CEO and the Minister. The roles of the Board of Directors and CEO are outlined in Appendix 3.

WCB programs are independent of other social programs and are governed by the provincial rather than by the federal government. WCB benefits are employer funded and are provided to individuals who are injured during the course of their employment. A comparison of Canada's social programs is depicted in the following table:

Table 4.1: Canada's Social Programs

Program	Description	Funding Source	Responsibility
Social Assistance	Income assistance for individuals with no other source of income	Taxation	Provincial Government
Health Care	Services of hospitals and physicians at no charge to all citizens	Taxation	Federal and Provincial Governments
Canada Pension Plan	Pension benefits for all citizens upon retirement from the workforce	Jointly by employers and employees	Federal Government
Old Age Pension	Pension benefits for all citizens at the age of 65	Taxation	Federal Government
Employment Insurance	Benefits for individuals who have been displaced from employment	Jointly by employers and employees	Federal Government
Workers' Compensation	Benefits for individuals who are injured during the course of their employment	Employer funded	Provincial Government

A Statutory Review of the WCB is required by legislation every five years, and it is conducted by a committee appointed by government. This Committee represents all stakeholders of the system: employers, workers, government and the general public. Its mandate is to review the WCB's legislation, policies and operations and make recommendations for changes. However, the government is not obligated to implement the recommendations of the Statutory Review Committee. The Committee conducts an independent review and serves as a means to involve all stakeholders, thereby giving them more ownership of the

system. It also acts as a public forum since its report is made available to the public. It is noteworthy that the WCB is the only Newfoundland government agency which is subject to a Statutory Review process. This arrangement is thought to indicate a higher standard of accountability than that expected of other public sector organizations.

All the Canadian WCBs provide the same basic services to injured workers and their survivors: health care, rehabilitation, short term disability benefits, long term disability benefits and survivor benefits. The health care benefits include a full range of medical, surgical, nursing and hospital services. Short term disability benefits include all income benefits paid to the injured worker during the initial period after the injury, before the injury has stabilized or plateaued. Depending on the jurisdiction, the benefits provided range from 75% of gross wages to 90% of net wages. Long term disability benefits include all income benefits paid to an injured worker after the short term disability benefits have ceased and after the injury is deemed to be sufficiently stabilized. Generally, long term disability benefits are indexed to the Consumer Price Index. Survivor benefits are paid to the surviving spouse and children in situations where a worker is fatally injured (Doane Wyatt, 1992).

In addition to providing health care and wage loss benefits to injured workers, some jurisdictions in Canada also have responsibility for the administration of all or a portion of Occupational Health and Safety (OHS). In Newfoundland, OHS is administered jointly by the Department of Government Services and the WCB. The WCB is responsible for the prevention and training aspects while the

Department of Government Services is responsible for the enforcement of compliance with the OHS legislation which is achieved through inspections, audits and the levying of fines.

The WCB funds these programs by levying and collecting assessment premium revenues from employers. These premiums are determined by a number of factors including injury risk level of the employer, type of industry, claims history, legislation, and economic conditions. The WCBs levy annual premiums that are sufficient to cover the current and expected future lifetime costs of claims incurred in the current fiscal year as well as related administration costs. Premiums collected from employers are invested until needed to pay compensation and other costs associated with that year's injuries.

While there have been demands for improved government accountability, there have also been calls for improvements in accountability of specific public services. For example, Jennissen et al (2000) claim workers' compensation is one of the oldest social programs in Canada and it is one of the least publicly accountable. Jennissen et al maintain that workers' compensation should be made more accountable in line with other government services. Their view that accountability expectations for WCBs are weaker than line government departments can likely be attributed to the absence of WCB's results in government reports and, in many cases these results do not appear to be subject to the accountability standards imposed on government departments and agencies which are dependent on government funding.

Jennissen et al (2000) contend that the challenge facing WCBs is extending beyond traditional accountability to business and labour, to include accountability to elected officials for policy results and administrative processes. They call for increased WCB accountability to government through outcome-based reporting and increased government participation in the direction of programs. They assert that responsibility rests with government to ensure workers' compensation agencies are held to account.

4.2 Stakeholder Classification and Their Stakes

This study into the development of a stakeholder accountability reporting model is based on the premise that individual stakeholders can be classified into groups. Using Clarkson's (1995) primary/secondary typology as a method to classify the stakeholder groups, WCB stakeholders are classified into the following primary and secondary groups.

Table 4.2: WCB Stakeholder Classification

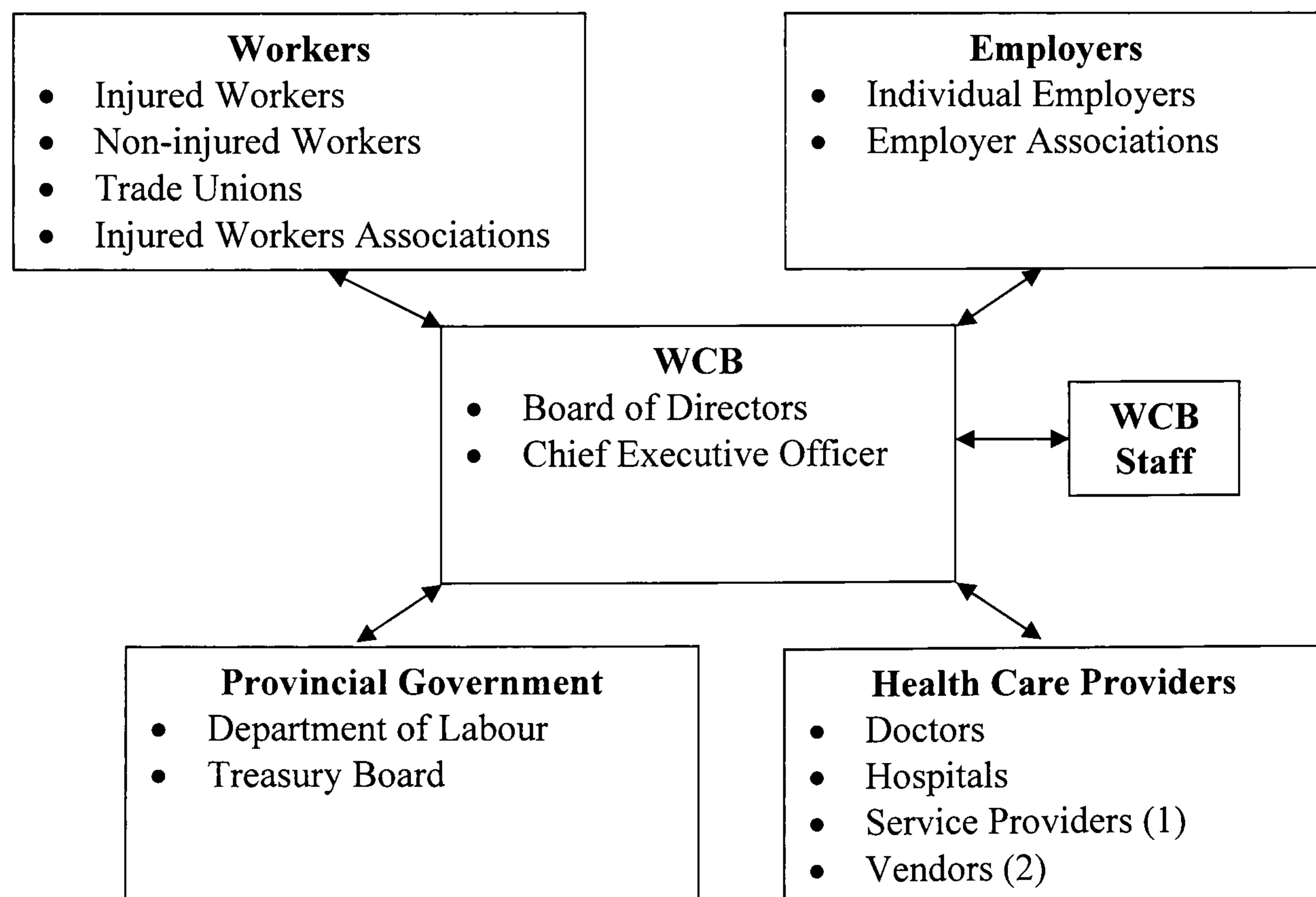
Primary Stakeholders	Secondary Stakeholders
(Potential) Injured workers	General public
Employers	Environmental groups
Government	
Health care providers	
Employees	

The focus of this study is on the accountability of the WCB agencies to their primary stakeholder groups defined as those whose continued involvement is considered essential in order for the organization to survive. The general public classification refers to citizens who are not directly involved in the WCB system through a workplace injury or as an assessment paying employer. Their interest in the organization is simply knowing that the system exists in the event of a workplace injury. Consequently, the general public is considered to be secondary

stakeholders. Environmental groups are also classified as secondary stakeholders since they are not essential for the WCB's survival. The secondary stakeholders, defined as those whose participation is not essential for the organization's survival, are outside the scope of this research.

This research is based on the premise of an accountability relationship or bond (Stewart, 1984) among the primary stakeholders as illustrated in the Figure 4.1 below. The two-way arrows in this Figure indicate that the relationship among stakeholders is a two-way reciprocal process. The WCB agency is placed in the centre since it is charged with demonstrating accountability to its primary stakeholder groups. This schematic depicts the WCB's relationship with government and its other stakeholders.

Figure 4.1: Workers' Compensation Primary Stakeholders



Notes:

1. Service providers include doctors, physiotherapists, chiropractors, etc.
2. Vendors refer to suppliers of health care products, such as wheelchairs, etc.

In addition to classifying the WCB stakeholders as either primary or secondary, it is beneficial to consider the relative importance or salience of the various primary stakeholders. While five groups (injured workers, employers, government, health care providers and WCB staff) are classified as primary stakeholders, there are differences in their perceived relative salience. The issue of stakeholder salience is central to this research, since the WCB system was established to address the needs of two groups: injured workers and employers. Consequently, it could be argued that these two primary stakeholder groups are more important than the other primary stakeholders groups (government, health care providers and WCB staff). The salience level of the primary stakeholders is examined through the research. Stakeholder salience is dependent on the cumulative number of attributes. The following table reflects the hypothesized salience of WCB primary stakeholders:

Table 4.3: Hypothesized WCB Primary Stakeholder Salience

Attribute	Stakeholder classification	WCB Primary Stakeholders
No power, legitimacy or urgency	Not stakeholders	Not applicable
One attribute	Latent stakeholders <ul style="list-style-type: none"> • Dormant – possess power to impose will, but do not have legitimacy or urgency • Discretionary – legitimacy, but no power or urgency • Demanding – urgency, but no power or legitimacy 	Not applicable for primary stakeholders, but could be relevant for secondary stakeholder groups – for example, the general public would fit the dormant attribute.
Two attributes	Moderately salient – expecting something <ul style="list-style-type: none"> • Dominant – power and legitimacy • Dependent – legitimacy and urgency, no power • Dangerous – urgency and power, no legitimacy 	Government, WCB staff, health care providers – dominant since they have power and legitimacy, but no urgency
Three attributes	Highly salient <ul style="list-style-type: none"> • Definitive 	(Potential) Injured workers (trade unions) and employers (associations) since they have power, legitimacy and urgency

Source: Adapted from Mitchell et al (1997) p. 872

As depicted in the preceding table, government, WCB staff and health care providers are considered to be moderately salient since they possess the two attributes of power and legitimacy, while employers and unions display the three attributes of power, legitimacy and urgency, and are therefore highly salient. The urgency aspect of power attributed to employers and injured workers is based on the premise that the WCB is expected to address their concerns as beneficiaries and funders as expeditiously as possible. Issues related to payment of benefits to injured workers are critical since they likely have no or very limited other sources of income. For example, delays in processing claims can result in serious negative impacts on the livelihood of those who are injured. Although employer issues are not so immediate, their interest in balancing the high cost of WCB premiums with their profitability goals also requires the timely attention of the WCB managers.

Friedman and Miles (2006: p. 95) note that attributes to the model of stakeholder salience are transitory. Time sensitivity and criticality on which urgency is based are dynamic. For example, while employers and trade unions' salience level is predominantly static, there may be occasions when it could temporarily change. Indicators of change include labour disputes within the WCB or service providers. During a labour dispute, WCB staff would move from moderately salient to highly salient as their needs become urgent to the organization. Similarly, the withdrawal of services by health care providers would escalate their salience level from moderate to high. Once the disputes are resolved and services reinstated, WCB staff and health care providers would revert back to a moderate salience level. Consequently, when circumstances change, even temporarily, the stakeholder salience model is dynamic and can be modified to reflect various situations.

Following from the classification of WCB stakeholders, this research examines the stakes or issues of concern for the Agency's primary stakeholders. The following table, adapted from Carnaghan et al (1996) illustrates the multiple WCB stakeholders along with their hypothesized stakes and accountability criteria. These hypotheses are explored and confirmed through the semi-structured stakeholder interviews as outlined in Chapters 6 and 7.

Table 4.4: WCB Stakeholders and Their Hypothesized Stakes

Stakeholders	Hypothesized Stakes	Hypothesized Accountability Criteria
Employers (Funders)	<ul style="list-style-type: none"> • Minimize premiums • Reduce injuries • Prompt return to work • Operate efficiently and effectively 	<ul style="list-style-type: none"> • Funding position • Average premium rate • Injury frequency • RTW success rate • ESRTW outcomes • Reduce administration costs • Total costs • Cost per claim • Number claims denied • Percentage claims appealed
(Injured) Employees (Beneficiaries)	<ul style="list-style-type: none"> • Rehabilitation and return to work • Improved safety • Operated efficiently and effectively 	<ul style="list-style-type: none"> • RTW success rate • ESRTW outcome • Duty to accommodate • Injury frequency • Reduce time to first payment • Number of claims denied • Number of claims accepted • Percentage of claims appealed • Funding position • Administration costs
Government	<ul style="list-style-type: none"> • Adherence to legislation • Financially viable insurance coverage for employees and employers • Minimize financial impact on other government social programs 	<ul style="list-style-type: none"> • Audit opinion (Auditor General) • Funding position • Average premium rate • Wage replacement rate • Reduce administration costs • Number of claims accepted • Number of claims denied
WCB Staff	<ul style="list-style-type: none"> • Recruitment and retention • Training and development • Employee morale 	<ul style="list-style-type: none"> • Employee turnover rate • Number of training days • Staff satisfaction
Health Care Providers	<ul style="list-style-type: none"> • WCB as a revenue source • Maintain professional standards • Assist injured workers medically recover and return to work 	<ul style="list-style-type: none"> • Funds available for health care providers

Source: Adapted from Carnaghan et al (1996), p. 167

Legend: RTW – return-to-work; ESRTW – Early and Safe Return to Work

4.3 Methodology

The research question addressed by this study is the development of a multi-dimensional stakeholder accountability reporting model. To develop this model, it is necessary to identify and classify stakeholder groups, their stakes and desired accountability framework. It has been determined from the literature review in Chapter 2 that Clarkson's (1995) primary/secondary typology best reflects the nature of WCB stakeholders' interests. Moreover, this research seeks to identify stakeholders' views on their relative importance or salience (Mitchell et al, 1997). Through the case study, stakeholders' views regarding their stakes (Carnaghan et al, 1996) will be explored and their preferred accountability approaches will be examined.

The case study methodology is ideally suited to the stated objectives of this study. Yin (1994) defines case studies as a multi-faceted research strategy which typically involves an in-depth examination of one organization, situation or community. Case studies can be described as holistic investigations which generate both quantitative and qualitative data from archival material, interviews, surveys and observations (Hill, 1993). Hyde (2000) suggests that a case study is not simply a single qualitative method; rather, it is an approach to research. Face-to-face interviews, associated with case studies, provide an opportunity to probe stakeholders for additional information and result in richer and more in-depth information than could be derived solely from a survey of a statistical sample of the population at large. The case study approach facilitates in-depth interviews with the stakeholder groups representing the underlying individual stakeholders.

A case study is beneficial for the development of a stakeholder accountability reporting model which best meets the multidimensional needs of a public sector agency. It is an appropriate technique for this research problem given the paucity of research investigating users' needs related to how government agencies can demonstrate accountability to their stakeholders. This research approach provides a mechanism to understand the meaning which stakeholders attribute to various situations. Furthermore, it enables the exploration of new ideas by developing and testing hypothesis of the stakes and accountability criteria, thereby contributing to the evolution of new theories (Easterby-Smith et al, 1991; Miles and Huberman, 1994; McCracken, 1988). It provides the researcher with the flexibility to adjust the data collection methods as the study proceeds, and it yields comprehensive results and rich data (Miles and Huberman, 1994). The face-to-face interview process enables the researcher to control the line of questioning, particularly in situations where it may become apparent that some of the questions need to be amended to ensure clarity or when the responses may generate additional questions. This flexibility contributes to the level of understanding of the issues.

Although case studies are time consuming and costly, their findings cannot be generalized and they lack rigorous control which can compromise validity (Bennett, 1991; Hill, 1993), these disadvantages can be minimized and mitigated. While it provides rich information, enabling respondents to provide general feedback, it risks increasing the narrative to be analyzed, thereby increasing the amount of time required to analyze and code the responses. This disadvantage is largely mitigated in this research by taping the interviews and having them transcribed by a typist, along with using NVivo software for coding. The

researcher's ease of access to respondents (no refusals) reduced the time and costs usually associated with securing access to interviewees. The only cash outlay related to transcribing services. The researcher had previously acquired NVivo software and tapes and had access to a tape recorder through her employer. Finally, there were minimal travel costs since the respondents resided in the researcher's home city.

As the methods of analyzing qualitative data have not been well formulated, this approach has limitations in terms of replicating the study (Creswell, 1994). Moreover, the typically small sample size does not lend itself to generalizability (McCracken, 1988). Although this case study cannot be generalized in the same manner as that achieved through a statistical sample, as discussed in Chapter 9, the methodology and resulting reporting model are transferable to other public sector agencies such as health care boards, school boards and hydroelectric crown corporations.

The lack of rigorous controls typically associated with case studies as well as the possible reflexivity of the researcher, potential influence of active listening, and the impact of the relationship between the interviewer and the respondent (McCracken, 1988) were partially mitigated through taping the interviews and through the researcher not attending round table meetings. Taping the interviews ensured that all responses were captured accurately and coding using NVivo software improved control through the production of reports showing the comments of all respondents by topic. This reduced the possibility of inadvertently omitting key responses. The CEO invited the researcher to attend

the round table meetings, but this opportunity was declined to maintain a degree of independence.

While all the disadvantages cannot be mitigated, a case study would be the most appropriate approach due to the complex nature of the research questions and the need to solicit feedback from a number of stakeholder groups representing a broad spectrum of society.

This research has two components: (1) a documentary review of the reporting environment and (2) a series of semi-structured interviews with a questionnaire component. The documentary review examines the reporting environment of the WCBs. The semi-structured interviews are comprised of open-ended questions along with a questionnaire component of checklist and Likert-scale questions (administered in a face-to-face format) to deepen and test the findings (Miles and Huberman, 1994). The multiple data collection approach aids in obtaining comprehensive information from stakeholder input and facilitates a degree of quantitative analysis.

Some researchers use multiple methods since the strengths of one method offset the weaknesses of the other methods (Tashakkori and Teddlie, 1998) while achieving triangulation. Triangulation refers to the extent to which research findings can be confirmed by the simultaneous application of multiple methods, multiple investigators, multiple data sets or multiple theories. Increased triangulation provides more robust results and improves the ability of researchers to draw conclusions and generalize findings (Scandura and Williams, 2000). This

study's literature review, documentary review, semi-structured interviews with open-ended questions, checklist questions and Likert-scale questions ensure that data and method triangulation is achieved.

4.4 Documentary Reviews

The first main thrust of this research is an extensive archival review of the Canadian WCB reporting environment. At a national level, the documentary review comprises the Canadian accounting guidelines for commercial enterprises and the public sector, the standards of the Canadian Institute of Actuaries (CIA) and the industry practices of the Association of Workers' Compensation Boards of Canada (AWCBC) concerning financial reporting and Key Statistical Measures (KSMs). From a provincial perspective, the documentary review includes the WCB Annual Report, strategic plan, WCB Act, the Auditor General Act and the Transparency and Accountability Act.

The findings of the documentary review are analyzed regarding the implications of commercial versus public sector accounting standards as well as the impact of actuarial standards on stakeholder accountability reporting. The voluntary standards of the AWCBC are also analyzed to determine the impact of industry-specific standards on reporting. Finally, the reporting requirements specific to Newfoundland are examined along with the agency's level of compliance.

4.5 Exploratory Interviews

Prior to the development of the main data collection technique (semi-structured interviews) eight exploratory interviews were held with primary stakeholders

(three employer groups, three unions and one government official) and with a senior executive of the WCB agency. These exploratory interviews help refine the research instrument by gaining in-depth information, ascertaining how WCBs currently demonstrate accountability to their stakeholders and eliciting more detailed and comprehensive information regarding the key performance indicators which the stakeholders would like to evaluate performance. The exploratory interviews enable the researcher to test the issues and develop the main research instrument (semi-structured interviews), thereby gaining an in-depth understanding of the issues. The interviews were very flexible in order to facilitate additional topics raised by the interviewees. The insight gained from the exploratory interviews added to the breadth and scope of the semi-structured interview questionnaire component.

Face-to-face exploratory interviews (using open-ended questions) were conducted with one or two experts in each of the three key stakeholder groups as well as with a WCB executive. This approach provided a comprehensive understanding of stakeholders' concerns, their views towards accountability and the performance reporting approach of interest to them. Experts were selected for exploratory interviews based on their expected knowledge level of the workers' compensation system. This research approach is based on the premise that various stakeholder groups represent individual stakeholders and have expert knowledge of the workers' compensation system. The concept is supported by Creswell (1994) who suggests that qualitative researchers should purposefully select those informants who will best answer the research questions. The following table depicts the

individuals who are represented by the primary stakeholder groups and the corresponding interview participants.

Table 4.5: Stakeholder Group Representation for Exploratory Interviews

Stakeholder Group	Individuals Represented	Interview Participants
Employer Associations	Employers	Health Care Association Canadian Federation of Independent Business Chamber of Commerce
Trade Unions and Worker Representative	(Injured) Workers	Nurses Union Carpenters Union Workers' Representative
Government	Employees, employers, citizens, injured workers	Treasury Board

In addition to the interviews with the above-noted stakeholder groups, an interview was conducted with a senior WCB executive.

The one to two hour exploratory interviews were conducted by the researcher through field site visits to the offices of the interviewees. As new issues emerged throughout the interviews, topics were added to subsequent exploratory interviews. Consequently, the exploratory interviews were fluid and responsive, enabling the researcher to explore new issues as they were raised by respondents. The researcher took notes and also tape recorded the interviews. Once the interviews were transcribed, the researcher re-played the tapes to verify the accuracy of the transcripts. The transcripts were read for a second time to identify any pertinent issues to the list of exploratory questions for subsequent interviews. Finally, after all interviews had been completed, the transcripts were analyzed using NVivo software. This software is used to code transcript passages to various key topics. The information derived from these exploratory interviews informed the questions for the main data collection tool: the semi-structured interviews used

in the main study with a larger number of stakeholder groups and WCB executives.

The exploratory interview questions were based on stakeholder accountability issues derived from the literature review and the documentary review. The questions were designed to elicit stakeholders' views on identification of stakeholder groups, salience level, and the WCBs current methods of demonstrating accountability through the various types of information provided, appropriate comparative referents, and stakeholder participation in selecting applicable performance measures. The research seeks to identify additional information not currently provided that would aid stakeholders in their evaluation of the WCB. The initial set of questions encompassed the following topics:

1. Accountability

- a. Do you believe WCB is demonstrating accountability?
- b. Is there anything else we can do to improve accountability?

2. Types of information provided

- a. Are there other Key Statistical Measures (KSMs) and financial reports that are not provided which you would like to have compiled?

3. Stakeholder participation in selection KSMs and report content

- a. What forums should be used to solicit feedback?
- b. What is the value of stakeholder surveys?

4. Annual Report

- a. How useful do you find the annual report and the type of information it provides?
-

b. Is there anything that is particularly useful in the annual report?

5. Comparative referents

a. Other provinces, national statistics

b. Atlantic provinces

c. Targets

d. Year-over-year

e. Private insurance industry

6. Other sources of information

a. What other sources of information to you use?

b. Are you familiar with the AWCBC?

7. Frequency of reporting

a. Monthly

b. Quarterly

c. Annually

8. Website

a. Do you use WCB website?

b. What do you like about it?

9. Medium to provide information

a. Website

b. Annual report

c. Press release

Throughout the course of these interviews, stakeholders raised the following issues which had not been included in the initial set of questions:

1. Round Table Stakeholder Meetings

This refers to the semi-annual round table meetings which the WCB holds with its employer and injured worker stakeholder groups to solicit their feedback and to provide them with information on the organization's plans. These meetings were raised in the first interview as a very important means of soliciting stakeholder participation in a two-way communication process. The respondents indicated this topic was of high importance to them, but they expressed diverse views regarding the effectiveness of the round table meetings. Consequently, all subsequent exploratory interviews as well as the semi-structured interview questions encompass this topic.

2. Strategic Planning

The WCB's strategic plan was discussed by an employer stakeholder group. This stakeholder group identified a number of concerns with the strategic plan: it has too many objectives, it is too operational, it is not outcome-based and it is driven by the Balanced Scorecard (BSC) rather than using the BSC as a reporting tool. This topic was included in subsequent exploratory interviews as well as in the semi-structured interview questions.

3. Administration Costs

WCB's administration costs have been a concern of government and certain employer groups. However, historically, there has been little evidence of concern among the other stakeholder groups. Due to this apparent contradiction regarding the importance of administration costs,

this question was added to the list in order to ascertain stakeholders' level of concern. It is also explored in the semi-structured questions.

4. Accountability

The questions initially focused on determining if stakeholders believe the WCB is demonstrating accountability and if there is more that the organization could do to improve accountability. However, the exploratory interviews demonstrated that since this is a crucial aspect of the research, the following additional topics should be queried:

- a) What does the concept of accountability mean to you?
- b) Who is accountable for the WCB system?
- c) Do you consider the WCB to be a social program?
- d) Is the WCB in compliance with government's accountability guidelines?

5. Stakeholder Identification

The questions were devised and interviewees were selected based on the researcher's identification of the primary stakeholder groups. During the course of the interviews, the researcher gradually became aware of her potential bias as a WCB Finance Director. Consequently, the researcher concluded that it would be prudent to ask the interviewees who they considered to be the main stakeholders of the WCB system. Therefore, the exploratory interviews expanded to include this topic and it is included in the semi-structured interview questions.

6. Revenue Generation

The initial set of questions did not include a question particularly focused on revenue. Rather, it was assumed that revenue would be discussed in terms of KSMs. However, one of the employer groups raised the issue of monthly premium billing and Canadian Revenue Agency (CRA) matching. Monthly billing is desired by employers since they currently have only two options: (1) pay the entire annual premium in April or (2) request quarterly payment arrangements (which include interest).

The CRA is Canada's national taxation agency. CRA matching refers to the process whereby the WCB and CRA match their respective registration listings in order to identify employers who are not registered with one of these organizations. Since both topics have been discussed extensively, internally and externally, the researcher concluded that it would be prudent to further explore stakeholders' views on these topics.

The exploratory interviews proved to be extremely valuable. As each interview was conducted and new issues emerged, subsequent interviews were enriched. Since exploratory interviews were held with representatives of the three key stakeholder groups as well as with a WCB executive, this process led to a deeper and richer understanding of WCB stakeholder issues and allowed the researcher to develop a comprehensive set of semi-structured interview questions. The information gathered from the exploratory interviews was used, along with information derived from the literature review and from the documentary review to design the semi-structured interviews.

4.6 Semi-structured Interviews

After the documentary review and exploratory interviews, the third phase of this research study entailed the main data collection mechanism, semi-structured interviews in a face-to-face format with selected sample from each of the major stakeholder groups, employers, workers, government, health care providers and WCB staff as well as with WCB executives. A stratified non-random sample of representatives from each stakeholder group is appropriate since the groups are considered to be representatives of the population.

The groups were selected based on the hypothesized primary stakeholder groups as identified in Section 4.2. Clarkson's (1995) typology is used to classify stakeholders as primary or secondary. Five groups were determined to be primary stakeholders: employers, (injured) workers, WCB staff, health care providers and government. Moreover, the primary stakeholder groups are further delineated according to level of salience. Employers and (injured) workers are hypothesized to be highly salient; this is consistent with Mitchell et al's (1997) criteria of power, legitimacy and urgency. The remaining primary stakeholders (government, WCB staff and health care providers) are considered to be moderately salient. One of the objectives of the research is to confirm the primary stakeholder groups and their salience level. In addition to the stakeholder groups, executives of the WCB agency were interviewed. WCB executives are not considered stakeholders; rather they are assumed to be contained within the firm (Friedman and Miles, 2006).

In spite of the disadvantages of face-to-face interviews, this technique has been chosen. Since the sample size is relatively small, a high response rate is required

to give credible results. According to Singleton and Straits (2002), face-to-face surveys are useful to examine complex issues, allow for maximum degree of probing, yield a better response rate, provide flexibility over question content and facilitate clarification of questions and terminology. This methodology is appropriate to this study's focus on the development of a stakeholder accountability model for public sector agencies.

The open-ended questions were conducted before the respondents were asked to self-complete the Likert-scale and checklist questions. The rationale for this order was to ensure that responses to open-ended questions were not influenced or limited by the choices provided in the Likert-scale and checklist questions. Also, if a portion of the time had been spent at the beginning of the interview on the questionnaire component, the interviewees may also have been somewhat rushed in their responses to the open-ended questions, thus not providing the depth and breadth of information needed for this study.

In addition to the options provided, space is provided for respondents to add information not included in the checklists. This ensures that more complete information is obtained from respondents. Likert-scale questions enable the researcher to assess the relative degree of importance of various issues to the respondents. The checklists and Likert-scale questions facilitate data coding and a degree of quantitative analysis. The interview instruments are provided in Appendices 4 - 8. The following issues were examined through the three components of the semi-structured interviews:

- a) Accountability: what does the concept mean, to whom should the WCB be held accountable
- b) Stakeholder identification
- c) Financial reporting: purpose served, sufficiency of information
- d) Annual Report
- e) Role of the Auditor
- f) Stakeholder consultation
- g) Strategic plan: is the plan appropriate, are the targets realistic
- h) Non-financial performance reporting
- i) Reporting forum and frequency
- j) Types of performance information desired by stakeholders
- k) Comparative referents
- l) Website: usefulness as a source of information
- m) Administration costs
- n) Round table meetings: are they effective, should all stakeholders be invited to attend, regional representation
- o) Communication with stakeholders
- p) Role and mission of WCB
- q) Premium billing cycle

4.6.1 Selection of interview participants

The interview participants were selected not only for their knowledge of the workers' compensation system, but also to confirm the hypothesized primary/secondary classification and perceived salience levels. Since this subject is somewhat technical, it is expected that the unions and employer associations are

in a better position to provide meaningful information since they are likely to have a more comprehensive knowledge of the workers' compensation system than individual employees and individual employers. Therefore, a large random sample of employees and employers would not be appropriate since it would not likely yield the best possible information.

This view of stakeholders as experts is supported by the fact that these groups regularly lobby government and the WCB Board of Directors regarding various issues on behalf of their constituents. Given the nature of the research design and the limitations in terms of generalizability and transferability, a purposive non-random sample, which represents the key stakeholders (subgroups) in the population, is appropriate. In addition, representatives of health care providers, government and WCB staff were interviewed to obtain their perspectives on the agency's accountability to its stakeholders. Secondary stakeholders (environment and public) were not interviewed since they are outside the scope of this study. Table 4.6 depicts the specific stakeholder groups that participated in the interviews.

It should be noted that the respondents are generally union presidents or high level union officials, while the employer interviewees are the chief executives or high level representatives of the employer associations. The union and employer respondents also participate in the WCB's round table stakeholder meetings. The union and employer groups do not have accountants or analysts available within their organizations to undertake an interpretation or analysis of the WCB financial statements and other financial reporting.

Table 4.6: Semi-structured Interview Participants

Stakeholder Group Type	Group Name
Employer Associations	<ul style="list-style-type: none"> • Employers Council of Newfoundland • Canadian Federation of Independent Business • Hospitality Newfoundland and Labrador • Newfoundland and Labrador Construction Safety Association • Association of Seafood Producers • Newfoundland and Labrador Construction Association
Employee Associations (Trade Unions)	<ul style="list-style-type: none"> • Newfoundland Association of Public and Private Employees • United Food and Commercial Workers Union • International Brotherhood of Electrical Workers • Fish, Food and Allied Workers Union • Newfoundland and Labrador Teachers' Association • Royal Newfoundland Constabulary
Health Care Providers	<ul style="list-style-type: none"> • Occupational Therapists Association • Physiotherapists Association
Government	<ul style="list-style-type: none"> • Auditor General's Office • Chief Executive Officer, Labour Relations Agency
WCB staff	<ul style="list-style-type: none"> • Director, Human Resources • President, Union Local

In addition to the five primary stakeholder groups, the following representatives of the WCB agency were interviewed:

- 1) Chief Executive Officer
- 2) Chair, Board of Directors
- 3) Chief Financial and Information Officer

The trade unions and employer association respondents for the exploratory and semi-structured interviews were selected from the round table participants. In addition to the eight exploratory interviews, twenty-one respondents were selected for the semi-structured interviews comprised of six trade unions, six employer associations, two health care providers, two government representatives, two WCB staff representatives and three WCB executives. This combined sample, for exploratory and semi-structured interviews, includes nine of seventeen employer

associations and nine of fifteen trade unions representing 53% and 60% respectively of the round table participants. The union and employer interviewees were selected to reflect a cross-section of industries as well as small and large stakeholder groups. All respondents contacted agreed to be interviewed. This high level of participation (no refusals) may be attributed to the researcher's position as Finance Director with the WCB agency.

4.6.2 Survey Instruments

Five different surveys were employed in this research study (refer to Appendices 4-8). The same survey was administered to employer associations and trade unions (Appendix 4). Both of these groups were asked the same open-ended questions, checklist questions and Likert-scale questions since they have many of the same issues. A comparison of their responses provides additional validation of the research findings.

Although there are many common concerns for all stakeholders, there are a sufficient number of different issues pertaining to health care providers, government, WCB staff and managers to warrant separate surveys. As a result of using different survey instruments, the results contained in the charts and tables in Chapters 6 and 7 reflect comparative responses mostly from employers and trade unions and where applicable, WCB executives' responses. For the most part, government, WCB staff and health care provider responses are reflected in a narrative format.

4.6.3 Data Analysis

The open-ended question portions of the interviews were tape recorded and notes were also taken. The tapes were transcribed and their accuracy verified by replaying the tapes and by comparing to the notes. Prior to reading the interview transcripts, an initial list of key topics was compiled based on the questions posed. The transcripts were read for a second time and additional topics were included. The transcripts were exported from Microsoft Word into NVivo software and coded to nineteen topics as outlined in Appendix 11. These coding topics may prove beneficial, as coding structures, for future researchers examining stakeholder accountability reporting models.

NVivo enabled the researcher to code passages under key headings/titles. This coding software facilitated grouping and sorting of responses and production of reports by topic. These reports contain all passages coded to each topic for all respondents thus ensuring that all respondents' views on each topic were considered in the analysis. The checklist and Likert-scale questions were summarized and tabulated using Excel spreadsheets. The cumulative responses were exported from Excel into graphs and tables in Chapters 6 and 7.

4.7 Stakeholder Reporting Model

Based on the results of the semi-structured interviews, documentary review and literature review, a stakeholder reporting model is developed. Clarkson's (1995) primary/secondary typology is used in conjunction with Mitchell et al's (1997) salience classification scheme. This model is comprised of the accountability stakes and key criteria identified by primary stakeholders as necessary to evaluate

the performance of the WCB agency. A fundamental objective of the model is the identification of the financial and performance reporting forms preferred by stakeholders as well as their desired consultation approach. The model links Stewart's (1984) Ladder of Accountability and Friedman and Miles' (2006) Ladder of Stakeholder Management and Engagement to illustrate a way for public sector agencies to demonstrate accountability to their stakeholders. Stewart's Ladder of Accountability is used to identify the many different aspects of accountability (probity/legality, process, performance, program and policy) which a stakeholder reporting model is expected to address. Friedman and Miles' (2006) Ladder of Stakeholder Management and Engagement is employed since effective management of stakeholders is a critical component of meeting their accountability expectations. Semi-structured interviews, in conjunction with the documentary review and the literature review, inform a reporting model that meets the needs of stakeholders.

4.8 Limitations

While this case study approach is based on the assumption that the researcher is independent and value-free, it is recognized that the researcher's extensive involvement with developing performance metrics in her capacity as a member of the Financial Reporting and Comparability Committee of the Association of Workers' Compensation Boards of Canada may limit her independence and contribute to bias. The researcher's extensive experience as an administrator in this industry could create a barrier with the respondents, compromising independence and influencing the responses. Also, the interviewer's attitudes and perceptions may influence her opinion about the respondents (Jobber, 1991). In spite of these drawbacks, verification of interview transcripts and the researcher's

increased awareness of the need for independence largely mitigate any potential bias created by her involvement in the workers' compensation system. Counteracting these potential limitations is the possibility that a novice would be less inclined to have hardened assumptions but would have more difficulty in seeing nuances and layered meanings (Johnson, 2002). In addition, the researcher's role as an administrator provided ease of access to the interviewees. Overall, the benefits derived from the researcher's role and knowledge of the WCB system outweighs any potential disadvantages.

4.9 Conclusions

The approach used in this case study utilized the information derived from the literature review, documentary review and the exploratory interviews to design the questionnaire and open-ended questions for the semi-structured interviews. The exploratory interviews and the documentary review were used sequentially to inform and refine the main research instrument (semi-structured interviews with a questionnaire component), thereby adding scope and breadth to the research.

This chapter has set out the research methodology employed in this study and explained how a model would be developed to address the research questions. The following chapter presents the findings from the documentary review of the national and provincial reporting environments of workers' compensation agencies from a mandatory and voluntary perspective.

CHAPTER 5: AGENCY REPORTING – DOCUMENTARY REVIEW

5.0 Introduction

This chapter presents the documentary review of the Newfoundland WCB's current reporting mechanisms along with an analysis of its level of compliance with the mandatory and voluntary reporting standards. As public sector agencies, the WCBs are expected to comply with accounting standards set out by the Canadian Institute of Chartered Accountants (CICA) as well as the industry-specific actuarial standards established by the Canadian Institute of Actuaries (CIA). There are also several voluntary reporting guidelines that have been developed by the Association of Workers' Compensation Boards of Canada (AWCBC). Finally, the reporting standards as reflected in the Transparency and Accountability legislation, which apply to government organizations in Newfoundland, are explored.

There are several reporting issues explored in this chapter: adoption of commercial accounting standards, adherence to fair value measurement for investment assets, determination of benefit liabilities and calculation of funding position. The funding position is calculated as assets divided by liabilities and reserves.² This ratio is used to indicate the sufficiency of assets to meet liabilities and is seen as an indicator of financial health of a WCB. These accounting issues may materially impact the WCB's financial position, thus influencing accountability to stakeholders.

² The reason for including reserves is not stipulated. Reserves generally denote an excess of assets over liabilities.

The review encompasses the financial statements, annual report (including the strategic plan and BSC) and supplementary reports (AWCBC). The mandatory and voluntary reporting requirements and guidelines significantly impact this study's stakeholder accountability model as the agency endeavours to balance its regulatory and voluntary reporting requirements with the accountability reporting expectations of its primary stakeholders. This review commences with an analysis of the issues related to financial reporting, offers suggestions for improvements and then moves to a discussion of the wider performance reporting issues.

5.1 Financial statements and related disclosures

The financial statements of the WCB are influenced by the CICA commercial accounting standards. Since the financial statements represent the cornerstone of accountability, it is important to examine factors which influence financial reporting. As discussed in Chapter 2, some government organizations in Canada are considered to be business enterprises and thus subject to commercial accounting standards rather than public sector standards.

The WCB meets the criteria of a GBE as it complies with the four required characteristics as outlined more fully in Chapter 3. Despite its designation as a GBE, the WCB is a non profit making public workplace insurance system. Accounting standards are an extremely important issue as the WCB appears to be a hybrid with respect to which guidelines it follows. Although the WCB is a public sector agency, it is subject to the commercial accounting guidelines; this is discussed in more detail in the subsequent sections. However, its actual reporting is more reflective of a public sector organization as it includes financial and non-

financial performance information, which given its non profit making status features prominently. The application of commercial rather than public sector accounting standards has an impact on the development of a stakeholder reporting model.

Canadian Institute of Chartered Accountants (CICA)

This section examines the impact of the CICA guidelines on its financial statements, using the Newfoundland WCB as an example. The purpose of this review is to identify the reporting issues unique to the WCB, along with the difficulties surrounding stakeholders' use of financial statements to satisfy their accountability needs.

The WCB financial statements are prepared in accordance with generally accepted accounting principles (GAAP) for commercial enterprises. The basis of measurement is historical cost except for long-term investments which are stated at market value. While the following financial statements reflect those of Newfoundland's WCB, they are similar in presentation to the WCBs of other Canadian jurisdictions. The following section examines the balance sheet accounts of the Newfoundland WCB and highlights related reporting issues. (The complete WCB 2005 Annual Report accompanies this thesis).

Table 5.1: Statement of Financial Position as at December 31

(dollars in thousands)	2005	2004
Assets		
Cash and cash equivalents (Note 4)	\$ 9,119	\$ 5,774
Receivables (Note 5)	13,649	15,662
Investments (Note 6)	653,199	572,804
Capital assets (Note 8)	10,267	9,599
	\$ 686,234	\$ 603,839
Liabilities and Net Fund Deficiency		
Payables and accruals (Note 9)	\$ 10,674	\$ 11,485
Benefit liabilities (Note 10)	729,185	693,805
Total liabilities	739,859	705,290
Reserves (Note 12)	913	971
Accumulated other comprehensive income (Note 13)	84,702	57,721
Unfunded liability	(139,240)	(160,143)
Net fund deficiency	(53,625)	(101,451)
	\$ 686,234	\$ 603,839

2005 Annual Report, p. 37

Assets

Cash and cash equivalents refer to funds in bank accounts and short-term investments with maturity of less than twelve months. Receivables are comprised primarily of assessment premiums due from employers, along with various miscellaneous accounts. Due to their low dollar value, prepaid expenses are grouped with receivables. Capital assets are comprised of land, building, furniture, computer equipment and systems development. In recent years, the WCB has made a significant investment to upgrade its legacy systems to improve automation, strengthen internal controls and provide stakeholders with web access to conduct their transactions. These initiatives are described internally as ‘business

improvement projects'. The substantial costs associated with systems development consists of internal staff time along with external consultants' professional fees, certain computer hardware, software and training. All capital assets including systems development are amortized over their useful life, and this complies with the CICA guidelines for intangible assets discussed in Chapter 3.

Since some of these systems development projects may take up to five years to complete, amortization of staff time and consultant fees does not commence until the systems are substantially complete. Conversely, amortization of any hardware and software acquired for these projects commences in the year of acquisition. At issue here is the appropriate time to recognize the systems development costs as intangible assets. Critics could argue that this amortization practice raises the issue of intergenerational equity in terms of today's employers funding components of systems improvements which will largely benefit employers of the future. Consequently, one has to question whether appropriate WCB matching principles and intangible asset recognition have been applied, particularly in view of the organization's objective of levying sufficient revenue from today's employers to cover all future costs associated with injuries occurring in the current year.

Most WCB assets are comprised of financial assets derived from assessment premium revenue. In each fiscal year, the WCB levies sufficient funds to cover all anticipated future costs associated with current year injuries. The funds levied in excess of those needed for the current year cash expenditures are invested with external fund managers appointed by the Investment Committee of the Board of Directors. Each investment manager is given a performance mandate to exceed the

applicable benchmark. For example, the managers of EAFE (Europe, Australia and Far East) equities are expected to exceed the performance of the Morgan Stanley Capital Index. The asset mix (comprised of equity and fixed income allocated in Canada, US and EAFE) is determined jointly by the actuary and investment consultant and is approved by the Investment Committee. The financial statement notes disclose the asset mix, but do not provide information regarding the managers' mandates and whether their performance targets are met.

Given the enormous reliance placed on the investment assets to fund future benefit liabilities, critics might argue that greater disclosure of budgeted expectations would be expected. More stakeholder information and explanation could be provided in the CEO's commentary, for example. In this case, compliance with commercial accounting does not lend itself to the inclusion of typical public sector budgeting information.

The reporting standards for investments have been somewhat complicated by the lack of guidelines governing investment accounting for this industry. Therefore, until 2004, the WCBs adopted the investment accounting standards for commercial life insurance companies. Life insurance accounting standards have a provision to value investment assets at a moving average market basis rather than the full market value. This valuation methodology reflects the long-term nature of investment assets for commercial insurance companies. Likewise, the intent of the WCBs is to retain these investments to meet their long-term liabilities. It made sense for the WCBs to adopt the life insurance investment accounting standards. Given the long-term nature of WCB liabilities, it is understandable that they had

originally adopted the life insurance standard of the moving average market (MAM). This accounting method smoothes the fluctuations in unrealized gains and losses and may be more suitable for the valuation of the WCB's financial assets.

Unlike insurance companies, the WCBs used actuarial present value to calculate their liabilities rather than the life insurance actuarial methodology known as the Canadian Asset-Liability Method (CALM) (Parkinson, 2004). The actuarial present value results in lower liabilities than CALM since the latter includes a significant margin for adverse deviations. It appears illogical to assert that for asset accounting a WCB is similar to life insurers, but not for liability accounting (Parkinson, 2004). Arguably, this is an area where either an industry standard or stronger CICA guidance might be warranted to ensure the financial report is meaningful and relevant for stakeholders.

According to Ian Hague, Principal with the Canadian Accounting Standards Board (AcSB) (Hague, 2005), Canada needed a new standard for financial instruments since the existing standards did not comprehensively address when a financial instrument should be recognized or how it should be measured. Canada could not wait for international consensus any longer and as discussed in Chapter 3, the CICA introduced a new standard in late 2004 requiring that all investments be recorded at market value. Despite the fact that all WCBs are in a homogeneous business risk class, some jurisdictions selected the 'available for sale' option while others viewed their investments as 'held for trading'. Given the long-term nature of WCBs' liabilities, it is difficult to understand how these assets could be viewed

as 'held for trading'. This might be an area where additional CICA guidance is warranted or where the WCBs might consider developing an industry standard.

This new accounting standard has had a significant impact on the funding positions of the WCBs. In Newfoundland, for example, the funding position improved by 9% as a result of this change. The WCB does not provide a rationale for its choice of 'available for sale' in its financial statement notes. This is an area where stakeholder understanding could potentially be enhanced by providing an explanation in the annual report. As discussed in Chapter 3, the CICA public sector characteristics encourage financial reporting that is presented clearly and is easy to understand.

The move to fair value accounting in 2004 may contribute to confusion amongst stakeholders as the value of financial instruments fluctuates thereby creating volatility in the WCB's financial position. For example, a decline in market conditions could cause significant erosion in the value of the investment portfolio, potentially resulting in an unfunded liability and reducing the funded ratio. Presently, the WCB does not include a provision for a rate stabilization reserve which could be used to smooth significant fluctuations in investment values. Critics may question the validity of an accounting standard which could result in wide fluctuations in the financial position based on unrealized revenue, thereby creating a creating confusion amongst stakeholders regarding its true financial condition.

The valuation of financial instruments at market value, with its resulting fluctuations, may not be the most relevant measure for public sector organizations. Public sector stakeholders are generally concerned with the continued ability of the organization to provide services rather than holding assets for gain. This is a situation where additional narrative explanations could potentially enhance stakeholders' understanding (PSA 1100.12). As discussed in Chapter 3, relevance is one of the qualitative characteristics encompassed in Canada's conceptual framework. In this situation, the adoption of market value for financial instruments may be less relevant to stakeholders of a non profit making agency than to shareholders of a commercial enterprise. Therefore, when adopting certain accounting standards, it is important to consider the needs of the users of financial statements.

Stakeholders may not be fully aware of the impact of fair value accounting on the WCBs financial position and the potential for fluctuations. To address this, in the annual report statistical section, the WCB attempts to disclose the impact of this change in accounting policy on the unfunded liability and funded ratio. The statistical section depicts the unfunded liability and funded ratio on the 'new accounting basis' and on the 'traditional basis'. Unfortunately it does not include definitions of these terms, so users may not fully understand the implications. The CICA Handbook suggests the users of financial statements are expected to have a reasonable understanding of business and economic activities, accounting and a willingness to study the information with diligence (CICA 1000.13). However, achieving such understanding may be more feasible for investors who rely on the advice of advisors than it is for wider stakeholders. As explained in Chapter 4, the

main stakeholder groups, employers and trade unions, do not employ professional accountants or analysts who could undertake an examination of the WCB financial reports.

Liabilities and Net Fund Deficiency

The payables and accruals accounts are comparable with any other organization. They include such categories as trade payables and accruals for vacation and severance benefits. There is no liability for staff pensions and post employment benefits since these are the responsibility of the Government.

This opens the question of the boundary between the WCB and government. Arguably, since government is liable for the WCB staff pensions, this creates a stronger linkage between government and the agency, thereby challenging the semi-autonomous nature of the WCB. It could be argued further that since government has assumed responsibility for WCB staff pensions, this may create an implied responsibility or precedent whereby at some future time, if the WCB could not meet its liability obligations for injured workers, the government would be obligated to provide funding. However, there is no legislative obligation or historical practice for the government to cover the liabilities of the WCB. Consequently, the agency is fully responsible for all future benefits liabilities related to its claimants – short-term disability, long-term disability, survivor benefits, health care and rehabilitation. The related financial statement note provides an additional breakdown of the liability amount for each benefit type – the opening balance, cash payments, claims costs incurred and actuarial adjustments.

The WCB's benefits liability is the most significant account on the balance sheet. Consequently, the identification, recognition and measurement of these future obligations have a significant impact on the agency's financial results. Estimated future costs are based on a number of factors: the propensity of claimants to receive LTD benefits, mortality rates, claimant wage levels, claimant age and the consumer price index. The benefits liability encompasses all WCB benefit programs: short-term disability, long-term disability, health care, rehabilitation and survivor payments (as a result of fatalities). Of these five programs, LTD accounts for 57% of the total liabilities.

The LTD liabilities may be manipulated somewhat since the actuary has the option to choose from a range of assumptions. The discount rate is disclosed in the notes to the financial statements, but there is minimal explanation for changes in actuarial assumptions regarding the specific rate used. Similarly, changes in assumptions regarding the expected percentage of current year injuries to eventually receive LTD benefits could also have a major impact on the benefits liability. The average LTD reserve is currently valued at \$110,000 and approximately 4% of all new claimants are estimated to eventually receive LTD benefits. Consequently, if the actuary concluded that historical trends indicate the percentage of claimants receiving LTD may decline to 3%; this would result in 50 fewer reserves (assuming 5,000 new claims) and a liability reduction of \$5.5 million (50 x \$110,000).

A small change in any of the key assumptions can result in a material change in the total liability. Consequently, accountability would be enhanced by providing

detailed explanations for changes in actuarial assumptions. The risk of major manipulation is mitigated by the requirement to adhere to professional actuarial practices. Further, for fiscal years ending 2006, Canadian Audit Guideline 43 requires auditors to engage an independent actuary to review the work of the client's actuary. This improves the validity and reliability of the benefits liability, thus ensuring increased accountability.

The WCB liabilities include a provision for future administration costs. This is an actuarially calculated amount which is intended to encompass the future costs associated with administering existing and prior years' claims. This liability is a CICA requirement for life insurance companies, but there is no requirement for the WCB to recognize such a liability. Despite the lack of an accounting standard requiring recognition of a liability for future administration costs, by 2004 all jurisdictions except Newfoundland had recorded this liability. Since the WCBs are not in the life insurance industry, on the surface, it may be difficult to rationalize for the adoption of this standard. One potential explanation could be that since the WCBs had adopted the MAM valuation method for financial assets, they may have considered it appropriate to also align themselves with the life insurance standards for certain other liabilities.

The WCBs somewhat arbitrary recognition of this liability points to the lack of a clear consensus on what constitutes appropriate accounting practices for this industry. Despite the fact that until 2004 Newfoundland was the only jurisdiction that did not recognize its liability for future administration costs, neither the

actuary nor the auditor appeared to have an issue with this, since they both issued unqualified reports.

Subsequently, when Newfoundland adopted this change in accounting practice, it had the effect of increasing benefit liabilities by 7%. If the WCB had not recorded its administration liability in 2005, it would have reached nearly a 100% funding level. Clearly, this issue has an impact on the ability of the organization to provide its stakeholders with meaningful and comparable financial reporting. This is a situation where the agency's reporting should clearly disclose the financial impact of this change in accounting policy.

Although WCB executives may have been somewhat motivated to recognize the liability for future administration costs in an effort to comply with industry practices, it is likely that their decision may have been influenced by their desire not to reach a 100% funding position prematurely. While it is the WCB's stated goal to achieve a 100% funding position, agency executives may have been concerned that a fully funded position would lead to employer demands for reduced premiums as well as union expectations for increased benefits for claimants. This is a situation where it could be argued that the WCB may have manipulated its financial results by recognizing this liability. Conversely, the agency could contend that it was merely complying with the industry standard.

The liability section of the financial statements includes a reserve of nearly \$1.0 million to fund occupational health and safety (OHS) research. While this account is entitled a 'reserve', this is a misnomer; rather, it is more indicative of a

provision which is similar to a liability. Typically, reserves are created through an allocation of accumulated surplus, thus implying that assets exceed liabilities. Since the WCB has a net fund deficiency, this results in a situation whereby the creation of reserve is actually artificially increasing the unfunded liability and net fund deficiency. From an accounting perspective, there is no rationale for creating a reserve when the organization does not have an accumulated surplus. Ultimately, the creation of reserves is at the discretion of the WCB since it is not a legislative requirement. The legislation merely states that the WCB may fund OHS research up to a maximum of 2% of its annual revenue.

Critics may claim that the WCB's practice of setting aside a reserve out of a net fund deficiency is questionable at best and does not appear to comply with GAAP as outlined by the CICA. The practice of recording reserves is possibly unnecessarily complicating the financial statements. In this instance greater clarity might be achieved by including a provision for OHS research within the benefits liability. The use of the term 'reserve' leaves doubt as to whether an obligation actually exists. Consequently, this practice may limit stakeholders' ease of understanding.

The accumulated other comprehensive income (AOCI) account was created when the WCB adopted fair value accounting for its investments. Essentially, it is the difference between fair value and book value of its investment portfolio as reflected in unrealized gains and losses. This account is placed before the unfunded liability amount and it is excluded from the denominator in the calculation of the funded ratio.

The 'Unfunded Liability' account is not a typical balance sheet account. The WCB calculates unfunded liability as assets less liabilities, reserves and AOCI. The intent of this account is to reflect the shortfall in assets to meet liabilities. When analyzing the financial position of the WCB, it is not the actual unfunded liability dollar amount that is used. Rather, the financial health of the organization is measured in terms of the percentage funded, known as 'funded position' which is calculated at December, 2005 in the following manner:

<u>Funded Position – 2005</u>			
<u>Assets</u>	=	<u>\$686,234</u>	= 92.6%
Liabilities + Reserves		\$739,859 + 913	

Calculation based on the 2005 financial statements (Annual Report, p. 37)

The funded ratio is useful since it enables stakeholders to more easily discern improvement or deterioration in the financial position, and it facilitates inter-jurisdictional comparison. The funded ratio is not provided in the financial statements, but it is included in the statistical section of the annual report. Clearly, the calculation of an unfunded liability amount and the funded position calls into question whether the financial statements meet the CICA recommended characteristic of being easy to understand. Perhaps, further explanation of this calculation in the annual report would prove beneficial in aiding stakeholders' understanding of the WCB's financial performance.

Most WCBs, including Newfoundland, exclude AOCI when calculating their funded position. However, jurisdictions such as Manitoba include AOCI in the denominator, thereby offsetting the impact of marking to market. Consequently,

this methodology means that marking to market would not impact the financial position of the WCB. If the Newfoundland WCB had included AOCI in the calculation of its funded position, it would have resulted in the following funded position:

<u>Funding Position (including AOCI) – 2005</u>			
<u>Assets</u>	=	<u>\$686,234</u>	= 83.1%
Liabilities + Reserves + AOCI		\$739,859 + 913+84,702	

Calculation based on the 2005 financial statements (Annual Report, p. 37)

Alternatively, it could be argued that the more appropriate treatment would be (assets – AOCI)/ (liabilities + reserves). This approach would eliminate the impact of fair value accounting on the WCB’s funded position. It should be noted that this calculation is not currently used by any of the WCB’s, but it is a viable option which they should consider. The current practice of excluding AOCI in the calculation of funding position has had a material impact on the WCB’s financial position. The calculation of funding position is a critical accountability issue since it is the key indicator of the agency’s financial health and is the chief inter-jurisdictional comparative referent.

The inclusion of reserves (which are optional) and AOCI (unrealized investment gains/loses) in the calculation of unfunded liability could potentially artificially increase or decrease the funding position and would be subject to wide fluctuations as reflected in the varying market value of investments. Further clarification on how the WCB should treat AOCI when calculating its funded position would be beneficial since this is the key indicator of the agency’s financial health. In the absence of guidance from the standard setting body, this is

an area where WCB accountants could exercise their professional judgment and develop an industry standard.

The net fund deficiency is the amount by which the total liabilities exceed total assets, excluding reserves and AOCI. The net fund deficiency more accurately portrays the agency's financial health than the unfunded liability since unfunded liability reflects the impact of reserves and AOCI along with liabilities. Nevertheless, this account is rarely used by the WCB in explanations or narratives to stakeholders. The following section examines the accounts of the Statement of Operations (Table 5.2) and explores the various related accounting issues.

Table 5.2: Statement of Operations Years ended December 31

(dollars in thousands)	2005	2004
Revenue		
Assessments	\$ 158,217	\$ 166,965
Investment income (Note 6)	37,091	17,733
	195,308	184,698
Expenses		
Claims costs incurred (Note 10)		
Short-term disability	29,360	27,760
Long-term disability	54,990	56,356
Survivor benefits	6,013	5,121
Health care	37,917	40,464
Rehabilitation	1,489	1,329
Future administration costs	3,234	3,246
	133,003	134,276
Administration (Note 15)	21,016	21,383
Legislated obligations (Note 16)	6,505	6,177
Amortization	2,047	2,577
Other (Note 17)	1,225	1,162
	163,796	165,575
Surplus from operations	31,512	19,123
Actuarial adjustments (Note 10)	(10,609)	31,848
Surplus for the year	\$ 20,903	\$ 50,971

Revenue

WCB revenue is comprised of assessment premiums and investment income. Assessment revenue is derived from a self-reporting system whereby employers are required to report their estimated payroll for the upcoming calendar year by February 28. Subsequent payroll changes during the year must be reported to the WCB. When employers fail to update their payroll on a timely basis, they are charged interest and penalties. The assessment revenue account is stated on an accrual basis and reflects the assessment revenue levied in the year as well as an estimated amount to be levied in the subsequent year related to the current year's operations. This complies with GAAP since performance has been achieved and there is reasonable assurance regarding measurement and collectability (CICA 1000.47). Assessment revenue is calculated based on the payroll reported by employers. It is expressed in terms of an amount per \$100 of payroll. For example, a poultry operation with payroll of \$1.0 million would be charged the following premium:

<u>Sample Assessment Premium Calculation</u>	
<u>Total Payroll</u>	<u>\$1,000,000</u>
\$100	\$100
x \$19.26 = \$192,600	

This rate is determined by the level of injury risk and historical industry claims costs. All employers are assigned to one of 82 different industries. There is a wide variation in the rates charged. In 2006, for example, the lowest rate charged was \$0.53 for the finance and insurance industry compared to the highest rate of

\$19.26 for the poultry and meat processing industry. Investment revenue reflects the investment earnings realized in the current year.

Expenses

Claims costs incurred represent approximately 80% of the WCB's annual expenses. Claims costs are reported along five categories: short-term disability, long-term disability, survivor benefits, health care and rehabilitation. Each benefit type is comprised of three components: cash payments for current year injuries, estimated future costs of current year injuries and the growth in interest expense for prior years' liabilities. Growth in interest expense refers to the amount by which the benefit liabilities grow in the current year as a result of reflecting their net present value. The benefit liabilities are recorded at the actuarial net present value, based on an assumption that a certain investment rate of return will be achieved. Cash payments and estimated future costs of current year injuries comprise 62% of claims costs, while the growth in interest expense accounts for the remaining 38% of the expenses. Although all three components are included in the benefits liability note to the financial statements, the Statement of Operations does not provide the user with a note reference for the claims costs incurred. Furthermore, the benefit liabilities note does not identify the nature of the prior years' benefits costs incurred. Without an in-depth knowledge, it may be difficult for even an informed reader to discern that the prior years' benefits costs are actually comprised of interest. Indeed, it is more likely that some readers would incorrectly conclude that these expenses relate to additional claims costs not recorded in previous years.

The remaining expenses include the administrative operating expenses, costs associated with the legislated obligation to fund the Occupational Health and Safety Division of the Department of Government Services, amortization, external training for employers and workers and business improvement initiatives. WCB's administration costs have been subject to employer scrutiny and criticism. Consequently, these costs are reported in a manner which differentiates pure administration costs, comprised primarily of salaries and operating costs, from legislated obligations which are not under WCB control. However, the remaining two categories (amortization and other expenses) are actually under the control of the WCB. Consequently, other than reducing administration costs, there is no rationale for the separate line item reporting of these expenditures. Proponents could argue that separate line item reporting provides additional information regarding the costs associated with normal operations versus costs of legislated obligations and special initiatives. However, all four categories could easily be grouped as administration costs with the detailed breakdown provided through note disclosure.

All actuarial adjustments relate to improvements or deteriorations in prior years' benefit liabilities are reported as a separate line item. Due to significant fluctuations in benefit liabilities, this adjustment may be material in nature. However, there is virtually no explanation provided regarding why actuarial adjustments are required. The Statement of Operations refers the reader to the benefits liabilities note, but this only shows the actuarial adjustment amount. Although this adjustment in 2004 more than doubled the surplus, the financial statements and their accompanying notes did not provide any explanation for such

a significant adjustment. Arguably, this is an area where additional explanation is warranted. As pointed out in Chapter 3, there is support of such separate disclosure of actuarial gains/losses; as Barker (2004) argues, they could be described as remeasurements.

In addition to the components analyzed in the preceding section, the financial statements also include a Statement of Unfunded Liability, Statement of Comprehensive Income and Statement of Cash Flows. The Statements of Comprehensive Income and Cash Flows are in accordance with GAAP. However, the Statement of Unfunded Liability appears to be unique to the workers' compensation industry. According to Section 1000 of the CICA Handbook, the standard statement would be the Statement of Retained Earnings. In the case of WCB, the Statement of Unfunded Liability appears to be serving as a proxy for Statement of Retained Earnings.

Table 5.3: Statement of Unfunded Liability Years Ended December 31

(dollars in thousands)	2005	2004
Unfunded liability, beginning of year (as previously stated)	\$ (160,143)	\$ (171,090)
Changes in Accounting Policy		
Future administration costs (Note 2(a))		(45,555)
Investment accounting (Note 2(b))	-	5,531
Unfunded liability, beginning of year (restated)	(160,143)	(211,114)
Surplus for the year	20,903	50,971
Unfunded liability, end of year	\$ (139,240)	\$ (160,143)

2005 Annual Report, p. 39

Concluding comments on WCB financial statements

This brings the discussion to the agency's responsibility to ensure that stakeholders are provided with information in a format that is easily understood versus stakeholder responsibility to develop the level of understanding necessary to comprehend the information provided. The onus is on the agency to ensure that stakeholders understand key elements of the WCB's financial operations; therefore, additional information over and above the financial statements is needed. Clearly, even informed users of financial statements must have knowledge of the accounting issues for the workers' compensation industry in order to effectively evaluate the organization based on its financial statements. This may be challenging for WCB stakeholder groups as they do not have accountants or analysts available who could provide interpretation of the WCB's financial reports.

This documentary review found that the WCBs have adopted a combination of accounting standards. Since the WCB meets the criteria of a GBE, it complies with commercial accounting standards. Evidence of its adoption of commercial accounting standards is illustrated through its reporting of year-over-year actual results (rather than actual to budget), fair value accounting for its financial instruments and reporting of comprehensive income. However, the WCB still retains elements of its historic adherence to life insurance accounting standards. For example, its benefits liability includes a provision for future administration costs, a requirement for life insurance companies but not for other entities. Despite the fact that the WCBs are not life insurance companies, they all adhere to this accounting standard. Another apparent deviation from commercial accounting

standards is the WCB's practice of establishing reserves in the absence of a surplus. These industry modifications may also potentially lead to situations where agencies can manipulate their results.

Adherence to multiple accounting standards – commercial, life insurance and public sector – creates a situation whereby it is difficult to discern which standards should govern the WCB. It is challenging for stakeholders to determine if the WCB should comply with commercial or public sector standards and whether the adoption of certain life insurance standards is appropriate.

As illustrated through the WCB industry adoption of certain life insurance accounting standards along with the practice of establishing reserves in the absence of an accumulated surplus, there is a possibility that financial results could be manipulated. However, the potential for such manipulation is largely mitigated through the actuarial requirement for consistent valuation of assets and liabilities.

The following table identifies a number of gaps where, arguably, additional information and explanation would improve financial reporting to stakeholders.

Table 5.4: WCB Financial Statement Reporting Gaps

Financial Statement Component	Additional Information/Explanation
Capital Assets – Business Improvement projects	A listing of the components (hardware, software, consulting fees and staff salaries) along with the amortization start date would enhance readers' understanding of the costs of these projects.
Investments – 'available for sale' versus 'held for trading'	Disclosure of the rationale supporting the use of 'available for sale' and the impact which this has on the valuation of the investments and consequently on the funded position ratio could be helpful to stakeholders.
Reserves	Disclosure that reserves are not a mandatory requirement of either the WCB legislation or of the CICA Handbook. Since the WCB is in a net fund deficiency situation, rationale for reserves should be provided. An explanation supporting a reserve rather than a liability would be helpful.
Unfunded liability	Since reserves are optional (and should not even exist in a net fund deficiency situation), the calculation of the unfunded liability could possibly consider the exclusion of reserves. Further consideration of the inclusion of AOCI in this calculation is warranted. It would be helpful if the annual report provided an example of this calculation.
Expenses – claims costs	More explanation is needed regarding the claims costs incurred for prior years to show why it is comprised primarily of the growth in interest expense. The financial statement notes should provide readers with details of the three components of claims costs.
Other administration costs	All four categories could arguably be grouped under administration costs with the detailed listing disclosed in the note. The total cost of business improvement projects is difficult to discern since they are comprised of both capital and administration components.
Actuarial adjustment	More discussion on the nature of the actuarial adjustment would be beneficial in enhancing readers' understanding of the financial statements. These adjustments often have a material impact on financial results.

To further assess the usefulness of the WCB's financial statements, they are compared to the CICA's recommended qualitative characteristics. The following

table depicts the author's assessment of WCB compliance with the qualitative characteristics of financial statements and identifies several areas where the WCB does not fully adhere to the CICA recommended qualitative characteristics.

Table 5.5: WCB Financial Statements Qualitative Characteristics

CICA Qualitative Characteristic	WCB Compliance
Understandability (assuming an informed user)	<i>Moderate</i> since users need to be familiar with the business, accounting and actuarial environment of the WCB industry
Relevance a) Predictive and feedback value	<i>Moderate</i> as this information is provided through the unfunded liability and net fund deficiency. These terms may not be easily understood. Also, actuarial adjustments are shown separately. Budgets and projected financial statements are not provided.
b) Timeliness	<i>Low</i> since financial statements are not issued until at least six months after year-end.
Reliability a) Representational faithfulness	<i>High</i> owing to the liabilities and claims expenses by an external actuary.
b) Verifiability	<i>High</i> due to the actuarial review.
c) Neutrality	<i>High</i> due to the actuarial review.
d) Conservatism	<i>High</i> due to the actuarial review.
Comparability	<i>Moderate</i> for year-over-year comparisons due to frequent changes in accounting policies (even though they are disclosed in the financial statement notes). <i>Low</i> for comparison to other WCBs due to differing underlying assumptions, WCB coverage and benefits levels.

CICA 1000.18-1000.22

The importance of certain financial statement qualitative characteristics may vary among the stakeholder groups. For example, predictive value may be of more interest to employer stakeholder groups than trade unions since it provides an indication of potential premium increases. Relevance depends on the users' needs.

The CICA accounting guidelines (Section 1510) call for assets and liabilities to be reported according to their short-term and long-term nature. This provides the user with sufficient information to evaluate the organization's working capital position. The WCB has not adopted this reporting method since it is the funding position, not working capital, which is of importance. However, this additional reporting does not extend to the inclusion of budgets and targets which are typically associated with public sector reporting.

Another area where CICA guidelines are not strictly adhered to relates to the Management Discussion and Analysis (MDA) section. The provision of MDA is not mandatory, but it is recommended by the CICA. Although the WCB does not provide a MDA, it could be argued that this requirement is largely met through the BSC and related commentary that is published in the annual report. Also included in the annual report is the 'Report of the Chairperson and Chief Executive Officer' which could be viewed as fulfilling some of the requirements of a typical MDA section.

Despite meeting the criteria of a government business enterprise, WCB's reporting is more in line with the public sector accounting standards rather than the commercial accounting standards. Although the WCBs are not required to comply with the PSA Handbook, they recognize certain key elements of government reporting which they need to consider, particularly with respect to performance reporting which extends beyond the financial statements to include supplementary financial and non-financial information. The agency recognizes the

multi-dimensional needs of its primary stakeholders by including in its annual report more comprehensive information such as the BSC and accompanying explanations along with certain key statistics. This additional financial and non-financial performance reporting information allows WCBs to discharge their stakeholder accountability obligations through the provision of non-financial performance information.

Canadian Institute of Actuaries (CIA)

The CIA is another major regulatory body which has developed standards to which the WCBs are expected to comply. Financial reporting to stakeholders is heavily influenced by the CIA standards. For example, the financial results of WCBs can be greatly influenced by the actuarial assumptions used in the calculation of liabilities. Indeed, a very small change in the Consumer Price Index (CPI) can result in significant fluctuations in liabilities. Such adjustments can take an organization from a surplus to a deficit position and also have a material impact on the unfunded liability.

Given the significant financial impact of liability remeasurements, it could appear to stakeholders that the WCB is manipulating the actuarial adjustments in order to influence its operating results. Consequently, the WCBs need to consider how to explain actuarial assumptions and adjustments to stakeholders. An effective stakeholder reporting framework should provide meaningful reporting of such significant factors. Although there is no specific legislation requiring the actuarial valuation of the WCB liabilities, all jurisdictions have a valuation completed annually or bi-annually. The actuarial report is included with the WCB's financial statements.

Unlike the accounting profession, the CIA has recognized that specific standards are needed to govern the valuation of workers' compensation liabilities. In this regard, they assembled a committee of experts (actuaries who have considerable experience in the valuation of workers' compensation liabilities) and established a consultation process with the workers' compensation finance managers. Moreover, the CIA Committee on Workers' Compensation has met several times with the AWCBC Financial Reporting and Comparability Committee to solicit their input into the development of actuarial standards for the workers' compensation industry. In May, 2002, the CIA released its Practice-Specific Standards for Public Personal Injury Compensation Plans to address such factors as pricing stability, intergenerational equity and indexation (CIA, 2006).

The auditors place extensive reliance on the actuarial estimates of liabilities. While auditors familiarize themselves with the actuarial approach, they do not recalculate the actuarial liabilities for future claims costs. If the actuary issues a qualified opinion of the long-term liabilities, this will more than likely result in a qualified audit opinion. This is further complicated by the CICA's recent Audit Guideline 43 which stipulates that auditors must obtain an independent actuarial opinion rather than rely on the organization's actuary. Consequently, there is considerable interaction between the WCB's external auditors and actuaries. This additional verification of the actuarial valuation could mitigate the potential for WCBs to manipulate their financial results through the adoption of industry standards or modification of accounting standards.

In demonstrating accountability to their stakeholders, it is critical that the reporting model provides sufficient information and explanation regarding actuarial assumptions and adjustments, particularly when there are changes in assumptions. It is essential that the agency provide sufficient explanation in their financial reports to enable stakeholders to discern the impact of operations versus the impact of changes in actuarial assumptions on financial results.

5.2 Wider performance reporting

This section examines the WCBs wider performance reporting firstly from a Canadian perspective and secondly from a Newfoundland perspective. The voluntary and mandatory reporting documents are examined to identify areas where the various standards impact stakeholder reporting for these public sector agencies.

5.2.1 Canadian Reporting Environment

Association of Workers' Compensation Boards of Canada (AWCBC)

This association is unique to the WCB, but it has been included in this section to illustrate how such professional associations can help develop accounting standards and non-financial performance reporting. Industry groups that formulate reporting standards have a profound influence on the ability of public sector agencies to demonstrate stakeholder accountability. The WCB's reporting frameworks have been heavily influenced by the studies and work of the AWCBC Financial Reporting and Comparability Committee. This group has collectively established financial and non-financial reporting standards for this industry. The WCBs have a long tradition of trying to compare performance for the Board of

Directors, its senior executives as well as employer and labour groups interested in inter-jurisdictional comparisons. This has been very difficult due to the variation in accounting practices, the broad array of valuation approaches for assets, differences in calculation methodologies for statistics and a variety of financial statement presentation formats.

In 1992, the AWCBC, on behalf of all WCB jurisdictions, appointed the accounting firm Doane Raymond Pannell and the actuarial firm The Wyatt Company to jointly conduct a study on the compilation and reporting of financial data. This study, commonly referred to as the Doane Wyatt study, was pivotal in raising awareness of the vast differences in accounting practices, actuarial assumptions and statistical reporting of the WCBs. The Doane Wyatt study was the workers' compensation industry's first attempt to introduce compliance with generally accepted accounting practices, comparable financial statement presentation format and standardized operational statistics.

After the study was completed, the WCBs through the AWCBC formed the Financial Reporting and Comparability Committee comprised of finance representatives from each province and territory. Their objective was to develop definitions and calculation methodologies for the Key Statistical Measures (KSMs) developed by the consultants and to identify other relevant measures. This process resulted in the elimination of certain Doane Wyatt recommended KSMs and the addition of others to reach the current total of 36 KSMs (Appendix 9). Some of these statistics are based on the recommendations of the Doane Wyatt study while others have been initiated by the Committee members. The additional

KSMs reflect information that the finance executives believed would be beneficial in explaining results to stakeholders, but they were developed in isolation of their stakeholders. While none of these KSMs are independently confirmed or audited, the Committee verifies their accuracy by preparing detailed calculation schedules which are reviewed jointly by statisticians and actuaries of the Ontario and Quebec WCBs.

Of the thirty-six KSMs provided by the AWCBC (Appendix 9), only twenty (55%) could be classified as non-financial outcome measures or ‘performance’ as defined by Stewart (1984). The first sixteen measures in Appendix 9 can be described by the researcher as process statistics rather than performance outcome measures. For example, the number of claims reported and benefits payments are considered to be absolute figures that do not provide stakeholders with sufficient information to evaluate the performance of the agency. In comparison, other KSM’s such as average composition duration and injury frequency provide more meaningful information which can be used to evaluate the agency’s performance in meeting its mandate. While it is recognized that certain of the measures function as inputs into the calculation of some of the performance outcome measures, many do not provide meaningful comparative referents since they are expressed in absolute dollars, rather than percentages, and thus do not facilitate comparison among regions.

Although WCBs have made a significant effort to develop comparable KSMs, true comparability is constrained by a number of key differences in claimant benefits and premium revenue structures of the various jurisdictions. Despite the level of

effort associated with gathering and reporting the KSMs, they are not widely disseminated beyond the AWCBC website. The exploratory interviews found that none of the employer or union respondents indicated they were aware of the AWCBC website. It is possible that very few external groups are aware of their existence. Presently, the WCB agencies appear to be the primary users of this information. From a public sector accountability perspective, it is important to ensure that KSMs respond to stakeholder needs by reporting on key financial and service outcomes. It is difficult to say with certainty that these 36 KSM's meet stakeholder needs since they were not consulted during their development. KSMs play a prominent role in any stakeholder reporting model since these are the key factors which are used to measure and compare performance among, and they have a major influence on the various jurisdictions. For example, Newfoundland measures its duration and average assessment rate relative to all other provinces. These national KSMs serve not only as comparative referents, but also as a target for some jurisdictions. In that sense, the KSM's function to identify areas of improvement for the WCBs more than as sources of information for their stakeholders.

5.2.2 Newfoundland's Reporting Environment

WCB Legislation

The WCB Act is the provincial legislation which governs the operations of Newfoundland's workers' compensation agency. This legislation specifies that the WCB provide an annual report to the Minister of Labour, that government may appoint an auditor, that the Board of Directors may appoint auditors and that the Auditor General has the right to audit the accounts (WCB Act, 1991). Beyond the requirement to submit an annual report, the WCB Act does not identify any

specific reporting requirements, nor does it identify the commercial or public sector accounting standards which should be applied. Consequently, the WCB legislation is not considered a major source of guidance on appropriate stakeholder reporting.

Auditor General

Similar to other public sector agencies, the WCB falls under the scrutiny of the Auditor General, for audit purposes. Although the legislation grants the government the right to either appoint auditors or to have the Auditor General conduct an audit of the WCB, the practice has been for the Board of Directors to appoint auditors. The audited financial statements are included with the WCB's annual report to the Minister. To date, government has not appointed auditors for the WCB and the Auditor General has conducted only periodic audits of accounts such as travel, capital expenditures and the funding position. The Auditor General's lack of attention on claims cost can likely be attributed to the complexity of the accounting associated with these expenses, whereas travel and capital expenditures are generic from one government organization to another and are therefore easier for staff to audit. Since claims costs comprise more than 80% of the cost of operating the WCB, it could be argued the investment of time to conduct such an audit would be worthwhile. However, given time and resource constraints, the Auditor General has opted to rely on external commercial auditors.

The PSA Handbook indicates that government should account for its agencies using the modified equity method. In the case of Newfoundland, however, the WCB's financial statements are not consolidated with government's and,

consequently, do not comply with the PSA standards. Rather, government reports the WCB's financial results (surplus and unfunded liability) through note disclosure as a form of trust. Currently, the Auditor General does not appear to have a major influence on the reporting approach of the WCB.

Balanced Scorecard

The Newfoundland WCB introduced its first BSC in 2001 for the five-year period 2001 – 2005 (refer to the accompanying Annual Report). The following table depicts the six goals and twenty-eight related strategies along with an indication of Norton and Kaplan's (1992) corresponding BSC perspective.

Table 5.6: WCB Balanced Scorecard

Goal	Number of strategies	BSC Perspective
A. Prevention focus achieving results	4	Customer
B. Injured workers and employers better served	7	Customer
C. Financially secure	4	Financial
D. Stakeholders sharing responsibility for changes	4	Customer
E. WCB operating more efficiently	4	Internal Business Processes
F. Knowledgeable employees satisfied and retained	5	Learning and Growth

The six main goals are accompanied by a total of twenty-eight strategies for which most have quantifiable targets. For example, Goal A – Prevention focus achieving results, is supported by four strategies. As illustrated in Table 5.6, there are three main goals (A, B and D) which are aligned with Kaplan and Norton's customer perspective whereas there is only one main goal for each of the remaining perspectives – Financial, Internal Business Processes and Learning and Growth.

There are several concerns with the WCB's application of the BSC. To begin, some of the strategies to achieve Goal A are the joint responsibility of the WCB and OHS. Ideally, the BSC would include only those goals and strategies over which the WCB has control. It is difficult to be held accountable for a goal which requires the cooperation and involvement of another organization. A further issue relates to the WCB achieving targets well ahead of schedule, but not adjusting the targets accordingly for the subsequent years. Moreover, the large number of strategies may create difficulties for the WCB to focus effectively on all of them at the same time. Indeed, some of the strategies appear to be more operational than strategic. For example, it could be argued that it is sufficient to measure employee satisfaction through surveys rather than to measure detailed elements that might reflect satisfaction such as average number of sick days. The WCB's approach to its BSC may not necessarily provide information that is relevant for its stakeholders.

Transparency and Accountability Act

As explained in Chapter 3 (section 3.2.3), in Newfoundland the increased prominence of accountability culminated with the passing of its Transparency and Accountability Act in 2005. This Act specifies the wider performance reporting requirements for government departments, boards and agencies. As noted in Chapter 3, the WCB meets the criteria of a Category 1 entity. The following table depicts the government's accountability guidelines for Category 1 entities, along with an indication of the Newfoundland WCB's compliance. This comparison is based on the Guidelines for Annual Performance Reports (Transparency and Accountability Office, 2005) and the WCB 2005 Annual Report which includes its Balanced Scorecard.

Table 5.7: WCB Compliance with Government's Accountability Framework

Government Accountability Guideline	Newfoundland WCB Compliance
Strategic plan submitted every 3 years	5-year strategic plan
Vision	Yes
Mission	Yes
Goals	Yes
Strategies	Yes
Performance objectives	Yes
Measures	Yes
Targets	Yes
Annual Operational Plan and Budget	Yes (published internally only)
Quarterly Financial Report <ul style="list-style-type: none"> • Original budget • Year-to-date balances • Projected revised • Variance explanations 	No, only BSC published quarterly
Annual Financial Report <ul style="list-style-type: none"> • Audited financial statements • Management letter from external auditors • Response to management letter 	Yes Yes Yes
Annual Performance report <ul style="list-style-type: none"> • Executive summary • Summary of approved strategic plan, including goals and objectives • Summary of program strategies used to meet goals and objectives • Summary of financial report • Comparison of actual performance to desired results • Variance explanations 	Yes Yes No Yes Yes, but only for categories included in BSC No
Feedback	No (limited)

Many of the components of the Transparency and Accountability Act also reflect the spirit of the PSA reporting guidelines. It requires the WCB agency to be accountable in two main respects: (1) meet the accountability expectations of the WCB stakeholders and (2) meet the mandatory accountability requirements of government as reflected in the legislation (WCB Act and the Transparency and

Accountability Act). The agency complies with its own legislation, but displays a lack of compliance with the six following requirements of the government's Transparency and Accountability Act.

- i. The Transparency and Accountability Act requires that departments and agencies provide annual operational plans and budgets. The WCB prepares operational plans and budgets for internal use, but they are not disseminated to stakeholders.
- ii. The accountability legislation requires quarterly financial reporting with the original budget, year-to-date balances, projected revenues and variance explanations. This information is prepared, but is used for internal management purposes only and is not made available to the public. However, the WCB provides its Balanced Scorecard on a semi-annual basis to its round table participants.
- iii. The legislation indicates that public sector organizations must provide a summary of program strategies which are used to meet their goals and objectives. The WCB partially meets this requirement by reporting on how well the targets were met through the Balanced Scorecard. However, there is limited discussion of the WCB's program strategies in the BSC or Annual Report. Additional narrative explanations would enhance the relevance of the WCB's stakeholder reports.
- iv. Comparison of actual and budgeted performance is published internally, but is not available to stakeholders. The only performance comparisons provided are those included in the Balanced Scorecard. Comparison of budgeted and actual results is associated with the public sector and is not a characteristic of commercial reporting.

- v. Variance explanations of actual performance to budget for administration and capital expenditures are provided for internal use, but are not reported to stakeholders. As noted in (iv) above, this is a public sector reporting standard.
- vi. The legislation states that feedback is a required component. While there is no formal feedback process for the development of the strategic plan, there is some limited opportunity for those stakeholder groups who are invited to participate in the round table meetings.

The WCB's lack of compliance with six of the criteria of the Transparency and Accountability Act represents a major accountability gap. Ironically, the WCB agency actually produces much of this information, but provides it only to its executives and the Board of Directors for internal management purposes. However, it is not practical to provide some of the other information. For example, it is highly unlikely that the WCB would issue quarterly financial statements, since the calculation of the benefit liabilities for future claimant expenditures on a quarterly basis is not practical and would not produce meaningful information. This is due to the fluctuations in injuries and claims processing times from one quarter to another. This is an area where government needs to recognize that one size does not fit all. In this situation, the Transparency and Accountability Act needs to be flexible to accommodate the needs of certain public sector agencies. Such restrictive guidelines do not necessarily contribute to greater accountability. It would be feasible for the WCB to provide information in the remaining categories such as a summary of its program strategies and actual and budgeted operational results along with variance explanations.

Prior to the introduction of the Transparency and Accountability Act, the WCB prepared a five-year strategic plan, but did so without stakeholder consultation beyond that of the Board of Directors. Progress on the strategic plan is reported through the BSC. The WCB's strategic plan includes five-year targets, and its BSC provides commentary explaining the results, but it does not compare results to other jurisdictions. A further limitation of the WCB strategic plan pertains to the reasonableness of its targets. By 2002, for example, Newfoundland had achieved some of its targets for 2006. This situation raises the issue of whether the targets were initially set high enough and whether once targets have been achieved the organization should adjust its targets for subsequent years.

One of the requirements of the Transparency and Accountability Act is that organizations submit their strategic plans to government for approval. This creates more of an accountability relationship between the WCB and government, thus weakening its arms length operating status. Before 2006, the WCB's five-year strategic plan was presented to government for informational purposes, not necessarily for approval. It appears that, through the Transparency and Accountability Act government has placed itself in a position of having more control over its various agencies.

5.3 Conclusions

The WCB fits the criteria of government business enterprises and is expected to follow the CICA generally accepted accounting principles for commercial enterprises. The WCB appears to have also adopted some of the broader reporting standards associated with public sector organizations through its non-financial and performance reporting with the BSC, thereby exhibiting a somewhat hybrid reporting mechanism.

As a government agency, the WCB appears to face a number of reporting challenges as it adopts the CICA commercial accounting standards for financial reporting while complying with the public sector nature of the Transparency and Accountability Act. This Act requires broader reporting to include quarterly financial statements, budgets and variance explanations which are not required for commercial enterprises. Indeed, it could be argued that the reporting requirements of the Transparency and Accountability Act are somewhat contradictory to the CICA commercial standards.

Compared to other government departments and organizations, the WCB is expected to comply with a greater number of industry specific voluntary reporting standards. For example, the CIA has introduced actuarial guidelines specifically for the WCBs, and the AWCBC has developed 36 KSM's which all WCBs in Canada are expected to report.

Overall, the reporting requirements and standards for the WCB industry have evolved significantly over the past decade, but as illustrated in this chapter a

number of reporting issues remain unresolved. Clearly, the workers' compensation industry is still in the process of determining which accounting and performance reporting standards to adopt. Consideration should be given to determining whether the commercial accounting standards are appropriate for the WCB. Alternatively, the WCB's could follow the lead set by the CIA and develop reporting standards specifically geared toward the WCB industry.

This documentary review illustrates examples including liability for administration costs, unfunded liability, and actuarial net present value where additional narrative explanations would enhance stakeholders' understanding of the WCB financial performance. The reporting gaps, as identified in Table 5.4, will be taken into consideration when developing a stakeholder reporting model.

This documentary review also highlights opportunities for an accountability reporting framework consistent with a greater level of compliance with the CICA's recommended financial statement qualitative characteristics, as depicted in Table 5.5.

When developing a stakeholder reporting model for a public sector agency viewed as a government business enterprise, it is important to balance commercial accounting implications with its broader public sector role. Consequently, a reporting model would need to address commercial accounting standards and the need for non-financial performance information. Alternatively, the WCB industry might wish to pursue the development of industry specific accounting standards with the CICA since the commercial accounting standards may not be appropriate for such a public sector organization. Ultimately, the objective of this research is

to develop a stakeholder reporting model which is relevant in meeting stakeholder needs while mitigating manipulation through external reviews of accounting modifications and industry specific standards.

The next two chapters describe the results of the semi-structured interviews with the primary stakeholder groups and the WCB agency executives. Through these chapters stakeholders' views on the WCBs accountability obligations and reporting mechanisms are identified and analyzed.

CHAPTER 6: STAKEHOLDERS' PERCEPTION OF ACCOUNTABILITY

6.0 Introduction

The results of the semi-structured interviews are presented in Chapters 6 and 7. Chapter 6 explores the WCB's agency status, the role of the WCB, stakeholders' perceptions of their salience and the performance information of interest to stakeholders. Chapter 7 examines the information mechanisms which stakeholders would like as well as their involvement in the accountability process. Where applicable, the views of the WCB executives are compared to those of the stakeholders, providing insight into how well they understand the needs of those to whom they are accountable. The WCB executives are the senior managers who determine how the agency is operated.

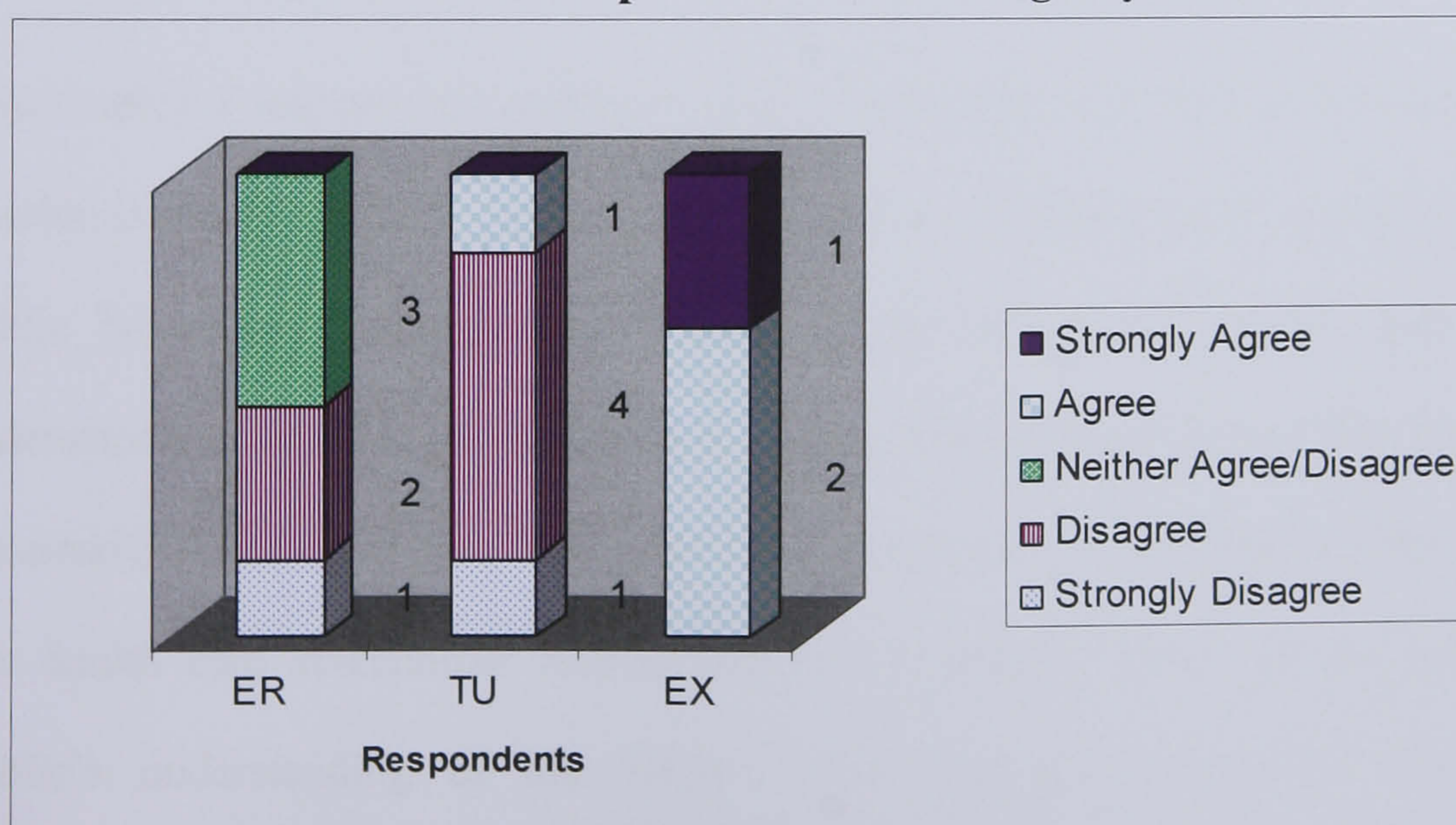
As discussed in Chapter 4, all interviews were taped, transcribed and coded using NVivo software. The listing of interview respondents is provided in Appendix 10. Responses for the checklist and Likert-scale questions are tabulated and summarized using Excel spreadsheets. The results are displayed in tables and graphs. The same interview questions are used for employer associations and trade unions, with many of the same questions posed to WCB executives to gain the agency's perspective. The responses for these two stakeholder groups are generally juxtaposed with the agency's perspective in charts, tables and direct quotations. Responses of WCB staff are presented in Chapter 7. The employer stakeholder group respondents are coded as ER, the trade union groups are depicted as TU and the WCB agency executive responses are displayed as EX.

The majority of the interview questions for government, health care providers and WCB staff are specific to these less salient stakeholders. As a smaller number of respondents are interviewed, their responses are presented in narrative and tabular format. The responses of government are coded as GV, health care providers are referenced as HC and the WCB staff members are referred to as WCBSU and the WCB Human Resources Department is identified as HR.

6.1 Role of the WCB Agency

The fundamental role of public sector agencies is to provide goods or services to citizens. The role and mission of such agencies should be defined in a manner that enables stakeholders to determine how well the organization is performing. In the case of the WCB, as the following chart illustrates, none of the employer respondents and only one trade union believe that the mission and role are clearly defined and understood. Chart 6.1 compares these results with the views of the WCB executives, with two agreeing and one strongly agreeing. This illustrates that WCB executives misjudge the perceptions of stakeholder groups.

Chart 6.1: Mission and Role Clearly Defined and Understood Main Stakeholders Compared With WCB Agency Executives



Source: Semi-structured interviews

On the surface, it appears that the WCB's role and mission is fairly straightforward: it is a public sector agency that is funded by employers to provide benefits to workers who are injured on the job. However, a closer examination of the WCB's mission statement may provide a partial explanation for the apparent lack of understanding:

'Utilizing skilled, professional employees, in partnership with workplace parties, we will facilitate safe and healthy workplaces by assisting employers and workers to prevent accidents, and manage workplace injuries/illnesses and return-to-work processes.'

Operating as the administrator of the workers' compensation insurance program, we will provide a reasonable level of benefits to injured workers and their dependents based on reasonable assessment rates for employers, while maintaining or exceeding service level performance when compared to other jurisdictions in Canada' (Annual Report, 2004: p. 10.)

The first part of the mission statement places emphasis on promotion of safe and healthy workplaces, imply a public sector mandate. However, the second part of the statement referring to the WCB operating as an insurance program may suggest that it is a business enterprise rather than a social agency. Furthermore, WCB's funding regime and reporting arrangements are more complex than those of directly funded government organizations and this may further contribute to this lack of understanding.

Two employer respondents comment that although they believe that the role and mission is clearly defined, they claim that it is not well understood by the general public (secondary stakeholders). In saying that the general public does not understand the WCB's role and mission, it should be understood that they are not necessarily referring to their own constituents but rather to the public at large. The two health care stakeholder respondents also express doubt as to the general public's understanding of the WCB's role, with one respondent strongly disagreeing and one neither agreeing nor disagreeing that the agency's role is well

understood. An alternative explanation for why respondents think the public do not fully understand it may be that stakeholders' have gained extensive knowledge of the system from attending the semi-annual round table meetings. This may lead them to believe that they have more in-depth knowledge of the system than a member of the general public who does not have the opportunity to attend these meetings and attain such an in-depth understanding.

Although public sector organizations expect the general public to comprehend their role and mission, it may be argued that as long as the primary stakeholders have a clear understanding, it is not essential that the general public fully comprehend its role. Further, while the employer associations and trade unions have a responsibility to ensure their constituents are fully informed, it could be argued that they do not have a responsibility to the general public who are not members of their respective stakeholder groups. Rather, this responsibility rests with the agency and with government. The general public is considered to be a secondary stakeholder group and is, therefore, outside the scope of this study.

The WCB is viewed as complex by one government respondent (GV1) and two WCB executives (EX1, and EX3), but this view was shared by only one stakeholder respondent (TU1). The perception of organizational complexity is reflected in the following comments:

“The WCB’s are the most unique entity that exists in the public sector, because the rest of the public sector entities in Newfoundland are so straightforward, even Memorial University to us is straightforward. Workers’ Compensation is very unique.” (GV1).

“I think one of the things that unfortunately get missed by a lot of not just stakeholders but anybody who works outside this organization is the complexity of it. It is an extremely complex organization...on all levels. It is very complex, it has many stakeholders.” (EX3).

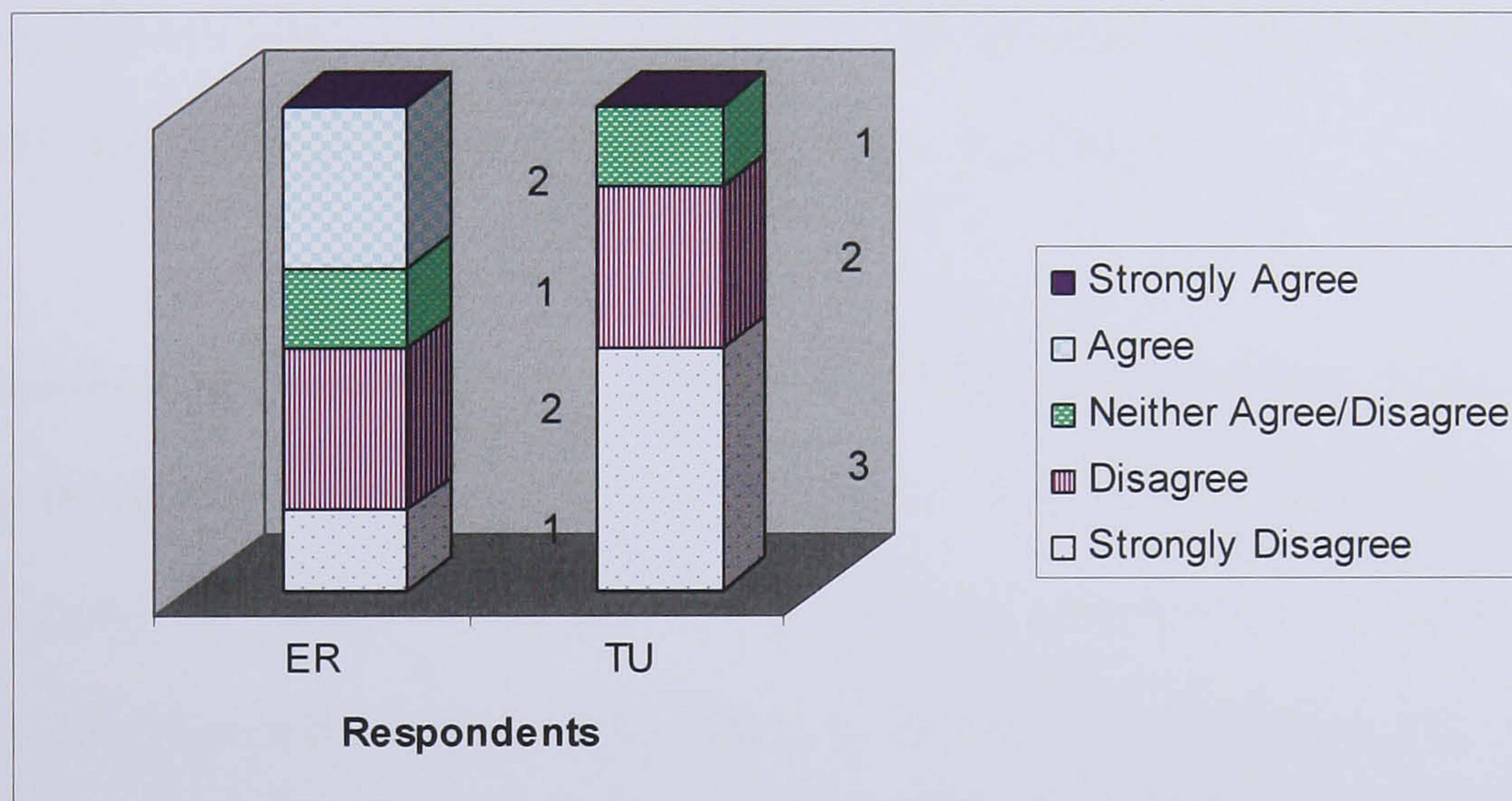
These responses indicate the WCB is complex due to its multiple stakeholders and independent funding. Directly funded agencies do not have accountability to outside funders, nor are they dependent on other public sector organizations, such as the WCB's reliance on health care providers. Stakeholders' perceptions of the WCB's complexity may be attributed to the fact that its services are not as widely used as other government departments and agencies, such as health care and social services. In Newfoundland, there are approximately 5,000 new claims annually from a workforce of 200,000. Therefore, only about 2.5% of the workforce has any contact with the agency. This lack of visibility and usage may contribute to the image of the WCB as a complex organization.

Undoubtedly, the perceived complexity of the workers' compensation system negatively impacts stakeholders' ability to understand its mission and goals and to evaluate its performance. In reality, this view of the WCB as a complex organization seems unwarranted; rather, its lack of visibility and small client base contributes to the lack of understanding. That being said, the perception of a government agency as complex is not unique. Scholars such as Jackson (1993) contend that public sector organizations are more complex than those driven by a profit motive, particularly as they are expected to respond to the differing expectations of multiple stakeholders.

The WCB is somewhat differentiated from line government departments and other public sector agencies in the ambiguity over its role as a social program. A social program generally refers to benefits and services provided by government in response to economic needs of citizens. For example, government's Social

Services Department provides welfare benefits and housing to individuals and families who do not have employment or other types of income. Other social programs in Canada are outlined in Chapter 2. The interviews reveal that only two employer respondents regarded the WCB as a social program. As the following chart shows, the WCB is not considered a social program by any of the union respondents.

Chart 6.2: View of WCB as a Social Program



Source: Semi-structured interviews

This difference of opinion between employer respondents and trade unions is not surprising. Unions may perceive workers' compensation as an employee benefit (similar to private health insurance); while some employer respondents contend that the "no fault" component of this system makes it a social program. One government interviewee claimed that the WCB is indeed a public sector agency:

"As long as government legislation is coordinated and controlled by government, as long as the Minister is responsible for it, as long as the Board of Directors is appointed by Cabinet, as long as government controls the appointment process and as long as it is not privatized, it is a government agency". (GV1)

Clearly, WCBs are public sector entities as they are operating in a highly regulated, monopolistic market in which employers have a legislated obligation to pay premiums while employees are prevented from suing their employers.

6.2 Stakeholder Saliency

Since the WCB is accountable to multiple stakeholders, it is helpful to categorize stakeholders with similar interests to the same groups in order to facilitate stakeholder management. To this end Clarkson's (1984) primary/secondary classification typology has been adopted for this study. The scope of this research has been narrowed to the primary stakeholder groups as identified in Chapter 4, Table 4.2, and these groups have been further delineated based on Mitchell et al's (1997) saliency framework as depicted in Chapter 4, Table 4.3.

Public sector organizations are accountable to multiple constituents; in fact, they may be viewed as being more accountable to the highly salient stakeholders than to others. According to the interview responses, stakeholders are prioritized according to perceived importance. This is in keeping with Mitchell et al's (1997) saliency framework, whereby stakeholders are classified as high, medium and low. As the following table depicts, all six union respondents and six employer interviewees agree the WCB should be held accountable to employers while four employers and five unions believe the WCB should be accountable to injured workers and unions.

Table 6.1: Stakeholders to whom WCB should be held accountable

Responses	ER	TU
Employers, employer associations	6	6
(Injured) Workers, trade unions	4	5
General Public	2	1
Government	0	2

Source: Semi-structured interviews

It is somewhat surprising that the unions perceive a greater level of accountability to employers than to injured workers. Perhaps they view the funders of the system

(employers) as holding more power and control. Overall, there seems to be relatively little perceived accountability to the general public (secondary stakeholders) and government (moderately salient primary stakeholders). Rather, there seem to be two levels of accountability – a higher level to employers and workers and a slightly lower level to government with no employer respondents and only two union respondents recognizing accountability to government. Finally, two employer groups and one union believed the WCB should be accountable to the general public. This may reflect the perception of employers and unions as highly salient primary stakeholders, government as moderately salient primary stakeholders and the general public as secondary stakeholders (low salience). There is greater weighting on employer importance by both employer and union stakeholder groups, likely because employers fund the total cost of the WCB. This implies that they deserve a marginally greater level of accountability than the beneficiaries. It is interesting to note that one union respondent acknowledged the importance of employers:

“The system is totally funded by employers, so WCB should be accountable to employers. The system provides protection for employers from litigation”. (TU1)

This view is not shared by one health care respondent who places the priorities of injured workers ahead of other stakeholder groups:

“...based on our own code of ethics...we’re occupational therapists, we are a self-regulated group...the bottom line is always going to be the safety of the injured worker...what is in the worker’s best interest”. (HC1)

It should be noted that since health care respondents are self-employed business operators, they may view injured workers as customers. This health care provider seems to be more focused on the clients (injured workers) than on accountability to the WCB agency which pays for these services. Further, another health care

respondent claimed they do not consider themselves to be stakeholders; rather, they define stakeholders only as employers and injured workers:

“Physiotherapists are not stakeholders – we are service providers – no different from the photocopier company. Stakeholders are the people who pay for the system and use the system”. (HC2)

This is further evidence that health care providers consider themselves to be in a business relationship with the WCB. They are providing a service in return for a fee. It seems that the WCB’s inclusion of health care providers as stakeholders is a view not shared by the health care respondents. However, Clarkson (1995) considers suppliers to be stakeholders. In fact, Clarkson classifies suppliers as primary stakeholders. This points to differing views of the term ‘stakeholder’.

Meanwhile, other stakeholder groups do not appear to weigh one group higher than another. Rather, they recognize the multi-faceted nature of accountability and indicate that the WCB should be accountable to employers, workers, the general public and government (EX2, ER2, TU6 and GV2). One WCB executive summarizes the WCB’s accountability to its multiple stakeholders:

“I would say [accountability] to employers because employers are funding the system, to workers because workers rely on the system to provide the benefits that they require when they are injured...to government because we are the producers of legislation and our mandate is to administer the Act as efficiently and effectively as we can, so we owe that accountability to government. We are accountable to the general public in that we have a mandate for prevention and our mandate is to communicate the importance of safe workplaces to the general public.” (EX1)

In addition to its accountability to its primary stakeholders, it seems that the agency also recognizes it is subject to government control (through legislation) and thus accountable to government.

The combined responses of all stakeholder respondents in the table below reveal that employers are viewed as the most salient stakeholder group, followed by unions/workers, government and health care providers.

Table 6.2: Stakeholder Group Rankings by Degree of Salience

Ranking	Stakeholder group
First	Employers/employer associations
Second	Workers/unions
Third	Government
Fourth	Health care providers

Source: Semi-structured interviews

These responses support the hypothesized salience levels of the primary stakeholder groups in Chapter 4, Table 4.3, whereby employers and injured workers are viewed as highly salient with government, health care providers and WCB staff regarded as moderately salient. Some stakeholder groups (TU1 and ER6) attach a greater weighting to employers rather than injured workers since they are the funders of the system. Although the WCB is accountable to all primary stakeholders, this research indicates that when faced with competing priorities, stakeholders expect the agency to respond to the needs of its highly salient stakeholder groups before attending to less important groups.

6.3 Accountability of the WCB Agency

Public sector accountability empowers the general public to call service providers to account and requires those who have resources entrusted to them to provide an account of how they fulfil their responsibilities (Coy and Pratt, 1998; Glynn and Murphy, 1996; McCandless, 1993; Mulgan, 2002). Constituents of public sector agencies tend to have a multiplicity of accountability expectations and thus view accountability in both financial and non-financial terms (PSA 1100.41).

To gain a clear understanding of accountability, this research examines how stakeholders define accountability and to whom they believe the WCB agency should be held accountable. The interviews reveal that stakeholders view accountability in both financial and non-financial terms. Health care providers hold the broadest view by considering their professional accountability to injured workers, as well as the accountability of the WCB agency to the health care providers.

Employer and union stakeholder interviewees perceive accountability as defined by Stewart (1984) and Chen (1975) in Chapter 2. As illustrated in the stakeholders' comments, while one respondent gave precedence to the financial stewardship aspect (TU2) others view accountability in much broader terms (TU6). One union respondent emphasized the importance of the financial aspect over service in his definition of accountability as:

“The ability to demonstrate that the dollars are used in an effective and efficient manner. Secondary is the service that is promised”. (TU1)

Perhaps this focus on financial accountability is due to the WCB's recent efforts to work with stakeholders to improve the agency's financial position. This focus on financial accountability was shared by a WCB executive:

“...in 2000 when we were facing a financial crisis, I will never forget the comments of our actuary. He told us if we don't take this issue seriously and try to arrest the financial bleeding, within five years we would have a situation that would be very difficult to turn around. So financial accountability is very important”. (EX3)

Conversely, another WCB executive described accountability in terms of balancing priorities rather than just focusing on the financial results:

“...trying to find a balance, to be fair, affordable and sustainable. You can't find three stronger words because that says it all”. (EX2)

Beyond the financial aspect, stakeholders regard accountability as having a mandate, answerable for certain standards of behaviour, truthfulness, responsibility to the constituents and having measurable, attainable and realistic targets and goals (TU2, ER4, ER2, EX3 and ER6).

Health care providers, including doctors, physiotherapists, chiropractors, are an integral component of the workers' compensation system. One health care respondent (HC2) claimed that they are accountable for the medical treatment of injured workers but do not play a role in the return-to-work process. This is viewed as the responsibility of the WCB agency. This respondent also notes that the WCB is not accountable for the work of health care providers. Rather, the providers are accountable for their professional action in the medical treatment of injured workers. This same respondent claimed that accountability between the WCB and health care providers is restricted to an administrative relationship (provision of/payment for services) and thus does not extend to professional matters.

Examining the WCB's accountability to government includes considering the role of government as an intermediary for the public in ensuring the agency fulfils its obligations. Essentially, government must hold the agency to account to ensure the needs of the funders (employers) and beneficiaries (injured workers) are met. Although some employer and union respondents do not seem to recognize the role of government in ensuring that the agency meets its accountability expectations, accountability to government is recognized by WCB and government stakeholders

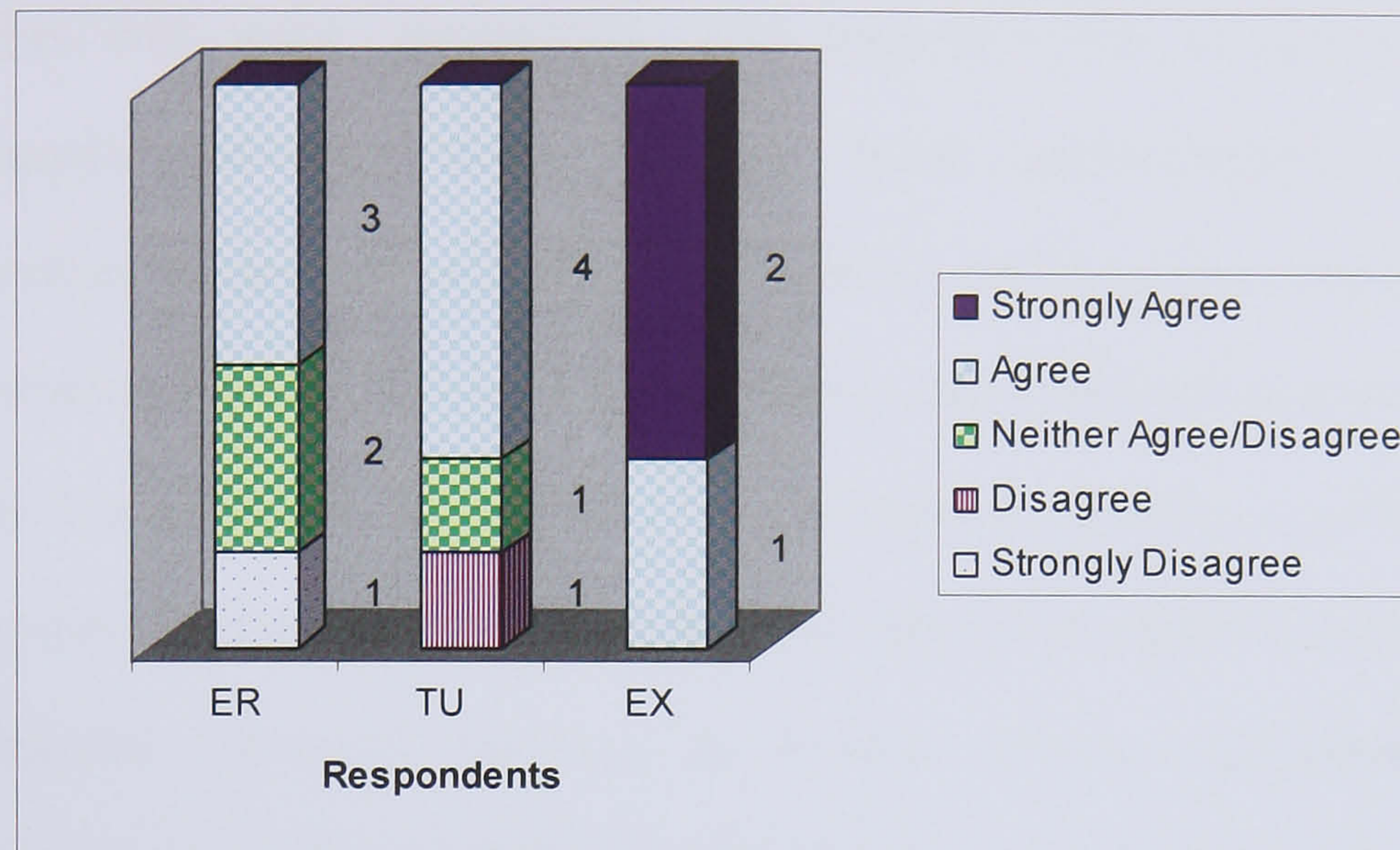
(EX1, EX3, and GV1). In particular, one WCB executive emphasized its legislative accountability to government:

“Clearly, as a statutory body, we have to be accountable to government. We are set up by statute and we have to be accountable to government in terms of what we do and how we do it”. (EX3)

The responses of government and the WCB lend support to Stewart’s (1984) claim that accountability is a relationship or a bond, linking the accountor with the accountee(s) (Stewart, 1984). This bond is based on the power of the accountee to hold the accountor to account. The employer associations and trade unions do not have direct power to hold the agency to account, but they have indirect power through government which they exercise through lobbying and participating in the Statutory Review process. Therefore, government plays a vital oversight role in ensuring that the agency provides an appropriate account to its stakeholders.

As well as identifying the stakeholders to whom a public sector organization is accountable, it is also important to examine stakeholders’ opinions regarding the organization’s effectiveness in actually demonstrating accountability. The following chart depicts how well the WCB fulfils its accountability mandate as rated by employers, unions, and WCB executives.

**Chart 6.3: WCB Demonstrates Accountability
Main Stakeholders Compared With WCB Agency Executives**



Source: Semi-structured interviews

Four of the six union respondents agree that the WCB effectively demonstrates accountability to its stakeholders but employer agreement is more muted with only three of the six in agreement. Meanwhile, two of WCB executives agree and one strongly agrees they are effective in demonstrating accountability. These responses show the disconnect between WCB executives' perception and the responses of the one salient stakeholder group. WCB has considerable work to do to improve accountability to both of these stakeholder groups, but particularly to employer groups. Ultimately, the accountability relationship between the agency and its stakeholders can be strengthened through mutual understanding of the issues and concerns for each group.

6.4 Performance Reporting

This research entails identification of key performance indicators preferred by the highly salient stakeholder groups, categorization of the performance indicators along Stewart's (1984) Ladder of Accountability and confirmation of the WCB's provision of the desired performance information. Table 6.3 displays the 21

financial and non-financial performance indicators of combined interest to the 12 employer and union respondents. The researcher has categorized these performance indicators along the five bases (probity/legality, process, performance, programme and policy) on Stewart's Ladder of Accountability. As illustrated in Chapter 2, Table 2.1 the five bases of accountability may be fulfilled through financial statements and wide-ranging narrative reporting. A public sector organization's performance reporting includes information which extends beyond the financial statements (probity), to include outcomes (programme and performance) as well as efficiency, effectiveness and economy (process) of service delivery.

Table 6.3: Comparison of desired and reported key performance indicators

Key Performance Indicators	Combined ER & TU Interest	Reported by WCB	Accountability Step
Injury frequency	10	Yes	Programme
Types of injuries	10	Yes	Process
Time to first payment	11	Yes	Process
Return-to-work success rate	10	No	Programme
Outcomes for Early & Safe Return-to-work program	9	Yes	Programme
Outcomes for Duty to Accommodate program	9	Yes	Performance
Number of claims denied	11	No	Probity
Number of claims accepted	10	Yes	Probity
Number of claims paid directly by employer	7	No	Process
Percentage of claims appealed	10	Yes	Probity
Administration costs	9	Yes	Process
Funded positions	9	Yes	Performance
Total costs (employer paid and WCB paid)	9	No	Process
Investigation results	7	No	Probity
Average assessment rate	9	Yes	Performance
Percentage of claims in receipt of LTD	8	Yes	Performance
Cost per claim (WCB portion)	9	No	Process
Percentage of claims successfully appealed	1	No	Probity
Duration of claims by category of length	1	No	Performance
Period time from claim acceptance to case manager	1	No	Process
Cost per claims by injury type	1	No	Process

Source: Semi-structured interviews; Stewart (1984)

In the preceding table, none of the key performance indicators desired by employer and union respondents reflect the highest step (policy) on Stewart's Ladder of Accountability. Of the 21 key performance indicators, five (24%) can be classified as probity; eight (38%) can be viewed as process; five (24%) can be categorized as performance and three (14%) can be considered as programme. As one moves up the Ladder of Accountability, there are fewer performance indicators. Policy indicators are possibly not provided since this is the responsibility of government rather than the agency. Government employs the Statutory Review process to facilitate stakeholder identification of proposed policy and legislative changes.

The remainder of this section contrasts the performance indicators of interest to employer versus union respondents, identifies whether the WCB provides this information, analyzes the potential reasons for differing levels of stakeholder interest and presents possible explanations for the WCB's failure to provide certain key performance information. There are four key performance indicators not reported which are of interest to 75% or more of the stakeholder respondents. These performance indicators include return-to-work success rates, number of claims denied, total costs (employer and WCB) and cost per claim (WCB portion). The return-to-work success rate indicator represents the basic objective of the WCB, to ensure that injured workers medically recover and, where necessary, obtain sufficient retraining to return to their pre-injury employment. Return-to-work success rate cannot, at this time, be reported since the datum is not captured. In view of the role of the WCB in facilitating the medical recovery and return-to-work of injured workers, it is surprising that a key performance indicator for this crucial outcome does not exist. This incongruity is recognized in the following comments of a WCB executive:

“I don't think our balanced scorecard addresses that whole area of how effective we are at getting injured workers back to work. I think the balanced scorecard should be the overall umbrella that we use to gauge our performance, and the financial statements are just one aspect of what goes into the balanced scorecard. Some people tend to focus on the financial results and this is where it is important to maintain the balance. Priority... should be on measuring getting injured workers back to work and how effective the WCB is in making that happen” (EX1).

This executive recognizes that the full story is not presented by the financial statements and that broader performance outcome information is needed. The WCB's concentration on financial results over qualitative outcomes may possibly be due to its unstable financial position for most of the past decade. This may have resulted in the WCB's strategic focus on financial results rather than on its main

mandate of facilitating claimants' return to work. Consequently, the larger social picture of the overall well-being of claimants and whether they are actually able to return to their previous employment does not appear to be the chief priority of the WCB. Currently, data are available on the number of claimants who are no longer in receipt of benefits, but there is no follow-up to determine if they returned to work and if so, whether they returned to the same employer (in the same job or another job) or to a different employer. Without this data it is extremely difficult to evaluate the WCB's success in administering claims. Rather, the approach taken by the agency is to view claimants no longer in receipt of benefits as a proxy for success.

The number of claims denied performance indicator reflects the WCB's diligence in evaluating acceptable claims. A claim can be denied if it is determined that the injury did not occur during the course of employment. Despite availability of data on the number of claims denied, this performance indicator is not reported. One WCB executive also commented on the importance of reporting on employer cooperation in the return-to-work process:

“There should be some measure of cooperation, because we can't do this on our own”.
(EX1)

Finally, data on total cost (WCB and employer paid) are not currently captured. The need for this information may become more of an issue in the future as employers continue to participate in the Early and Safe Return to Work program which sees them, rather than the WCB, paying the wages of injured workers.

As illustrated in following table, of the 21 key performance indicators, there were four measures of interest to all union interviewees: injury frequency, time to first

payment, outcomes for duty to accommodate, and number of claims denied. The number of claims denied is not currently reported. For the most part employer respondents display considerably less interest in these indicators, with the exception of the number of claims denied. The contrasting level of interest in the first three of these key performance indicators is not surprising since these issues are traditionally of concern to trade unions. Labour is interested in the number of workers who are injured, the period of time it takes to process a claim and issue the first wage loss payment and duty to accommodate. Trade unions have lobbied for many years to have employers accommodate injured workers who are unable to return to their pre-injury job. Consequently, they are very interested in evaluating how well the new duty to accommodate program is operating. This program was introduced in 2002 as a result of the 2001 Task Force review. Since the workers' compensation legislation requires that employers facilitate injured workers' return-to-work, the duty to accommodate measure is critical to the successful performance of the agency. The fourth performance indicator, number of claims denied, interests both stakeholder groups, but likely for different reasons. Trade union interviewees are concerned that potentially legitimate claims may be denied, while employers would undoubtedly like to have more claims denied as this would reduce claim costs and assessment premiums. One union respondent stressed his interest in seeing more information on the number of claims accepted and rejected:

“I'd like to see more information about the claims. How many people applied for compensation, how many were rejected, how many went through the appeal process after they were rejected, how many of these were overturned”. (TU5)

Table 6.4: Key performance indicators of most interest to trade unions

Key Performance Indicator	Employer Response	Trade Union Response	WCB Executives Response	WCB Reported
Injury frequency	4	6	3	Yes
Time to first payment	4	6	1	Yes
Outcomes for duty to accommodate program	3	6	2	Yes
Number of claims denied	5	6	2	No

Source: Semi-structured interviews

As depicted in the following table, six employers, but only three union respondents are interested in the following four key performance indicators: administration costs, total costs (paid by employers and WCB), average assessment rate, and cost per claim.

Table 6.5: Key performance indicators of most interest to employers

Key Performance Indicator	Employer Response	Trade Union Response	WCB Executives Response	WCB Reported
Administration costs	6	3	3	Yes
Total Costs (employer paid and WCB paid)	6	3	1	No
Average assessment rate	6	3	2	Yes
Cost per claim	6	3	2	No

Source: Semi-structured interviews

It is not surprising that all employer respondents would like to see a key performance indicator related to administration costs. Employer groups have long complained and more particularly in recent years, about what they perceive as escalating administration costs. Currently, only the total annual cost is reported. The WCB does not provide performance indicators such as average administration costs per claim or per \$100 of payroll, despite the ability of such indicators to facilitate year-over-year and inter-jurisdictional comparisons. Administration costs are further explored through open-ended questions and Likert-scale questions and these responses are discussed later in this section.

The financial statements and BSC report include the costs incurred by the WCB, but not the costs borne by employers related to workplace modifications and accommodating workers in new jobs. Total cost data (employer and WCB) is of particular interest due to the increased expectations for employers to participate in the Early and Safe Return-to-Work (ESRTW) program. Although WCB claims costs are declining, some employers argue that they are bearing a greater proportion of the costs since they are accommodating injured workers in return-to-work programs much earlier in the recovery phase than was previously the case. This could be viewed as downloading costs because employers, not the WCB, pay a greater proportion of the wages of injured workers than was traditionally the case.

The average assessment premium rate is a key performance indicator which is of great interest to employers. It is a national performance measure that is widely known and compared. Since Newfoundland has the highest average assessment rate in Canada, employers have exerted considerable pressure on government and WCB agency to lower its premiums. Newfoundland's high assessment rate relative to other jurisdictions is due to a number of factors: highest injury rate, highest composite duration and the highest propensity for claimants to receive LTD benefits. All three of these factors contribute to high claims costs which require a greater level of revenue. One of the outcomes of the 2001 Task Force review was a commitment by the Board of Directors to reduce the average assessment rate from \$3.24 to \$2.75 per \$100 of payroll by 2007. Since the assessment rate has a direct impact on the profitability of companies, they are very keen to monitor this performance indicator.

The fourth indicator, the cost per claim, is not currently published in the annual report. However, it is an ideal performance indicator to evaluate cost trends over time and to compare with other jurisdictions. Interestingly, these four key performance indicators are of interest to only three of trade union respondents. Cost concerns are frequently raised by employer groups, whereas trade unions do not emphasize costs since funding is the responsibility of employers. The contrasting levels of interest on the part of employers and unions in these four performance indicators reflect the multi-faceted and often conflicting objectives of stakeholders.

As depicted in the following table, five key performance indicators are considered equally beneficial to employer and trade union stakeholder groups: types of injuries, return-to-work success rate, total number of claims accepted, percentage of claims appealed, and percentage of claims in receipt of long-term disability. The WCB currently publishes four of these performance indicators: types of injuries, number of claims accepted, number of claims appealed and the percentage of claims in receipt of long-term disability (LTD) benefits, but there is limited information on the types of injuries. Although LTD is the main cost driver of the WCB, it is perplexing that only four employer and four union interviewees express an interest in this key performance indicator, particularly since the role of LTD as a major contributing factor to the WCB's financial position is well known through round table meetings, the Task Force and Statutory Review processes. As a result of the round table consultation process, stakeholders are aware that Newfoundland has the highest rate of LTD as a percentage of lost-time claims in

Canada. One possible explanation for this apparent lack of interest in LTD could be that it is overshadowed by the recent significant improvements in injury frequency, claim costs and duration. However, the agency has a responsibility to inform stakeholders regarding the main cost driver.

Table 6.6: Key performance indicators of equal interest to employers and unions

Key Performance Indicator	Employer Response	Trade Union Response	WCB Response	WCB Reported
Types of injuries	5	5	1	Yes
Return to work success rate	5	5	3	No
Number of claims accepted	5	5	2	Yes
Percentage of claims appealed	5	5	2	Yes
Percentage of claims in receipt of long-term disability benefits (LTD)	4	4	3	Yes

Source: Semi-structured interviews

According to the following table, two performance measures are of interest to a fairly high number of either employer or union respondents: outcomes for Early and Safe Return to Work (ESRTW) and funded position. It is expected that trade unions would be more interested in the ESRTW program outcomes than employer groups. Ensuring that claimants' return-to-work is a priority for trade unions, whereas this initiative was imposed on employers through legislation and it is a costly program for them to administer. The key performance indicator for ESRTW is reported in the BSC report. The funded percentage is an indicator of WCB's financial health, and it is a well-known performance indicator particularly among employer groups. Indeed government, the CEO and the Board of Directors frequently refer to the funded percentage as a gauge of WCB's financial health. This performance indicator is included in the BSC report.

Table 6.7: Contrasting levels of interest in certain key performance indicators

Key Performance Indicator	Employer Response	Trade Union Response	WCB Response	WCB Reported
Outcomes for Early and Safe Return to Work	4	5	4	Yes
Funding position	5	4	6	Yes

Source: Semi-structured interviews

There is a relatively modest level of interest on the part of the employer and injured worker respondents in the remaining six key performance indicators: seven of the twelve respondents indicated interest in the number of claims paid directly by employers, investigation results, while only one respondent desired information on percentage of claims successfully appealed, duration of claims by category, period of time from claim acceptance to case manager action, and cost per claim by injury type. Union concern with the number of claims paid directly by employers is lower than expected in light of the potential for this practice to introduce a two-tier system. Under such a system, claimants who continue to be paid by their employers do not experience any delay in obtaining benefits, whereas the majority of claimants are removed from their employers' payroll and have to wait for payment from the WCB. A possible explanation for the low interest may be lack of stakeholder awareness of this practice, coupled with its limited utilization. Employers are slightly more interested in investigation results than trade unions. This stands to reason since investigations could potentially result in denial of claims or in the termination of benefits.

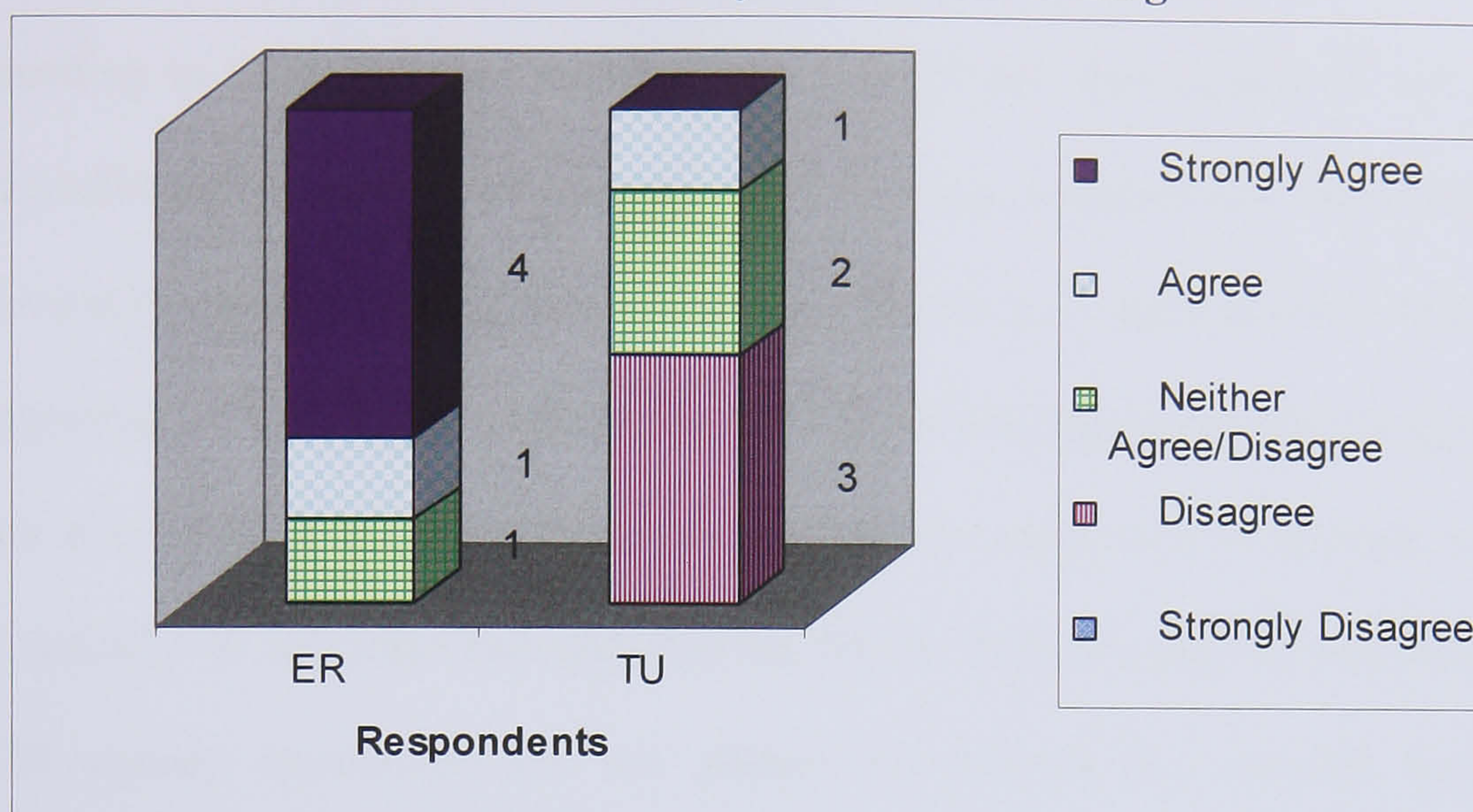
While five union respondents would like to know the number of claims appealed, only one trade union is interested in the outcome of appeals (percentage of claims

successfully appealed), and none of the employer respondents desire this performance indicator. Both employers and trade unions have the option of appealing the WCB's acceptance or denial of a claim. Typically, employers appeal on the grounds that a claim is not work-related, while injured workers launch appeals when their claim is denied. Strong trade union interest in this performance indicator is possibly due to injured workers' persistence and success in winning appeals. Since appeal decisions have a direct impact on claims costs and ultimately assessment premiums, greater employer concern with this key performance indicator would be expected. Employers' lack of interest in appeal outcomes possibly acknowledges the success rate of claimant appeals.

Only one employer respondent and none of the union interviewees desire information regarding duration of claims by category. Although the WCB does not publish duration by injury type, information regarding total duration for all types of injuries is reported. Consequently, it is possible that duration by category is not desired by stakeholders since the data on total duration is sufficient to meet their needs. The period of time from claim acceptance to action by a case manager is identified by only one employer respondent and by none of the union respondents. Since the WCB publishes data on the number of days from injury date to receipt of first payment, this possibly explains the lack of interest in other claims processing performance indicators. As cost per claim by injury type is identified by only one employer interviewees and none of union respondents, this does not appear to be a highly relevant performance indicator for stakeholders. However, it could be a useful management tool to identify types of injuries that are contributing to claims costs.

Another pertinent issue for employer stakeholder groups concerns monthly billing rather than the existing annual billing for assessment premiums. During the exploratory interviews, several respondents raised a wish to have the flexibility of paying assessment premiums monthly rather than annually. Although this is a policy issue, it is included in the main research instrument since it seems to be a concern for employer stakeholder groups. This is an example of where government has an oversight role in amending its policies to address the needs of stakeholders' since government, not the WCB agency, has the legal authority to implement this change.

Currently, all employers must estimate their payroll for the full year and pay the related premium in advance by April 1; alternatively, they apply for monthly or quarterly payment arrangements with interest. Some employer respondents express interest in having this process changed to facilitate payroll reporting on a monthly basis rather than annual basis. Such a billing arrangement would improve employers' cash flows and reduce interest charges. As illustrated in the following chart, not surprisingly, only one union interviewee views this issue as important, while three disagree and three neither agree nor disagree that monthly billing is important for their organizations. Conversely, one employer interviewee agrees and four strongly agree that monthly assessment premiums are a major concern. This issue seems to primarily interest employer interviewee as only they, not workers, pay assessment premiums.

Chart 6.4: Monthly Assessment Billing

Source: Semi-structured interviews

Throughout this research, employer stakeholder groups indicate their concern with the WCB's administration costs. This is likely due to the perception that public sector organizations are not administered as efficiently or effectively as those in the private sector (Broadbent and Guthrie, 1992). Since the WCB's administrative costs represent approximately 20% of the total costs, this is a point of contention between the agency and employer stakeholder groups as noted by one respondent:

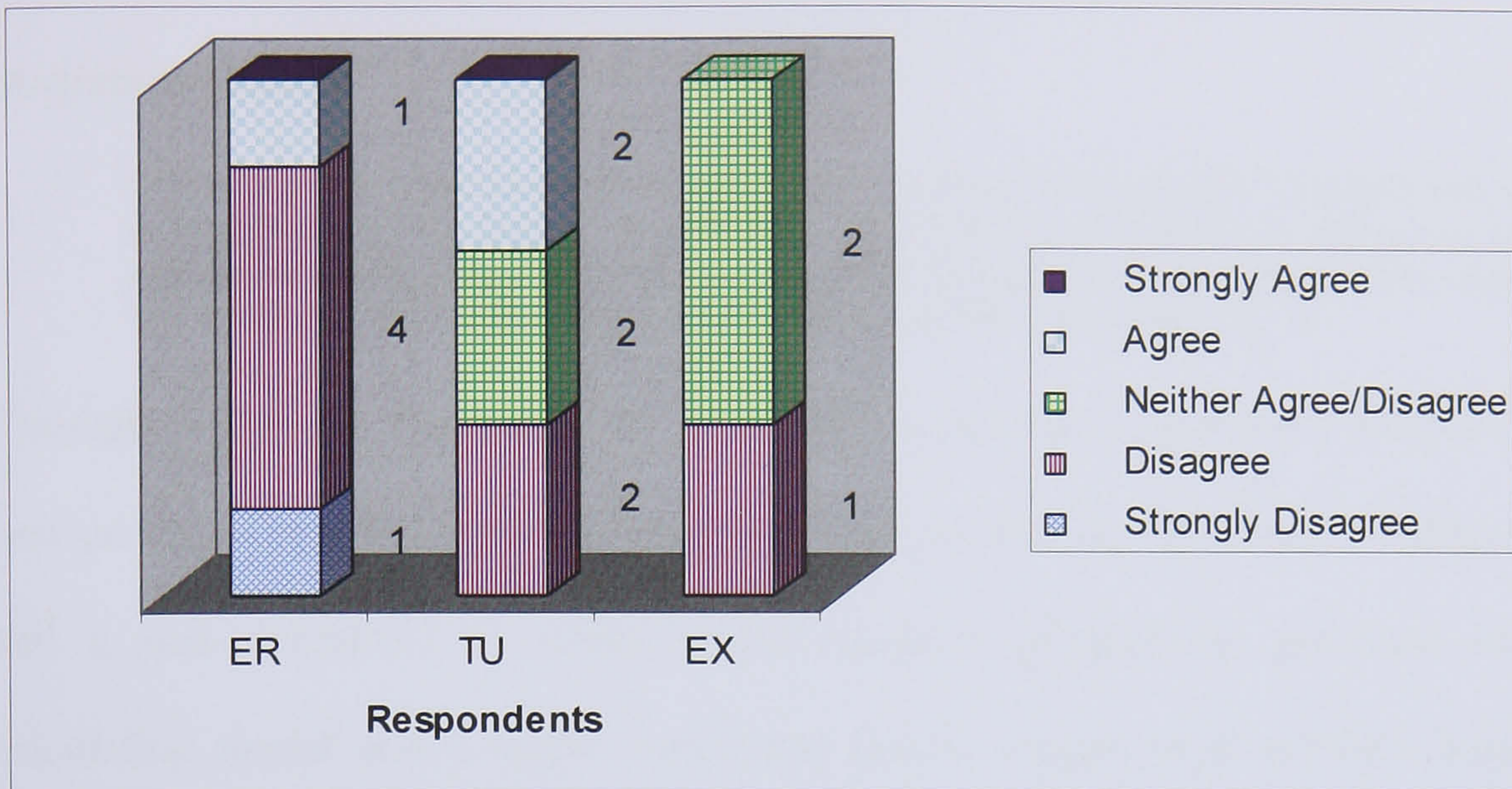
“Administration costs have always been a thorn in the side of employers (ER3) and administration costs of the WCB are probably one of the highest in the country in terms of percentage of the operating budget” (ER4).

Administration costs have come to the forefront in the past four years owing to a reduction in the number of new injuries, a reduction in the duration of claims and increased employer participation in return-to-work programs. These factors have significantly decreased the WCB workload and this has fuelled employers' expectations of a reduction in WCB staffing levels. Interest in administration costs could stem from the fact that these expenditures are likely much easier to understand than claims costs, which include actuarially calculated expected future costs.

According to Chart 6.5, the majority of the employer respondents do not agree that administration costs are reasonable (one strongly disagrees and four disagree). Conversely, opinion among the union respondents is evenly divided with two disagreeing, two strongly disagreeing and two neither agreeing nor disagreeing. Since over 80% of WCB's administration costs are comprised of salaries, unions are unlikely to advocate reduced staffing levels. Surprisingly, in response, the WCB agency executives do not appear to support the current level of administration expenditures, with two neither agreeing nor disagreeing and one disagreeing that they are reasonable. Evidently, the agency's executives also recognize that administration costs are relatively high.

Stakeholder concern with administration costs reflects the issues of efficiency, effectiveness and economy that are discussed in the New Public Management (NPM) literature. Indeed, without competition, it is difficult to establish a reasonable level of administration costs. Ultimately, it may not be realistic to compare administration costs to the private sector, since public sector agencies are operating in a political, not a market, environment (Gagne, 1996). However, it seems reasonable for the WCB to compare its costs with WCBs in other Canadian jurisdictions. This would provide stakeholders with a benchmark to evaluate the agency. At the same time, in making such comparisons stakeholders would need to be cognizant of the underlying differences which could account for the significant variances in administration costs.

Chart 6.5: Administration Costs are Reasonable



Source: Semi-structured interviews

The research also reveals that the WCB is not fully meeting the needs of health care providers, classified as moderately salient stakeholders. One health care provider is interested in expenditures for each health care category, the average number of treatments per claimant per category, the number of injured workers participating in each treatment category, and the cost of clinic-based services (HC1). These four data categories are readily available and could be reported. Another health care respondent emphasizes the importance of interpreting results rather than providing just the raw numbers. For example, this respondent suggests the WCB consider the claimants' diagnoses in relation to the number of treatments (HC2). This data is not currently available.

The topic of program evaluation is another important performance accountability issue identified in this research. In public sector organizations, the efficient and effective use of resources is a key accountability objective which is typically demonstrated through program evaluation (PSA 1100.41). One employer

interviewee expressed concern with the agency's approach, or lack thereof, to program evaluation:

“There is a strong perception in the employer community that evaluation of a program or an initiative takes the form of ‘we think it is a good idea’...we think it is working well as opposed to having someone assess how much each initiative contributed to the outcomes. We would like to have an independent consultant evaluate programs.” (ER3)

Throughout the past five years, the WCB has invested in a significant number of new programs ranging from administrative projects (for example, data warehouse and a web initiative) to client service projects (assessment premium rate calculation model and a highly automated claims management system). Some respondents claim that there is an inadequate level of program evaluation and cost-benefit analysis. Since the total cost of these projects is expected to reach at least \$10.0 million, stakeholders are concerned that the expectations associated with these projects were not clearly established, making evaluation difficult.

In response to stakeholders' concerns about administration costs, it is important for the agency to demonstrate that the appropriate level of costs/benefit analysis is conducted and that new initiatives are reviewed periodically to determine if they are meeting their intended objectives. Undoubtedly, some stakeholders question whether the WCB is evaluating these initiatives and if they are, they want to know the outcomes of such evaluations. The WCB has not provided stakeholders with an evaluation of its ESRTW program, but business cases for the rate calculation model and information technology projects were presented to stakeholders at a round table meeting. It is possible that the ESRTW evaluation was not conducted since the criteria had not been established at the outset.

Health care providers express interest in monitoring their own performance in the medical management of injured workers. During the past two years, they have worked with the WCB to capture better quality data. In 2005, the WCB issued outcome evaluation reports to health care providers regarding the cost and duration of their programs. One health care respondent suggested that this information could be enhanced with data on return-to-work success rate (HC1).

In addition to specific performance indicators that stakeholders would like to have compiled, they are also interested in comparative information. As illustrated in the following table, all six employer respondents and five union respondents identify Atlantic WCB's as their preferred comparative referent. Atlantic Provinces refer to the region comprised of four provinces: Newfoundland, Nova Scotia, New Brunswick and Prince Edward Island. The second most desired referents are the national WCB key performance indicators. Currently, the WCB does not provide any national comparative referents in its annual report and publishes only two Atlantic referents. Of the six employer respondents, five also prefer year-over-year actual results, in contrast only three union respondents have this preference. The only reference to these national AWCBC comparisons is a link on the WCB's website.

Table 6.8: Comparative referents

Preferred comparative referents	ER	TU	WCB Response
Atlantic workers' compensation agencies	6	5	2
National workers' compensation statistics	5	4	0
Budgets	3	2	3
Targets	3	3	2
Private sector insurance companies	1	1	0
Year-over-year actual results	5	3	3
5-year actual results	4	2	2
Canadian average	0	1	0

Source: Semi-structured interviews

Given the emphasis on accountability, the limited stakeholder interest in comparing actual results to budgets or to targets is perplexing, particularly since this is the practice of government. This suggests that stakeholders view the reporting requirements of the WCB as somewhat different from government. The WCB does not publish its budget, but actual results for selected performance indicators are compared to targets in the BSC report. The lack of interest in comparing to the private sector insurance companies is surprising given the public demand for government services to be provided in a manner that is as effective and efficient as the private sector. Five-year actual results are of interest to more employer respondents than union respondents and are reported primarily for the WCB's financial results. Only one union interviewee, and no employer respondents identify the Canadian average as a desired comparative referent. Year-over-year comparisons are desired by employers, but are of limited interest to unions. When questioned about their views on appropriate comparative referents, the WCB executives indicate more interest than employers and trade unions in comparisons to budgets than year-over-year results. Comparisons to budgets portray the agency in a favourable light since they rarely exceed the budget, whereas comparison to year-over-year results highlights the agency's increasing cost trends. In addition, comparisons to other jurisdictions may lead to stakeholder requests for variance explanations where Newfoundland's costs are higher than some of their counterparts.

Increasingly, public sector agencies are expected to compare their results with other government organizations, and the importance of such comparisons in demonstrating accountability cannot be underestimated. Ultimately, comparability

plays a central role demonstrating accountability as it creates pressure for public sector entities (such as hospitals and workers' compensation agencies) to explain their results relative to their respective counterparts. In the case of the WCB, as illustrated in the following table, opinion is divided as to how the agency compares to other public sector organizations in Newfoundland.

Table 6.9: Comparability of WCB accountability with other government organizations

Responses	ER	TU	Total
Compares favourably	2	3	5
Comparability difficult to assess because WCB is unique	2	1	3
WCB is more accountable than other government organizations	1	1	2
There is a deficit of accountability	1	1	2

Source: Semi-structured interviews

Five of the twelve employer and union respondents believe the WCB compares favourably with other government entities, while two indicate the agency is more accountable. Conversely, two stakeholder respondents claim the WCB is less accountable than its counterparts. One possible explanation for the stakeholders' apparent difficulty in comparing the WCB to other government organizations may be its perceived complexity; that is, three interviewees indicate it is difficult to compare the accountability of workers' compensation to other public sector organizations due to the perceived complexity of the WCB operations.

“Don't know if you can really compare...in some ways it would be unfair to compare. The WCB is a different beast. It's an insurance program but also a prevention program and it is meant to achieve something significantly different from any other public agencies” (ER3)

One employer interviewee claimed that the WCB is more accountable than other public sector organizations:

“The WCB has more accountability than health care because health care is not as direct as workers compensation. Workers compensation is constantly watched by employers and unions”. (ER6)

This respondent appears to suggest that the WCB's direct impact on stakeholders, through premiums charged to employers and benefits provided to injured workers, has resulted in a greater level of accountability than agencies such as health care boards that are funded by government. Conversely, one union respondent claimed there was a greater level of accountability for the health care boards:

“There is a much higher level of accountability for health care. There are more repercussions on a political level for failure in the health care system” (TU1)

Since stakeholders have a very keen interest in comparing the performance of the WCB to other jurisdictions, they should be presented with inter-jurisdictional comparative information wherever possible. Otherwise, stakeholders who take it upon themselves to gather this information may, due to their lack of an in-depth understanding of differing calculations of certain indicators, unknowingly make invalid comparisons and conclusions. Therefore, it may be advisable for the WCBs to provide comparative referents.

6.5 Conclusions

This chapter identifies how accountability is viewed by the WCB agency executives and how its most salient stakeholders influence the development of a stakeholder reporting model for a public sector agency. It is vital that executives ensure that the agency's mission and role are clearly understood. Otherwise, it is extremely challenging to determine if the organization is meeting its mandate. The research supports the application of Clarkson's (1984) primary/secondary classification typology, as well as Mitchell et al's (1997) salience levels. When confronted with several stakeholder groups with multi-dimensional needs, an accountability model can likely only effectively respond to its primary stakeholders. The research supports the concept of agencies improving the

stakeholder management process by prioritizing their accountability efforts toward the most important or highly salient stakeholder groups.

This research illustrates the importance of government's intermediary role in ensuring that the agency fulfils stakeholders' accountability expectations. Although government meets the criteria of a moderately salient stakeholder, the interviews reveal that stakeholders depend on the government to hold the agency to account. The implication of these findings suggests that a stakeholder reporting model needs to incorporate the oversight role of government in establishing a public sector agency's governance structure and policies.

As discussed in Section 6.4, the research indicates that the majority of the performance indicators provided are on the lower levels of Stewart's (1984) Ladder of Accountability (probity, process and performance), with only three of the twenty-one indicators at the programme level and none at the highest level, policy. An effective reporting model ideally provides more measures at the programme level on Stewart's Ladder of Accountability since the programme rung focuses on whether the agency meets its goals and objectives. Although key performance indicators are needed on the lower levels (probity, process and performance), it can be argued that accountability is enhanced when emphasis is placed on the higher levels (programme). When developing a reporting model, it is important to recognize that while the probity/legality and process issues need to be addressed, public sector agencies are expected to provide more information at the performance and programme levels.

The research identifies several gaps between the performance information desired by stakeholders and those provided by the WCB. Ideally, a reporting model would solicit input from stakeholders to ensure their preferred key performance indicators are selected. The research reveals that stakeholder groups are interested in expanded comparative information rather than merely year-over-year actual results. Respondents identify the importance of comparing the organization's performance to realistic targets and to other jurisdictions. Clearly, a stakeholder reporting model would need to determine, through stakeholder consultation, the appropriate comparative referents. The model needs to ensure that appropriate variance explanations are provided. The following chapter examines the mechanisms of accountability.

CHAPTER 7: MECHANISMS OF STAKEHOLDER ACCOUNTABILITY

7.0 Introduction

This chapter reports the remaining results of the semi-structured interviews, focusing on the various mechanisms which can demonstrate accountability and involve stakeholders in the accountability process. The WCB uses two main reporting tools: the annual report and BSC. The performance information currently provided to WCB stakeholders through the annual report consists primarily of financial statements, strategic plan, BSC report and statistics. The chapter analyzes the effectiveness of the information contained in the annual report and BSC in meeting stakeholders' accountability needs. The semi-structured interview results identify stakeholders' concerns and levels of satisfaction with the financial reporting and non-financial performance outcomes contained within the annual report statistical section and in the BSC. Other accountability issues include forum and frequency of reporting, stakeholder consultation, governance and audit.

7.1 Stakeholder Reporting Mechanisms

Public sector organizations demonstrate accountability by providing appropriate information regarding their operations. While this information is viewed as key by the WCB stakeholders and agency, it is only part of the equation. Ensuring the information is meaningful for stakeholders is critical. One WCB executive describes this in terms of really understanding stakeholders' needs:

“To me it's almost like putting yourself in the place of a stakeholder, once you've identified who your stakeholders are. Especially for people like us who are in a position of trust...Also important is the whole concept of transparency. You have to be able to put yourself in the shoes of a stakeholder, and provide them with the information and the feedback they require to make sure you're meeting their requirements.” (EX1).

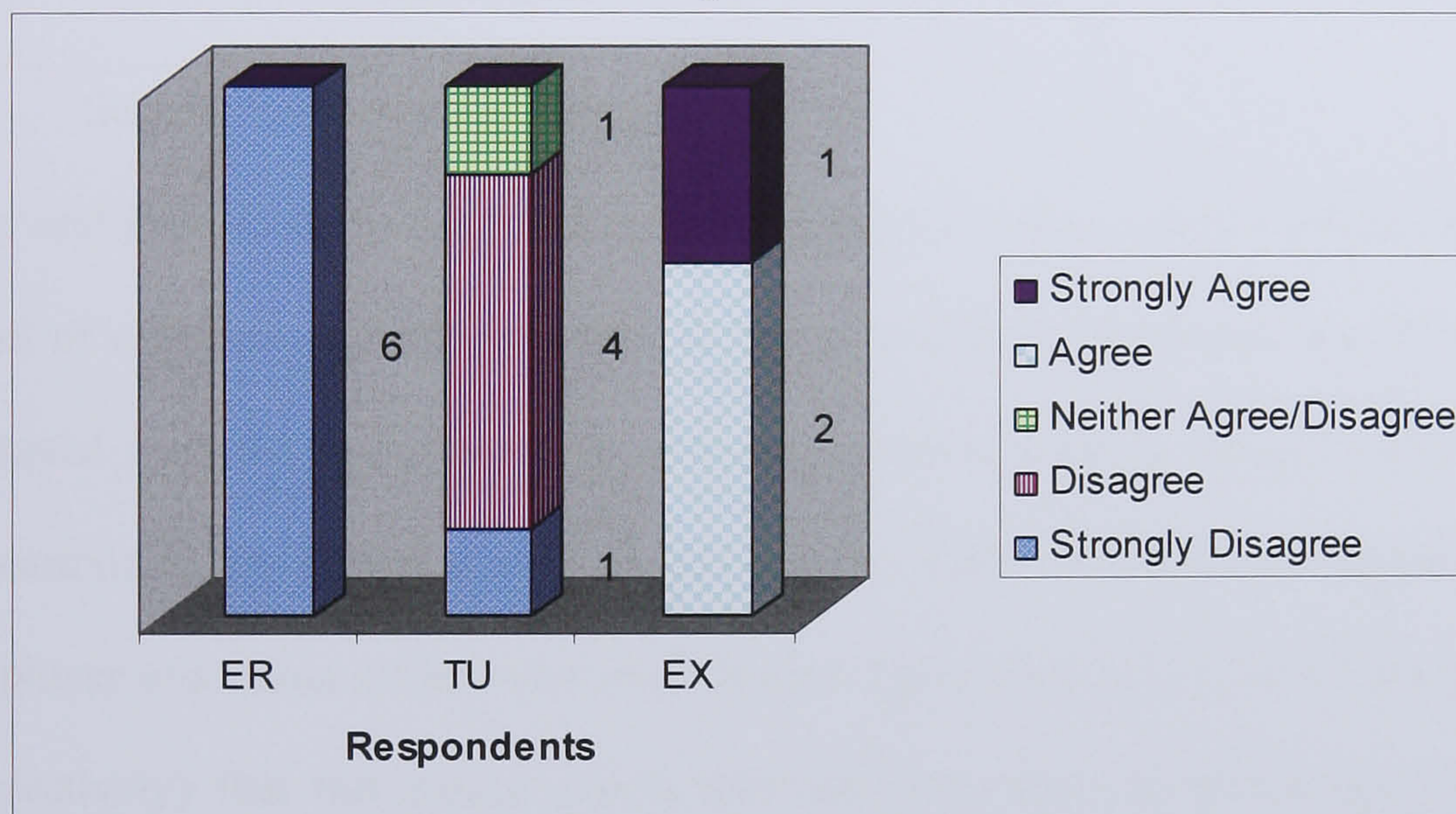
The following sections present the two main reporting mechanisms used by the WCB: annual report and BSC. The annual report contains the financial statements, CEO's commentary, statistics, and BSC report with commentary on the strategic plan. Since a good understanding of stakeholders' informational needs is a vital aspect of a stakeholder reporting model, the views of the WCB agency executives are explored to identify how well they understand the needs of employers and unions. The responses of the WCB executives are compared to those of the highly salient employer and union stakeholder groups.

7.1.1 Annual Report

The annual report is regarded as the chief mechanism to discharge accountability since it is the most comprehensive document that organizations make available. However, the responses in the following chart clearly indicate that the two highly salient primary stakeholder groups (employers and unions) do not depend solely on the WCB annual report to provide them with information. In fact, all six employer respondents strongly disagree that the annual report is their main source of information; in comparison, among union stakeholder respondents, one strongly disagrees and four disagree. This lack of reliance on the annual report may be attributed to the participation of the respondent employer groups and trade unions in the semi-annual round table meetings where the CEO and senior executives provide interpretation of year-to-date operational results, the status on achievement of strategic plan targets along with future proposed plans. Consequently, round table participants have more frequent and timely information than that obtained solely from relying on the annual report. Further, the annual report is not a timely information source as it is usually not available until at least five - six months after year-end.

In comparison, WCB executives indicate that the annual report is their main source of information. It seems that not only are the WCB executives' views biased since they prepare the annual report, but they are also not attuned to the concerns of the employers and unions. Alternatively, the WCB executives may be satisfied that stakeholder informational needs are met through the round table meetings. To effectively manage stakeholder relationships, it is important that the agency be aware of stakeholders' views and needs (Friedman and Miles, 2006).

**Chart 7.1: Annual Report as a Source of Information
Main Stakeholders Compared With WCB Executives**

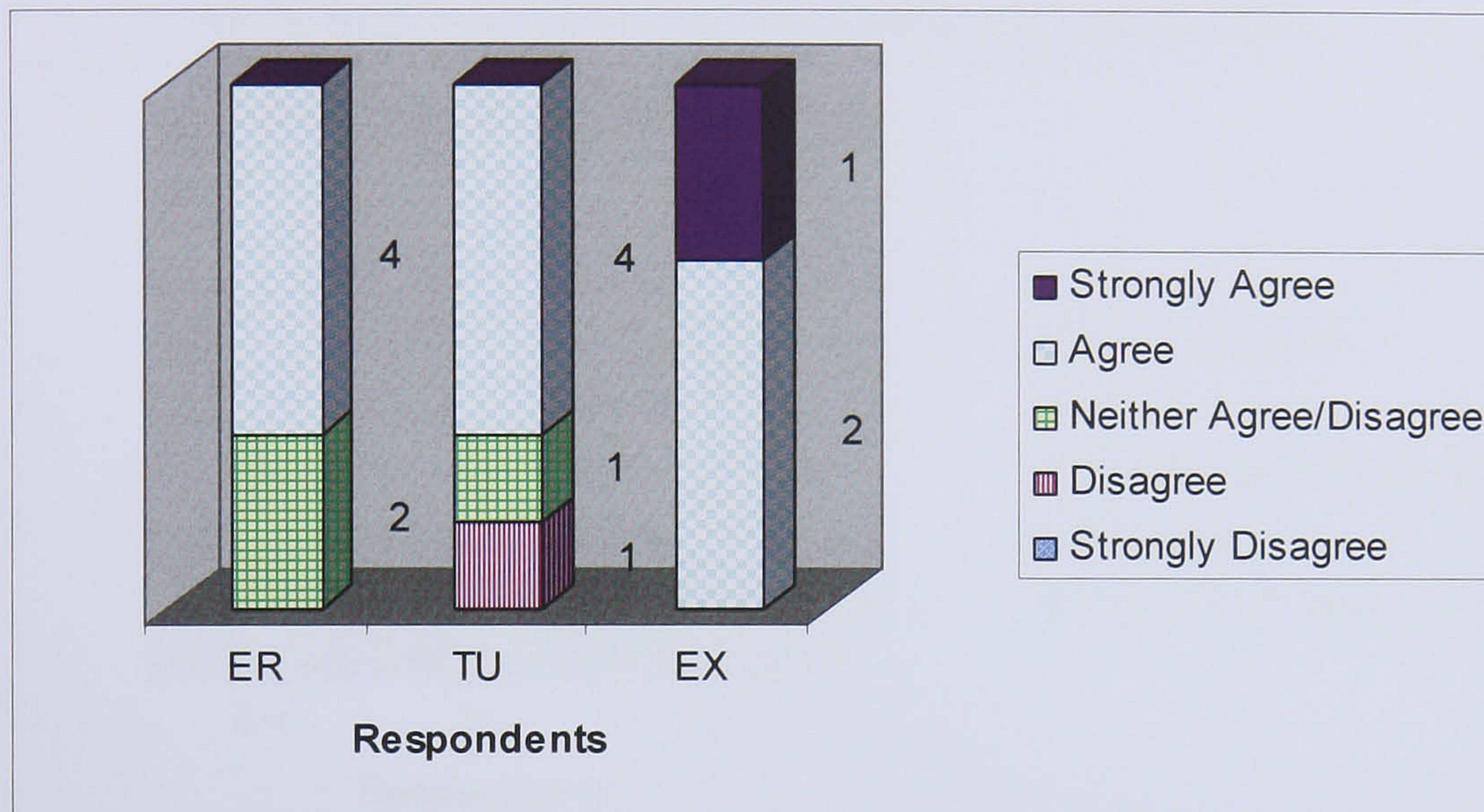


Source: Semi-structured interviews

Although the annual report is not their main source of information, of the twelve respondents, four unions and four employers agree that the information contained in the annual report is meaningful. The WCB executives also view the annual report as providing meaningful information, with two agreeing and one strongly agreeing, as shown in Chart 7.2. This response is not unexpected since they prepare the annual report and would naturally conclude that it provides meaningful information. There is a perception of the annual report as critical to its

most salient stakeholders, while in fact it is not their most significant source of information.

**Chart 7.2: Annual Report Information Quality
Main Stakeholders Compared With WCB Executives**

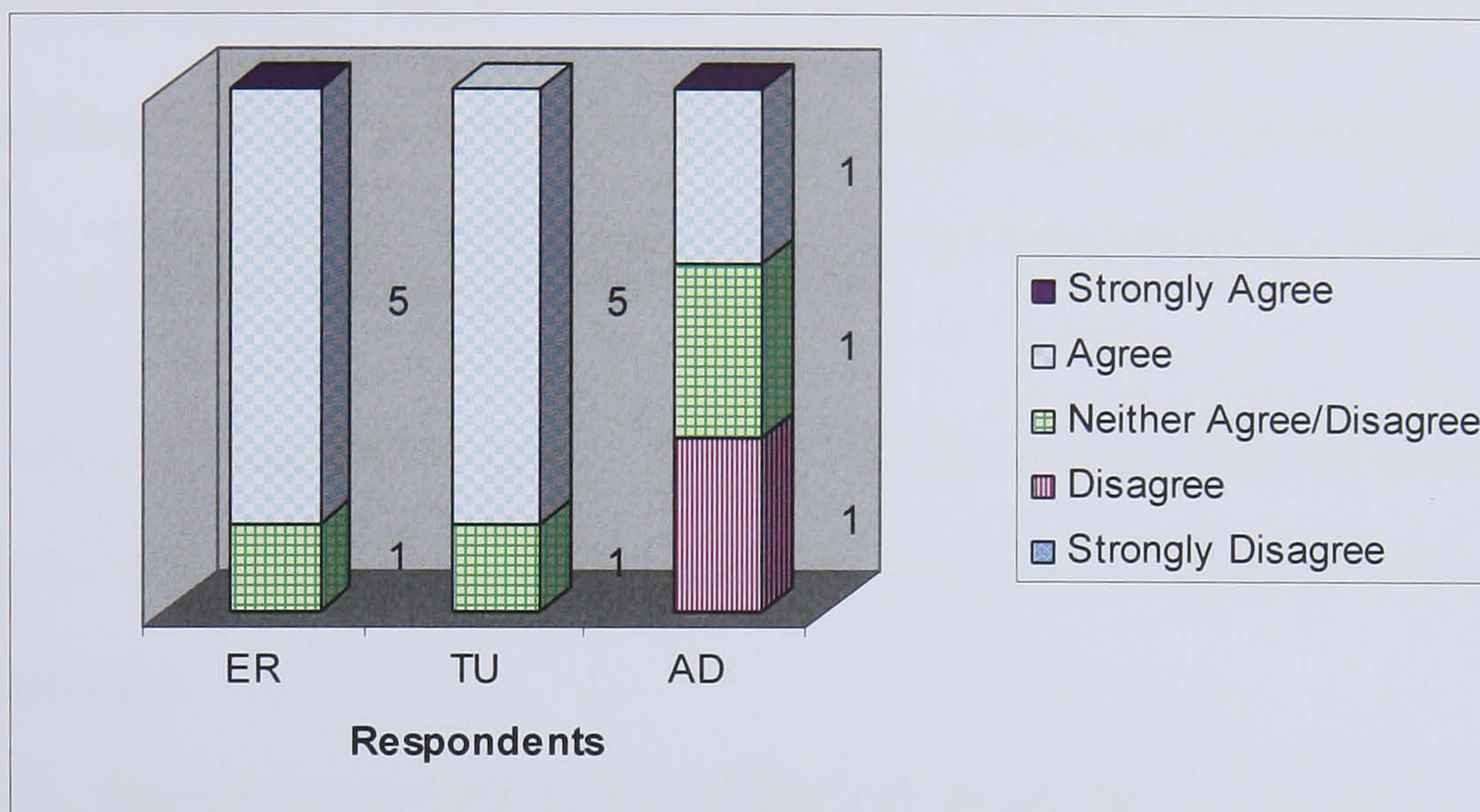


Source: Semi-structured interviews

Coy and Pratt (1998) suggest that annual reports are not widely read due to the level of expertise and effort needed to understand them. However, the evidence gathered from the semi-structured interviews does not totally support this claim. According to the interview results shown in the following chart, the majority of employer and union stakeholder interviewees agree (five of six from each group respectively) that the annual report information is easy to understand. When saying this, the respondents are likely referring to the BSC and statistical, non-financial performance information rather than the financial statements since they later indicate that the financial statements are difficult to understand. Ironically, WCB executives are divided on this issue as one agrees that the report is easy to understand, one disagrees and one neither agrees nor disagrees. This raises the question why WCB executives would prepare annual reports in a manner which they believe stakeholders may not readily understand. This may be an area where

government needs to play a role regarding compulsion and oversight of appropriate reporting.

**Chart 7.3: Comprehension of Annual Report
Main Stakeholders Compared With WCB Executives**



Source: Semi-structured interviews

The financial statements form a critical component of the annual report and are viewed as essential to accountability (ER6). For some stakeholders, the act of providing the financial statement is, in itself, a form of accountability, even if the users do not have a good understanding of it. Three of the employer respondents claim that while the financial statements provide comfort, few people other than accountants understand them since they require interpretation and explanations (ER4, ER3 and ER1).

The financial statements do not appear to meet the qualitative CICA characteristic of being easy to understand. As indicated in the following comments, two employer respondents need interpretation of the financial statements.

“Unless you’re an accountant, it would be difficult to understand. It would be useful to have a summary of what it all means” (ER1).

“The publishing of financial statements gives comfort...but not a lot of people understand them. I think for the most part people trust accountants. We would like to hire someone to do an assessment on the financial statements and tell us what they mean” (ER3).

Similarly, a union respondent claimed that the financial statements do not have significant meaning. Rather, as reflected in the following comment, one union respondent relies on the information disseminated at the round table meetings.

“The numbers don’t mean a whole lot. The numbers I’m more interested in are those we get at the round table meetings” (TU5).

An employer respondent claimed that the usefulness of the financial statements may be enhanced by providing comparative referents, particularly from other jurisdictions.

“Financial statements talk about the unfunded liability and deficit. The financial statements are the foundation for benchmarking for revenue and expenditures. We would like to see more comparisons with other jurisdictions and information about average assessment rates.” (ER6)

The WCB presents only year-over-year comparisons, thereby limiting the ability of stakeholders to fully evaluate the agency’s performance. Despite underlying differences in benefit structures, comparisons with other jurisdictions serve as a broad benchmark for stakeholders to evaluate performance. Interjurisdictional comparisons provide stakeholders with a broader context than year-over-year comparisons and enhance their understanding of the agency’s performance relative to the industry.

It is also helpful for financial statements to provide some indication as to the WCB’s expected future performance, in accordance with CICA’s predictive value characteristic (CICA 1000.18-.22). Although the WCB prepares five-year pro forma financial statements, they are not disseminated to stakeholders. Instead, they are used by senior executives and the Board of Directors. A WCB executive

concedes that the financial statements are not forward looking and, therefore, do not meet the CICA's predictive value characteristic.

"I don't think it is sufficiently forward looking. We don't necessarily share our financial targets or financial information. We should provide forward looking financial information for stakeholders so at least they can see how it all relates to the strategic plan and the strategic goals. We should share projections or budgets." (EX1)

Through the BSC the WCB reports its five-year targets for certain areas such as funding position and average assessment premium rate, but it does not issue budgeted financial statements. The provision of budgets enables users to determine how well the organization is performing relative to its plans. Variance explanations help identify why the budgeted results are not achieved. The provision of budgets and variance explanations is a further enhancement of stakeholder accountability. Despite these benefits to stakeholders in terms of enhancing the understanding of the WCB results, the agency does not provide budgets, targets and variance explanations.

One union respondent claimed they place a minimal level of reliance on the financial statements, and this may be attributed to other timelier and meaningful sources of information, along with stakeholders' preference for the statistics that are distributed at the round table meetings (TU5). Since the statistics and BSC disseminated at round table meetings are accompanied by WCB executives' interpretation, this possibly explains why stakeholders prefer this form of reporting over the financial statements which are published in the annual report. Two respondents noted that the statistics are more useful than the financial statements:

"No, we are not waiting every time to see where the financial results are. To see our lost time accidents down...that to me is more beneficial than financial statements. I think that the connection between the case manager and the injured worker is key. Also, then is the timeliness of the programs to the injured workers." (TU6)

“More statistics are required regarding time to service a claim...processing time.” (ER6)

Stakeholders’ preference for non-financial information is consistent with the CICA’s Public Sector Handbook view that the information needed to evaluate government operations must extend beyond deficits and surpluses (PSA 1000.21-.24). These responses suggest that the WCB stakeholders prefer wider performance information than that provided by the financial statements. Thus, the wider perspective taken by the public sector accounting standards may be more advantageous in meeting users’ needs than the commercial accounting standards.

Some respondents appear to have relatively little interest in or understanding of the financial reporting component of the annual report. This may be due to its perceived complexity. Elements such as benefits liabilities and unfunded liability are not frequently used terms and may not be well understood. The financial statements are likely to be difficult to understand even for informed users due to unique industry accounting practices (and in some respect the lack of industry accounting standards). Conversely, it can be argued that readers of financial statements are expected to have a reasonable knowledge of business and accounting. The annual report, particularly its non-financial performance information, is beneficial to users, but the financial statements do not appear to aid stakeholders in their evaluation of the agency’s performance. These findings indicate that the development of a stakeholder reporting model needs to incorporate meaningful financial reporting that is understood by reasonably well informed stakeholders. It is equally important that a reporting model encompass non-financial performance outcome reporting. It is also evident from the stakeholder responses that they require interpretation of the WCB financial

statements. Moreover, as they do not have this expertise within their own organizations, they depend on the BSC report and interpretation provided by the WCB executives. Finally, it seems that executives of public sector agencies need to strengthen their understanding of stakeholders' informational needs and where the annual report fits within that context.

7.1.2 Balanced Scorecard Reporting

The WCB includes the BSC in the annual report and distributes it semi-annually to the round table participants. The BSC is the second major medium by which the agency demonstrates accountability. Since the WCB utilizes the BSC to report progress toward achieving its strategic plan goals and objectives, the semi-structured interviews examined stakeholders' views of the BSC as a reporting tool.

The WCB's strategic plan and BSC play an essential role in fulfilling the WCB's responsibilities under government's Transparency and Accountability Act. This is a new process for most government departments and agencies. Consequently, the WCB agency is viewed by one government respondent as more progressive than other government agencies and departments, since it introduced BSC reporting for its strategic plan in 2002, well in advance of the Government's Transparency and Accountability Act (GV1).

The WCB's balanced scorecard follows the perspectives, financial, customer, internal business processes and learning and growth, as outlined in Chapter 2. Although it includes mostly lagging indicators such as client satisfaction and

employee satisfaction, it also includes leading indicators such as percentage of soft-tissue injuries. This indicator is important as soft tissue injuries contribute to the average claims duration and LTD costs. The WCB employs the BSC to present its strategic plan and monitor performance. The use of the BSC, particularly among many public sector organizations, has grown in recent years. One WCB executive interviewee views the BSC as the overall umbrella to gauge performance; the financial statements are just one component of the BSC (EX1).

As illustrated in the following comment, one of the WCB executives has a strong appreciation for the vital role of both the financial statements and the BSC. Despite the popularity of the BSC, it cannot be used in isolation. Clearly, the financial statements are needed to supplement or accompany the BSC report.

“The Balanced Scorecard is basically a snapshot of any number of key indicators as to where we are headed. It is certainly very much tied to the financial statements. So I think the two go very well together. Financial performance is obviously very critical, but how we deal with the injured workers, from the perspective of managing of Early and Safe Return-to-Work is also important” (EX3).

To ensure the BSC report is beneficial to stakeholders, the indicators need to be accompanied by variance explanations. Although the WCB provides explanations for its BSC results, one employer interviewee expressed concern about the validity of the explanations:

“We are confident it is accurate...but some of it is questionable. For example, the average duration of claims is not shrinking very fast, but that depends on how you look at it. As short-term claims drop off, the duration of long-term injuries appear to be increasing.” (ER3)

The research findings identify four issues with the WCB’s strategic plan: lack of employer awareness of the plan, moderate stakeholder support of the plan, moderate support of the targets and failure to include certain critical performance indicators. As depicted in the following table, nine of the twelve employer and

union respondents, comprised of six unions and three employers, are aware of the WCB's strategic plan.

Table 7.1: Stakeholder Awareness of Strategic Plan

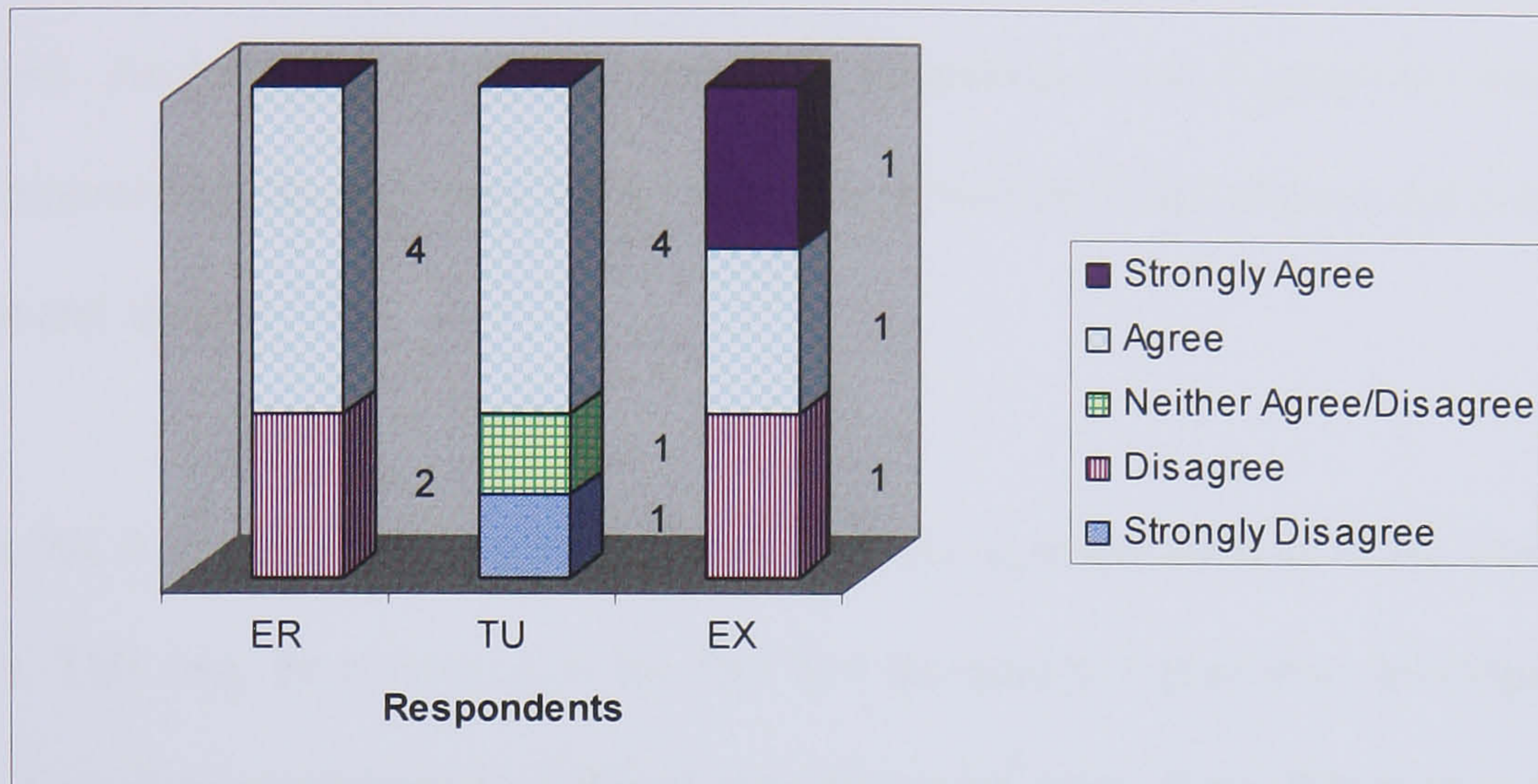
Responses	ER	TU	Total
Not familiar, haven't reviewed recently	3		3
Aware of strategic plan	3	6	9

Source: Semi-structured interviews

A potential explanation for three employer interviewees' lack of awareness may be that these respondents do not attend all the round table meetings. On occasions other representatives of their organizations may attend the round table meetings where the strategic plan results are disseminated. This suggests a lack of communication within the stakeholder groups since they may not have a process to communicate information gained at the round table deliberations. Since attendees may vary, the round table meetings may not be an effective consultation and feedback tool for all stakeholder groups. This consultation approach requires that the stakeholder representatives attending the round table meetings ensure their organizations are aware of the WCB's strategic plan and operational results. At issue is the responsibility of the agency to monitor its consultation approach to ensure stakeholders' needs are met.

Although most stakeholders are aware of the strategic plan, this does not necessarily translate into support for the plan. Only four employer and four union interviewees believe the plan is appropriate, as illustrated in Chart 7.4.

**Chart 7.4: Support of Strategic Plan
Main Stakeholders Compared With WCB Agency Executives**



Source: Semi-structured interviews

The moderate level of support by both primary stakeholder respondents (four each for employers and unions) is somewhat surprising since both groups were given an opportunity to have input into this plan through their Board representative on the Task Force. This may indicate that the Board of Directors did not adequately consult their primary stakeholder groups before agreeing to the strategic plan targets. This governance issue is discussed later in Section 7.5. As shown in Chapter 2, Table 2.3, stakeholders need involvement so they can impact organizational direction; this reflects Step 9 (involvement) on Friedman and Miles' (2006) Ladder of Stakeholder Management and Engagement. According to this framework, the WCB 2001 Task Force fits Step 5 (placation). Certain aspects of the WCB's 2001 Task Force reflect negotiation, collaboration and partnership. The agreement between the agency and its key stakeholders, employers and unions, to cooperate in return to work programs is an example of negotiation, while the agreement for the Federation of Labour to provide safety training to all Occupation Health and Safety committees represents partnership and collaboration. However, it seems that the highest level management styles were

used primarily at the strategic level and did not extend to the selection of specific targets and measures. Rather, the Board of Directors developed the strategic plan targets. As indicated from the interviews, stakeholders are clearly not satisfied with placement. Instead, they want to be truly involved in developing the strategic plan and targets.

The WCB executives are equally divided on the appropriateness of the strategic plan. This may be attributed to the fact that the strategic plan was developed by the Task Force comprised of Board members with input from WCB executives. Although the Board of Directors is ultimately responsible for the strategic plan, there is a collective responsibility of the Board of Directors and the WCB executives for its development and implementation. The lack of full WCB executives' support suggests there is some gap between the approved plan and what the strategic plan would have contained had the executives been solely responsible for its development.

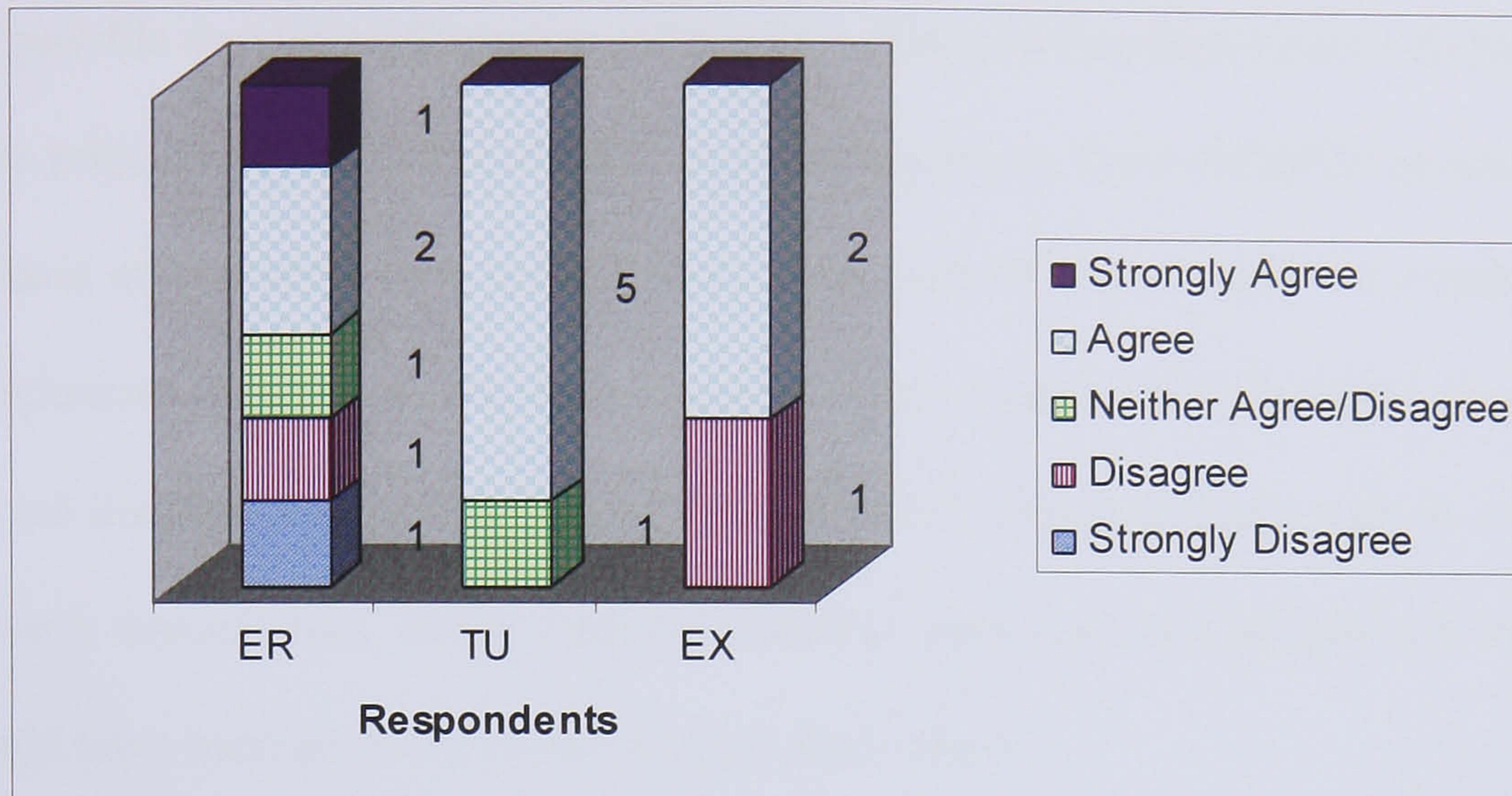
An alternative explanation may be that as the agency nears the end of the strategic plan cycle, WCB executives may recognize that the original plan needs to be revised to reflect the organization's early achievement of its targets. To a certain extent, it seems that the strategic plan needs to be a living document which can be modified to be responsive to changed circumstances. Developing a five-year plan and not updating it does not seem to be in the best interest of the stakeholders. In this case, based on the interviews, it appears that while the executives initially agreed with the strategic plan, they would like to have it revised to reflect the organization's current operating conditions.

It should be noted that not all stakeholders believe in the necessity of stakeholder involvement in the strategic plan. For example, one health care respondent seems to be more focused on interacting with injured workers than on the strategic direction of the organization.

Physiotherapists are not changing what they do with patients as a result of the strategic plan. We only need to be aware of the strategic plan if it impacts physiotherapy – for example, restricting the number of treatments. The strategic plan is the responsibility of the administrators. (HC2)

When an organization, public sector or commercial, is developing targets for a strategic plan, it is essential that these targets be realistic, attainable and challenging. Some of the employer and WCB agency respondents claim that the targets were not set high enough, particularly since many of the five-year targets were achieved in the first two years. The perception of artificially low targets is not shared by most trade union respondents; the following chart shows that five of the six union interviewees support the strategic plan targets. Meanwhile, there is only moderate employer support with two agreeing and one strongly agreeing with the targets. In response, one of the WCB executives concurs with the employers' view that the targets are not ambitious enough. This suggests there may be a need for government to play an oversight role in ensuring that public sector agencies set appropriate strategic plans and realistic targets and that it is viewed as a living document.

**Chart 7.5: Appropriateness of Strategic Plan Targets
Main Stakeholders Compared With WCB Agency Executives**



Source: Semi-structured interviews

Artificially low targets may cause constituents to lose faith in the strategic planning process and may negatively impact the organization's credibility. If after the first year or two it appears that the five-year targets have been achieved, one employer interviewee claimed they expect the agency to adjust them accordingly (ER1). This view is shared by a WCB executive who noted:

“We need to go back and revisit the measures, the goals and make sure the goals are the ones that reflect our reason for being. The stakeholders would have to be involved in this process. There should some provision...that we can modify the goals at some predetermined interval, that you go back and revisit your goals. The current strategic plan right now is so far ahead in certain goals that the original goals are really meaningless, we should go back and revisit those and if we have to, revise the targets.” (EX1).

One employer respondent expressed concern that the strategic plan involves goals over which the organization does not exercise full control. As pointed out by one respondent, the WCB has goals that involve two parties (WCB and OHS). This is not very practical or realistic due to the difficulty in holding both parties accountable (ER4). Conversely, it could be argued that this is an area where government could play an oversight role by ensuring the objectives for both the WCB and OHS are complementary and mutually supportive.

As illustrated in Chapter 6, there are a number of key areas where the WCB does not provide desired performance information. The existing performance indicators were selected by the Board of Directors with assistance from the WCB executives, without consultation with stakeholders. The respondents identified a number of deficiencies with the performance indicators and targets used in the BSC. It can be argued that had stakeholders' input been solicited, then indicators such as return-to-work success rate, denial rate, total claims costs and average cost per claims would have been included in the strategic plan targets.

The WCB's use of the strategic plan as an accountability tool and the BSC as a reporting mechanism is only moderately successful. This may be attributed primarily to the lack of stakeholder involvement in developing the strategic plan targets. While stakeholders were involved in developing the high level strategic plan (safety training and return to work programs), they were not sufficiently involved in selecting the specific performance indicators and targets to monitor and measure the success of the plan. In spite of the significant role played by the Board of Directors in implementing a five-year strategic plan, it appears that there was insufficient engagement of the stakeholder groups in the process. Their lack of involvement resulted in the agency omitting key performance as discussed in Chapter 6. The strategic plan and BSC report need to consider stakeholder needs in order to be a relevant accountability and reporting mechanism.

7.2 Provision of Information – Forum and Frequency

The provision of information is viewed as a means of fulfilling accountability expectations (Chandler, 1998). However, accountors must do more than merely publish information, they must distribute it and ensure the public is aware of its

existence and has access to it (Stewart, 1984). Therefore, the forum and frequency with which information is provided plays a critical role in demonstrating accountability. The following table depicts stakeholder preferences regarding reporting frequency:

Table 7.2: Reporting Frequency

Frequency	ER Response	TU Response	WCB Reporting Practice
Annually	1	1	0
Monthly	0	0	0
Quarterly	4	4	2
Semi-annually	2	1	1
Real time	1	0	0

Source: Semi-structured interviews

Eight of the twelve respondents (four employers and four unions) prefer to receive information quarterly. In response, the WCB agency executives also prefer quarterly reporting. Only one employer respondent and one union interviewee expressed interest in information on an annual basis and there is no stakeholder interest in monthly information. However, there is moderate interest in semi-annual reporting. Only one employer respondent is interested in real-time information. Overall, it appears that the current practice of issuing the BSC semi-annually is not meeting stakeholder preference for quarterly information.

To effectively demonstrate accountability, it is important for a public sector agency to make a reasonable effort to increase stakeholder awareness that the annual report is available (Coy et al, 2001). This responsibility can be discharged through press releases and websites (Hooks et al, 2002). The British National Health Service (NHS) Trusts offer an example to heighten awareness; a small number of hospital trusts distribute their annual reports by sending them out via local newspapers (Hodges et al, 2002). It has also been suggested that public

attention can be gained through cross-jurisdictional comparisons (Ammons, 1995). The press releases and news conferences result in media coverage through radio, television and newspapers; thus increasing awareness of the availability of the annual report.

To increase stakeholder awareness, the WCB issues press releases to advise the public that its annual report is available. These press releases summarize the highlights of the WCB's operating results. The annual report is posted on the website and is mailed to those who request a hard copy. It seems that the WCB is making a sufficient effort to increase awareness of the availability of the annual report.

To fulfil its accountability obligations, it is vital for a public sector entity to provide information to its constituents through a convenient forum. To determine the best forum to provide information, stakeholders were asked to indicate their preference. As noted in the following table, most respondents prefer hard copy, web, and media release and have limited interest in newsletters, compact disk (CD) or meetings.

Table 7.3: Forums to provide information to stakeholders

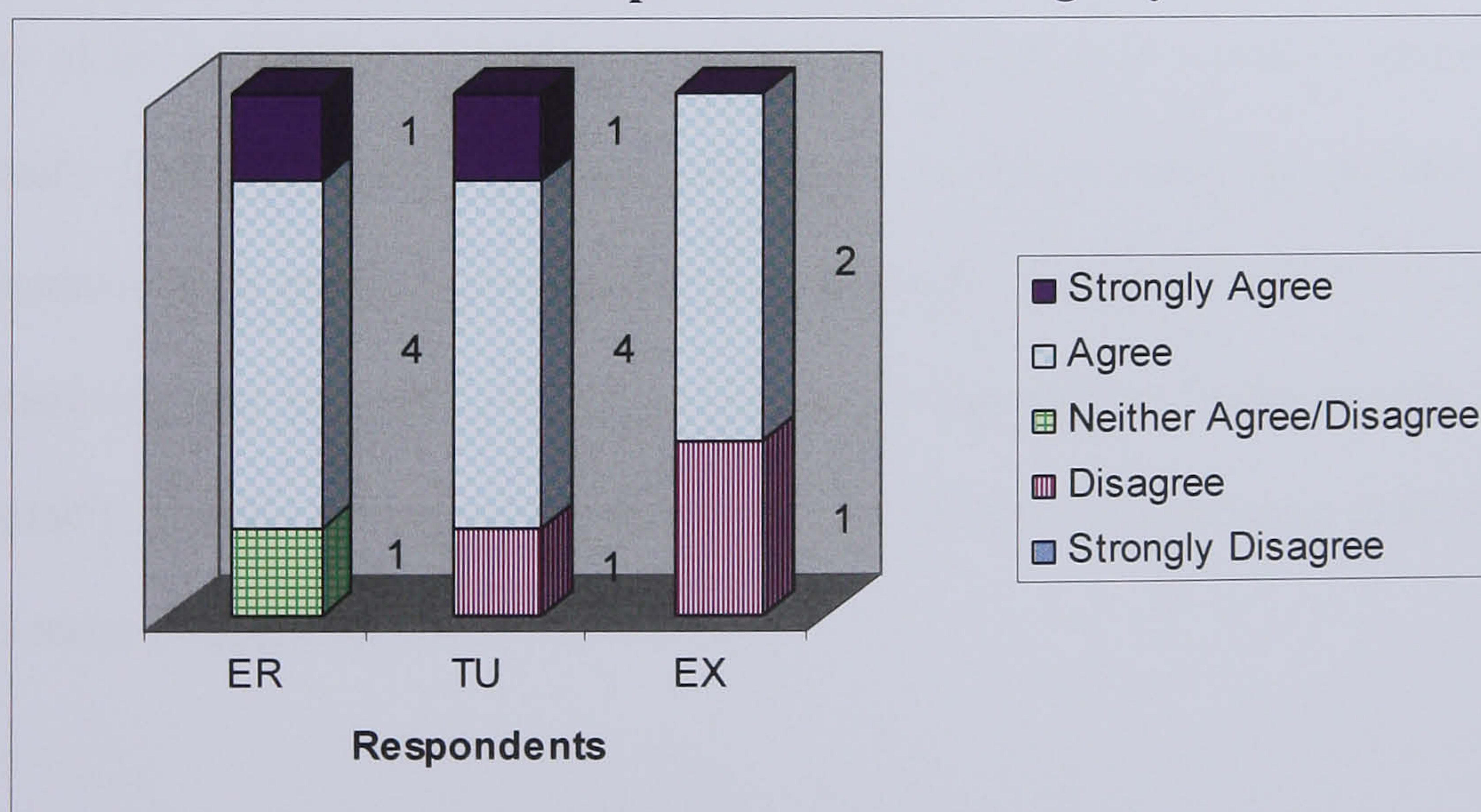
Forum	ER Response	TU Response	WCB Reporting Method
Hard (paper) copy	4	4	Y
Web	4	6	Y
Media press release	3	4	Y
Workplace Newsletter	0	1	Y
Compact Disk (CD)	0	1	N
Meetings	3	0	Y

Source: Semi-structured interviews

The WCB currently mails a quarterly newsletter to all employers. The value of this must be questioned since none of the employer respondents prefer to receive information via the newsletter, and only one union interviewee is interested in this forum. Meetings are the preferred method for three employer groups, but none of the unions are interested in this avenue. Since the WCB uses all of these forums (except CD's which are preferred by only one union and by none of the employers), the needs of stakeholders regarding information sources appears to be met.

Since there is increasing reliance on the web as a source of information, the website should contain information that is beneficial to stakeholders. As depicted in the following chart, there is a significant level of support for the usefulness of the website among unions, with four employers, four unions and two WCB executives agreeing that the WCB's website contains pertinent information.

**Chart 7.6: Usefulness of Website
Main Stakeholders Compared With WCB Agency Executives**



Source: Semi-structured interviews

Although there is a high level of satisfaction with the information on the website, both union and employer stakeholder groups do not to place a great deal of

reliance on it for performance information. Instead they use it to obtain policies and procedures, as indicated in the following table.

Table 7.4: Types of Information Obtained from the WCB Website

Types of information obtained from website	Employer Response	Trade Union Response
Annual Report	4	3
Strategic Plan	4	2
Policies and Procedures	6	5
PRIME program	0	1
Guidelines from Prevention Services	1	0
Contacts (personal)	2	0
News releases	1	0

Source: Semi-structured interviews

The reliance by all six employer respondents and four union interviewees on the website as a source of information primarily for policies and procedures reflects the WCB's change in practice of issuing policies and procedures only on the website. There is only moderate website use to access the annual report with four employers and three unions relying on this information source. This may be attributed to the WCB's practice of issuing hard copies of the annual report to those who request to be on the mailing list. In addition, respondents receive a hard copy of the annual report when they attend the round table meetings. Overall, it appears that the website is used primarily for items such as policies and procedures that are not provided at the meetings. Therefore, the WCB is not maximizing the potential of the website as a stakeholder accountability tool. Arguably, greater use of the website could provide more performance information on a more frequent basis.

Generally, with the exception of reporting frequency, most stakeholders seem to be satisfied with the current forum and frequency with which information is provided. As discussed in Chapter 2, provision of information via the web,

newsletters and briefing sessions is considered by Friedman and Miles (2006) to be the lowest form of stakeholder management. In essence, this is largely one-way communication that may be viewed as Steps 1 and 2 (manipulation and therapy) on Friedman and Miles' Ladder of Stakeholder Management and Engagement.

7.3 Stakeholder Consultation and Communication

For public sector entities to demonstrate accountability there must be stakeholder consultation to determine their accountability needs. Through effective and meaningful consultation, a public sector entity can demonstrate understanding in meeting stakeholder accountability expectations. In the WCB case, stakeholders expect to be provided with financial and non-financial performance information, but they also expect to be consulted and have their feedback solicited. The interviews demonstrate that stakeholders view consultation and communication as central components of WCB accountability. Such consultation would enable the agency to gain a more comprehensive understanding of the financial and performance information that is relevant in meeting stakeholder needs.

The WCB's consultation process is comprised of semi-annual round table meetings combined with ad hoc periodic meetings with the Federation of Labour and the Employers' Council, the largest labour and business organizations in the province. The WCB has also established liaison committees with various health care provider groups such as physiotherapists, occupational therapists, chiropractors and physicians. These health care provider groups are not involved in the round table meetings. The WCB meets with them periodically, usually on quarterly basis, to discuss issues of mutual interest.

The literature review indicates that communication is vital for accountability (Shelton and Albee, 2000), and this is reflected throughout the interviews. Both unions and employers stress the importance of having two-way communication. Three of the respondents claimed that just providing information is not sufficient; rather, the onus is on the WCB to report information that stakeholders can understand (EX1, TU5, and ER6). An employer respondent suggests the process should also encompass feedback:

“I think it [accountability] would have to include providing information as well as a measure of feedback...for example, if the WCB comes to employers and provide certain information – annual report or quarterly or monthly updates. It can’t just be the provision of that data. It has to be the feedback that we would give, and then being flexible and being responsible in what we say in terms of our concerns. It is to be a two-way street, such that our concerns would be represented...” (ER4)

The role of both oral and written communication in demonstrating accountability is recognized by a WCB executive who comments:

“Yes, we can be more accountable...be more transparent by providing more information. I think it is important that we improve the communication between the WCB and the stakeholders, especially in providing them the information they feel they need to assess whether or not we are accountable.” (EX1).

One union respondent claimed the WCB has a one-way communications environment that is comprised of the WCB executives making presentations regarding operational and strategic plans (TU1). This is described by Friedman and Miles (2006) as informing, which correlates with Step 3 on their 12-step stakeholder management ladder. There appears to be limited opportunity for stakeholders to have meaningful input. During the interviews, respondents frequently comment about how the WCB could improve its consultation process with stakeholders. For example, one employer respondent commented:

“At the last round table meeting most people were disappointed. They just couldn’t believe that they were given the annual report and the balanced scorecard, and then the WCB made a presentation on it. It should be provided a week before so you can analyze it. The WCB controls the consultation too much. I went to one of the round table meetings where we were provided with the agendas and documentation. It was very scripted. Nothing unexpected was said or done; there was some opportunity for questions, but relatively few. There is defensiveness in the culture of the WCB. There is not a real

culture of consultation; it is more of a culture of presentation...check the list and say the consultation is done. No questions.” (ER4).

The use of round table meetings fits, to a degree, on Step 5 (placation) of Friedman and Miles` (2006) Ladder of Stakeholder Management. These meetings are largely comprised of one-way communication, with the WCB giving presentations about its strategic and operational plans to stakeholder groups. While most respondents indicate the round table meetings are a step in the right direction, some claimed that they are too controlled and too tightly scripted to be anything more than placation of stakeholders. Similar comments were made by Hodges et al (2004) regarding their study of annual general meetings (AGM's) of the NHS Trusts. According to Hodges et al the agenda was controlled by the meeting organizers and the use of presentations may have discouraged public questions. The authors describe the AGM as a symbol of accountability and as a ‘ritual of accountability that is disconnected from other mechanisms of its system of governance’ (p. 397).

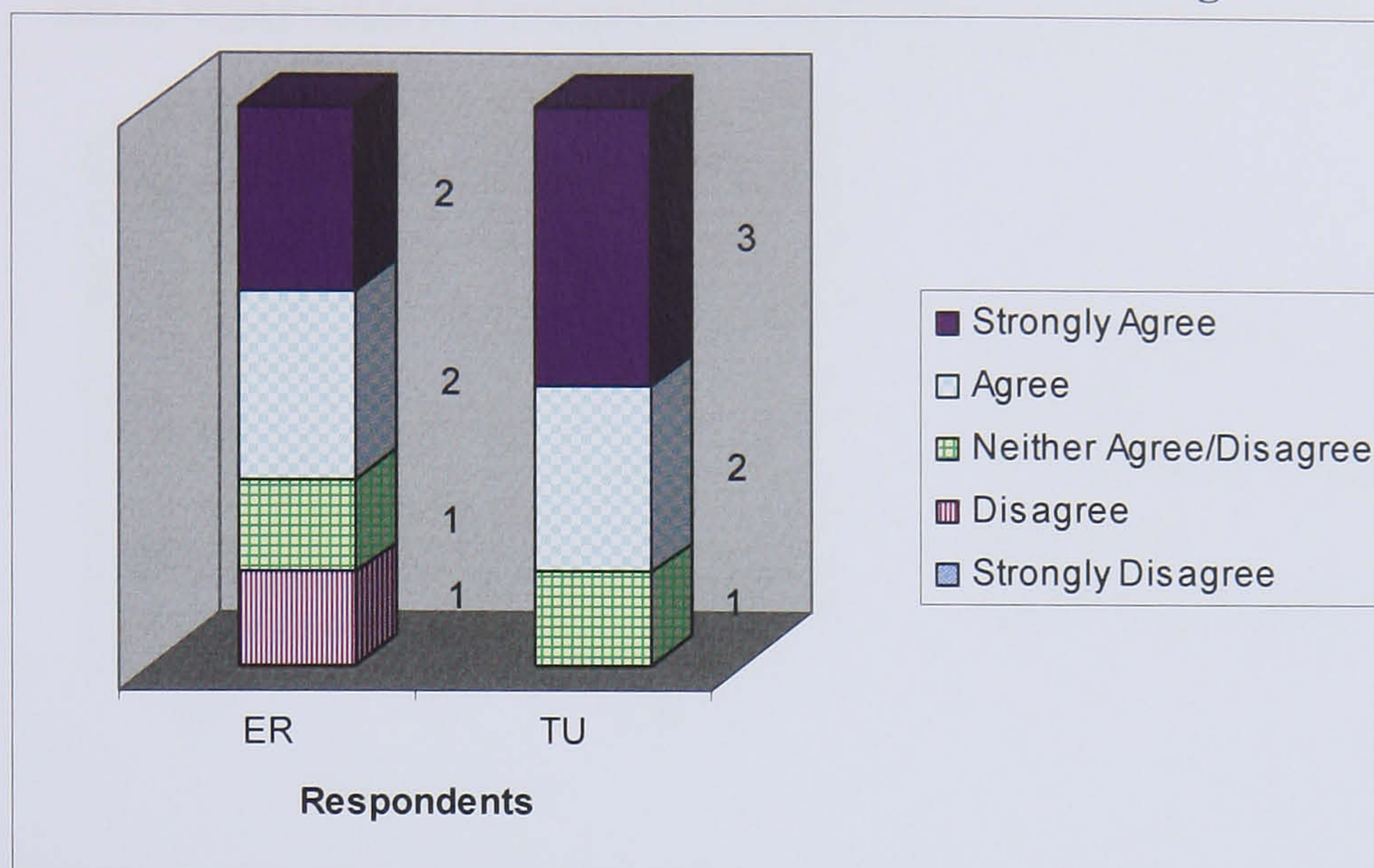
One area where concern is warranted is the high level of reliance placed on the semi-annual meetings as a mechanism to engage stakeholders, solicit feedback and disseminate information. Stakeholder reliance on round table meetings also points to the ongoing requirement for the agency to provide interpretation of financial and other performance results. If these meetings were no longer held, the WCB would need to identify an alternate means to communicate and consult with its stakeholders.

Although the round table meetings are intended to be a balanced consultation process including employer and worker stakeholder groups, one employer

interviewee prefers to have separate meetings without the unions present (ER6). Another employer respondent claimed that they sometimes refrain from expressing their opinions in order to be non-confrontational. Consequently, it appears that some employer groups feel constrained in this setting, thereby resulting in a less than effective forum.

Conversely, in spite of the concerns voiced by some stakeholders, others think the round table meetings improve consultation and allow for stakeholder input (ER5, GV2, and TU2). This suggests the round table meetings help the agency be truly consultative, thereby moving up the stakeholder management ladder (Friedman and Miles, 2006) to Step 5 (placation). The input at the placation level consists of stakeholders providing feedback on the agency's plans. According to Friedman and Miles, the agency is not obliged to act on stakeholder advice at the placation level.

As depicted in the following chart, more union respondents (three strongly agree and two agree) than employer respondents believe (two agree and two strongly agree) the round table meetings are effective.

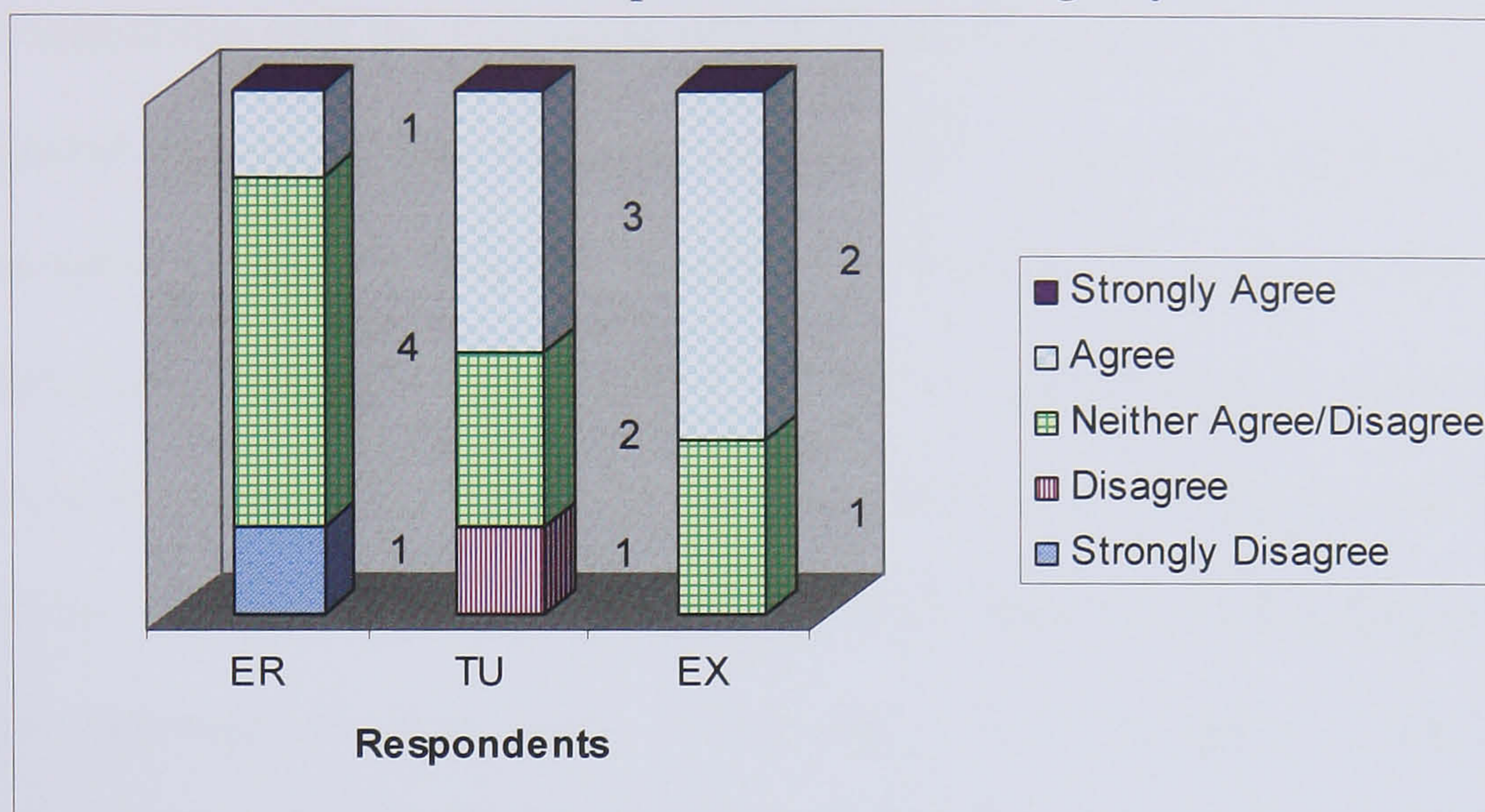
Chart 7.7: Effectiveness of Round Table Meetings

Source: Semi-structured interviews

Some of the variation in opinion regarding the effectiveness of round table meetings can be explained by Friedman and Miles' (2006) Ladder of Stakeholder Management. The WCB characterizes these meetings as consultation, whereas Friedman and Miles describe this form of consultation as surveys. According to Friedman and Miles, round table meetings are a form of involvement where the participants have a degree of decision making. The basic problem here is that the WCB tends to portray the round table sessions as a form of consultation whereby stakeholders are involved (Step 8). Stakeholders, in contrast, regard the process as placation (Step 5) as it consists mostly of one-way communication and dissemination of information.

Despite the WCB's attempt to portray the round table meetings as consultative, the stakeholders do not believe there is an adequate level of two-way consultation and communication, as denoted in the following chart.

**Chart 7.8: Adequate Two-Way Communication
Main Stakeholders Compared With WCB Agency Executives**



Source: Semi-structured interviews

Clearly, with only one employer interviewee and three union interviewees agreeing that there is an adequate level of two-way communication, there is a major gap in the WCB's ability to meet these groups' accountability expectations. It should be noted that the fault does not necessarily lie with the round table meetings as a forum, but rather with the way these meetings are conducted. In contrast, the WCB executives believe the round table meetings afford opportunities to engage in two-way communication with stakeholders. This illustrates a significant disconnect. Stakeholders are not convinced that they are being fully engaged in meaningful consultation; in other words, they do not view themselves as being involved in the accountability process. The WCB executives do not recognize that a forum whereby the dialogue is largely one-way, comprised of presentations, does not constitute genuine consultation and feedback. This is an area where the WCB executives may need to survey stakeholders to ascertain the effectiveness of the round table meetings as a form of consultation or consider alternate meeting models.

In addition to the round table meetings, there are concerns with the frequent ad hoc consulting with the Federation of Labour and the Employers' Council. One employer respondent does not agree with the WCB's approach of relying on the Federation of Labour and the Employers Council as a means of achieving stakeholder consultation, since these two groups not necessarily represent all stakeholder groups (ER2). For example, the Employers' Council tends to reflect the views of large businesses in the urban centres, rather than small businesses and those operating in rural areas. Nevertheless, the Employers' Council and Federation of Labour appear to have more influence and power with the WCB than other stakeholder groups. Despite the considerable efforts of the agency to foster an environment whereby stakeholders are engaged in a process of consultation and communication, there is a major gap in the perceived effectiveness of the WCB in this regard. It could be argued that the WCB agency is trying to placate stakeholders through round table meetings and ad hoc consultation; rather than providing stakeholders with a real opportunity for involvement in the agency, described as Step 8 on the Friedman and Miles' (2006) stakeholder management ladder. Additionally, the over-reliance on two stakeholder groups could be detrimental to the consultative process. There is a risk that there are significant issues of concern to other stakeholder groups which the Employers' Council and Federation of Labour would not be aware of or may not have a vested interest in having addressed.

Another aspect of representing a constituency through the consultation, raised by a health care provider, relates to the time commitment required for such an

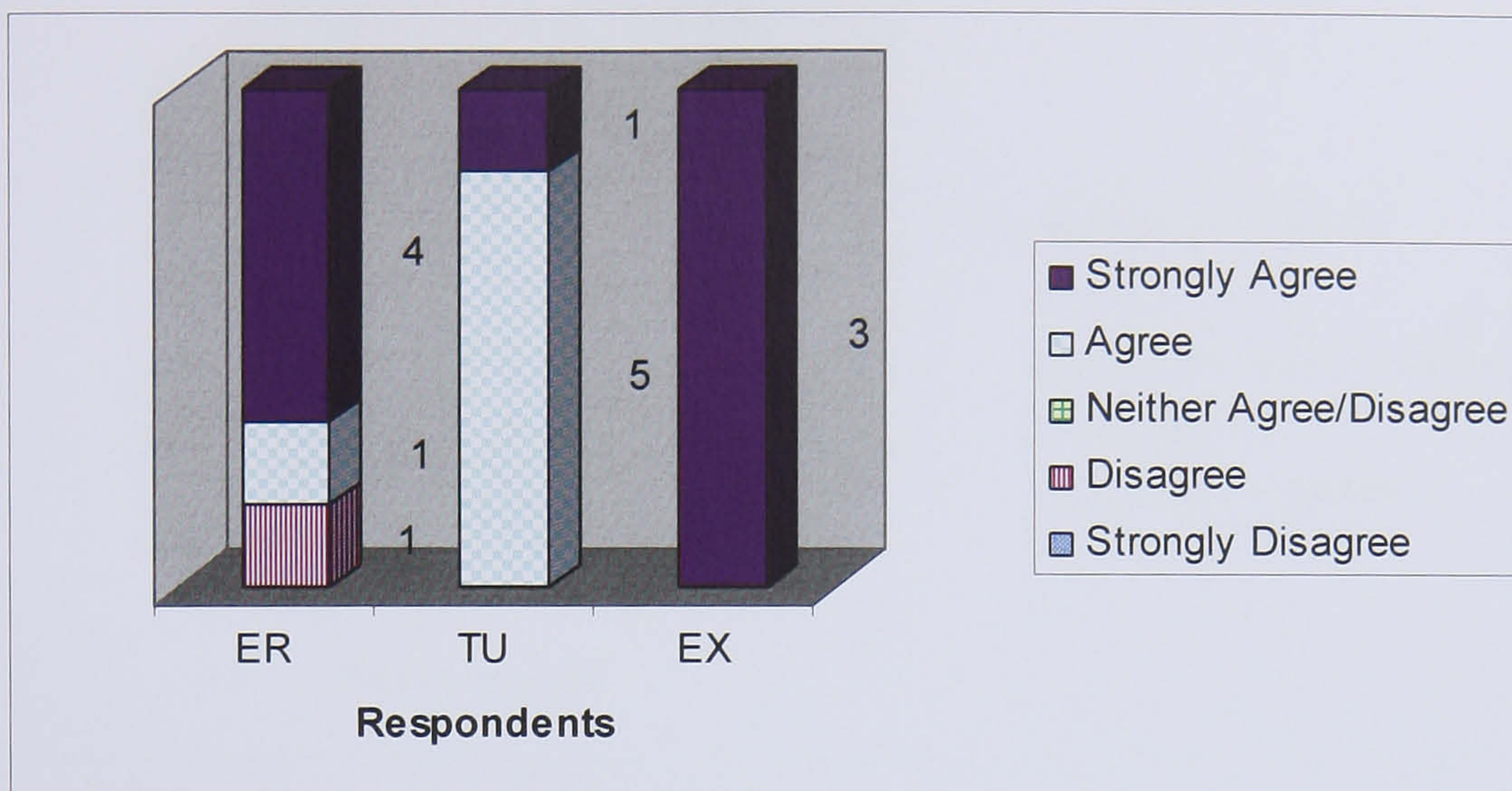
extensive process. This indicates that consultation could be dominated by better funded interest groups.

“It’s really been huge in terms of time commitment. My two-year term is due in May and I have absolutely no one stepping forward, no one is volunteering. I know it is because of the time required. When you are in private practice, you are not getting any money when you are sitting at a table revising this stuff”. (HCP1)

The health care providers, members of the WCB Liaison Committee, are selected by their associations to represent their members in negotiations with the WCB regarding services and fees. Health care providers are self-employed and, consequently, when they attend liaison meetings they are unable to see clients. They attend these meetings on a volunteer basis and are not reimbursed for their time. This is a factor which organizations need to consider when establishing a consultation process.

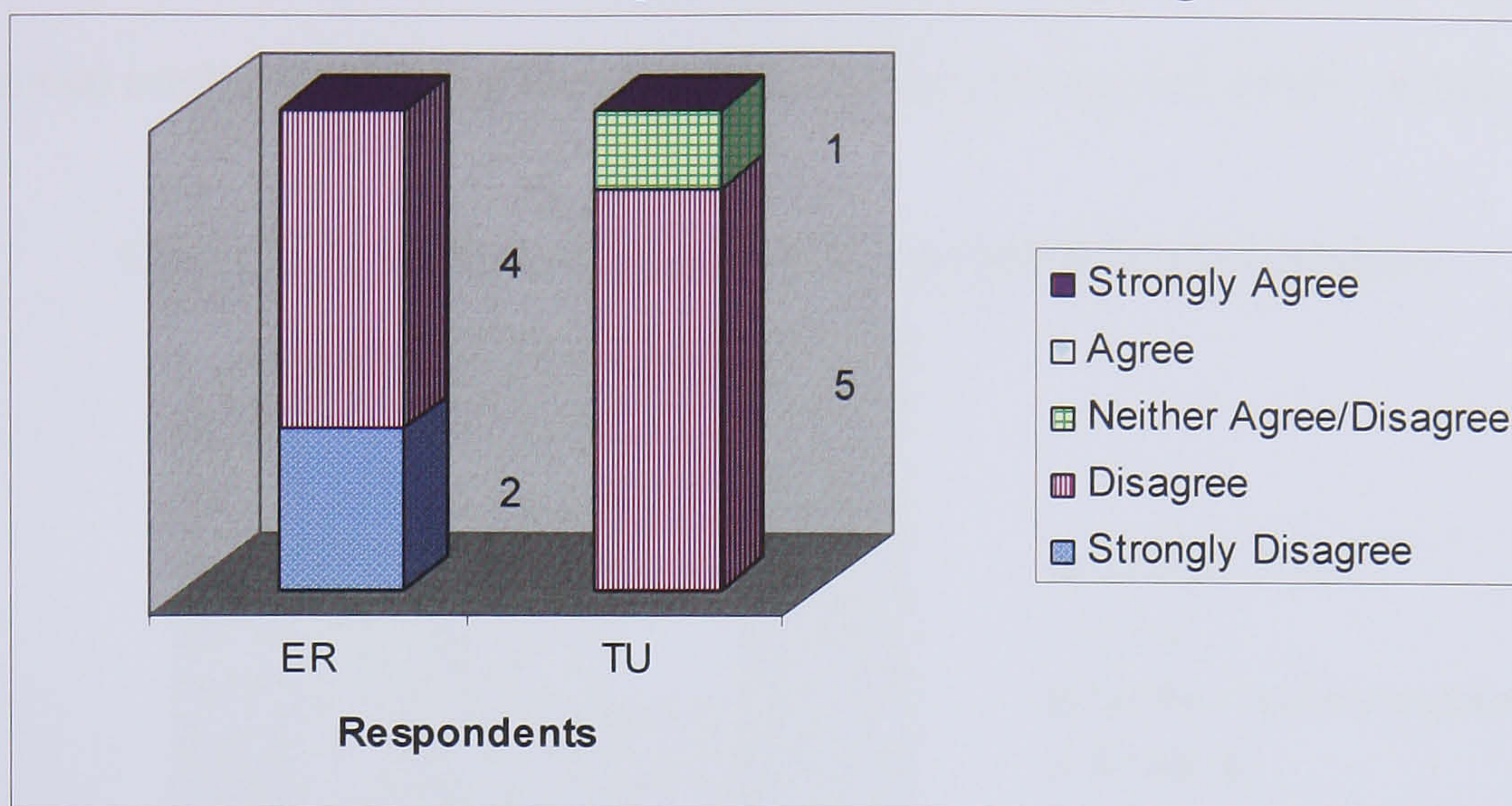
One of the key outcomes of an effective stakeholder consultation process is a collaborative approach in selecting performance indicators to be included in an accountability model. In the case of WCB there is strong support for a collaborative approach, as indicated in the following chart. It shows strong support among employers (one agreeing and four strongly agreeing), and unions (five agreeing and one strongly agreeing). In response, WCB executives are in total agreement with the importance of having a collaborative approach to identify performance indicators. Although it is very encouraging that the WCB executives totally agree with the concept of collaboration, they did not use this approach when the strategic plan performance indicators were chosen. This total agreement with the importance of collaboration, therefore, is not always applied in their actions.

**Chart 7.9: Collaborative Approach to Develop Performance Indicators
Main Stakeholders Compared With WCB Agency Executives**



Source: Semi-structured interviews

Since collaboration is heavily reliant on the round table participants being representative of the underlying population, it could be argued that the meetings should be open to the public rather than 'by invitation only'. However, the following chart shows there is virtually no support for this idea: two employer respondents strongly disagree and four disagree while five union respondents disagree. Currently, only representatives from the unions and employer associations (highly salient stakeholder groups) are invited to attend the round table meetings. These participants represent the interests of their memberships but, as discussed earlier in the chapter, there may sometimes be insufficient communication between the round table participants and their stakeholder group members, thus limiting the effectiveness of the meetings.

Chart 7.10: Open Round Table Meetings

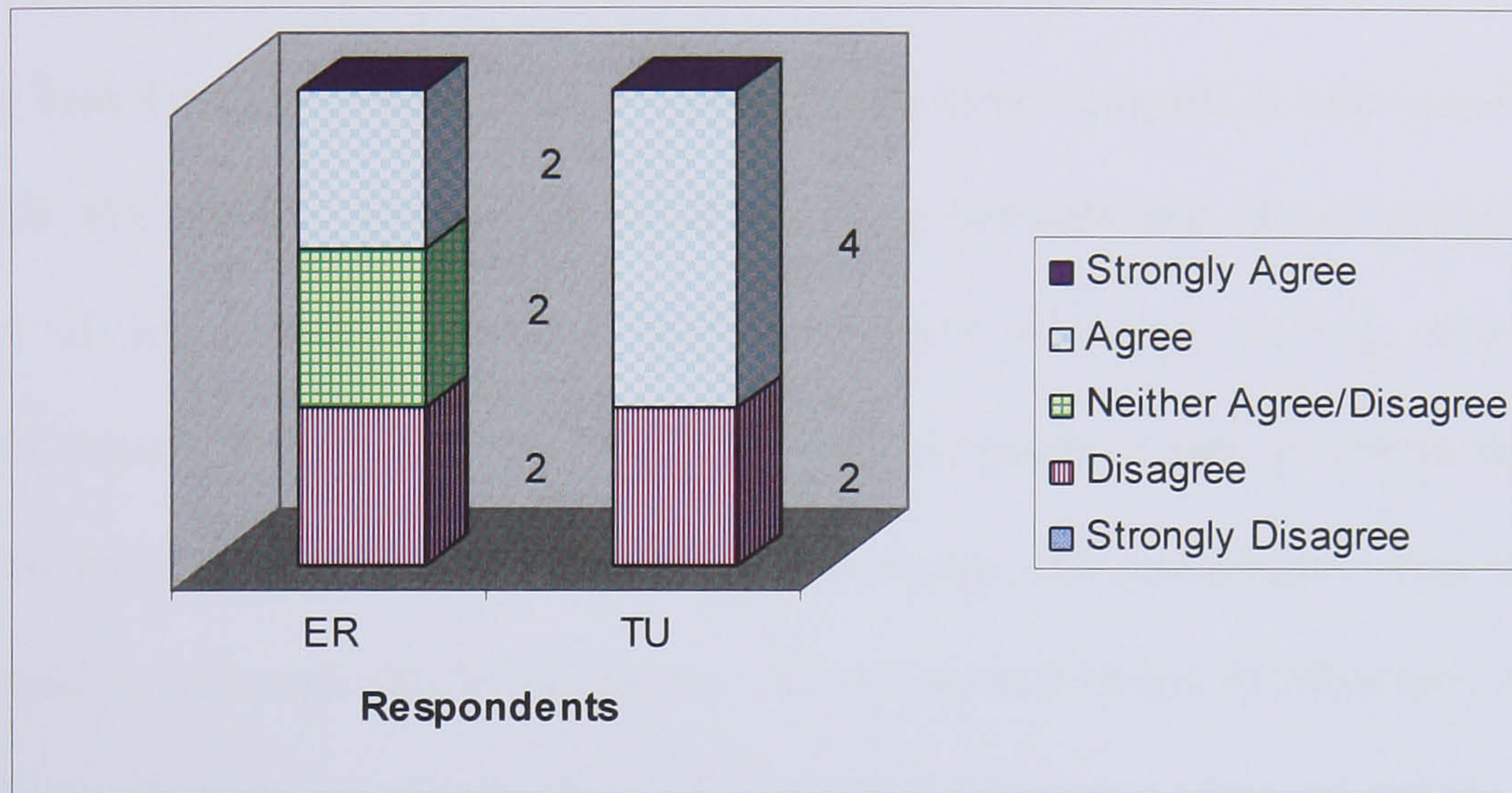
Source: Semi-structured interviews

It is possible that this response could be biased because the stakeholder group representatives likely believe they are adequately representing the needs of their membership. Consequently, they may not perceive a need for the membership at large to attend the meetings. Rather, the membership should lobby their representatives to ensure their issues are raised during these round table meetings.

Public sector accountability generally requires ensuring adequate consideration of all legitimate stakeholders. Consequently, the issue of more regional representation at the round table meetings is explored. As depicted in the following chart, two employers agree with the idea of regional representation compared to the support of four trade union interviewees. Two employer respondents (ER3 and ER5) claim that it would be extremely costly to move these meetings to various locations around the province since most participants are located in the St. John's area where the meetings are currently held. It could be argued that the stakeholder representatives must ensure they are aware of their members' needs in all regions of the province. Moreover, the stakeholder groups could also consider rotating their round table representatives periodically to ensure

regional representation. These alternate suggestions may be attributed more to financial implications rather than to lack of interest in regional representation.

Chart 7.11: Increased Round Table Regional Representation



Source: Semi-structured interviews

In public sector organizations, it is typically the senior executives, government and Board of Directors who are held accountable. However, in the case of the WCB, there has been an increase in the responsibility of the employers and unions, as funders and beneficiaries, to take an active leadership role to help the agency forward to financial recovery. In 2001 the Newfoundland government appointed a Task Force to review the WCB because it was facing a serious financial situation. The Task Force replaced the usual Statutory Review process as described in Chapter 1. It was comprised of Board members, whereas the Statutory Review would normally be comprised of non-Board members, appointed by government to represent the interests of all stakeholders. One of the main outcomes of this review was the recognition that stakeholders need to take a collaborative approach with the agency in order prevent its financial collapse, as the report noted:

“What we heard is a call for a fundamental change in how all of us collectively interact, participate and manage the workers’ compensation system. Stakeholders recognized that only by working together can the system be effectively turned around and sustained over the longer term. ... There is now a realization that it’s OUR system (employers, workers and the WCB). It’s not just the WCB’s system. It’s all of ours to make or break.”
(Changing the Mindset: Task Force Report on the Workers’ Compensation System, February 16, 2001, p. 4).

The Task Force recommended a number of bold steps designed to help sustain the WCB. For the first time in the WCB’s history, business and labour agreed to a plan of action that involved a significant level of safety training, employer participation in early and safe return to work programs, a new premium regime based on each employer’s claims cost experience and compliance with safety programs. Although the WCB agency executives and Board of Directors, along with government, are responsible and accountable for the agency, all stakeholders have a role to play. Clearly, highly salient primary stakeholders, employers and workers, are now expected to play a pivotal role in prevention, safety and return-to-work programs. The Task Force recommendations mirror Steps 9 and 10 (collaboration and partnership) on Friedman and Miles (2006) Ladder of Stakeholder Management and Engagement. These are the highest steps appropriate to manage the relationship between a public sector agency and its stakeholders, since Steps 11 and 12 are under the domain of government.

When the Task Force conducted its review of the WCB in 2001, they solicited input from all stakeholder groups in recommending changes and in setting the direction of the organization. The importance of soliciting stakeholder input was recognized by a WCB executive who stated:

“We also have to look at the measures that we’re capturing in our Balanced Scorecard to make sure that they are relevant to our stakeholders. We would have to consult with our stakeholders. It would have to be more round table type sessions, but more focused”
 (EX1).

However, when the WCB developed performance indicators to evaluate these changes, a collaborative approach was not taken. Instead, the performance indicators were selected by the agency. Therefore, there appears to be a gap between stakeholder expectations and the approach adopted by the agency. Overall, the WCB has only partially moved up to the highest levels (negotiation and collaboration) on Friedman and Miles' stakeholder management ladder. At best, the agency has achieved Step 5, with most of its efforts directed in the area of round tables and ad hoc consultation. The Task Force and Statutory Review are considered as Steps 9 and 10 (collaboration and participation), but the lack of collaboration in selecting the performance indicators seems to indicate that Steps 9 and 10 are not fully achieved. Even though the WCB partially attains Steps 9 and 10 through the Task Force and Statutory Review processes, these consultative initiatives occur only every five years, thus limiting their usefulness in providing timely feedback and input.

The relationship between the agency and government plays a critical role in the accountability process (EX2 and EX3). The level of concern expressed by respondents regarding this relationship may be attributed to apparent government dissatisfaction. For example, in the past five years, government has appointed two successive CEO's and three Board Chairs. Frequent changes in CEO and Board Chair positions are not a new phenomenon. In fact, in the last 20 years, the Newfoundland WCB has had seven CEO's and five Board Chairs.

The CEO position is recruited by the Board through a public competition, with the candidate approved by government. Although the CEO is appointed for a five-

year term, which is subject to extension, to date none of the CEO's contracts have been renewed. These frequent changes are sometimes the result of a change in government, a change in Ministers, or concerns with the WCB's financial viability. These frequent changes at the senior level undoubtedly impact the relationship of the WCB with its stakeholders, as discussed in Chapter 2, since each CEO and Board Chair brings distinct views of accountability (Sinclair, 1995). These frequent changes also impact the organization's accountability arrangements as the views of CEO's and public servants influence their organization in fulfilling its stakeholder accountability obligations (Sinclair, 1995; Gagne, 1996). These frequent changes may impede the agency's ability to form meaningful relationships with primary stakeholder groups. This is an issue which government needs to consider in its relationship with various agencies.

7.4 WCB Staff

The WCB staff members are considered primary stakeholders who play an integral role. Since their issues pertain to their employment relationship with the agency, a separate interview instrument is employed and the responses are presented in the following sections. As moderately salient primary stakeholders, the WCB staff members' views identify the information which they would like to have compiled. This information could be provided to staff through an internal report. As illustrated in the following table, while both the Human Resources Department (HR) and the WCB staff union (WCBSU) would like information on employee turnover, retention rates, skills shortages and promotions, this information is not provided:

Table 7.5: Recruitment and Retention Information

Performance Measures	WCBSU Response	HR Response	Reported by WCB
Employee turnover	Y	Y	N
Retention rates	Y	Y	N
Number of applicants per job posting	Y		N
Levels of skills shortages	Y	Y	N
Number of employees promoted	Y	Y	N
Remuneration policies			Y
Introduction of new area of business		Y	N

WCBSU – Workers’ Compensation Board Staff Union; HR – Human Resources Dept.

The union lack of interest in remuneration information is likely due to the fact that they have all bargaining unit salary information in their collective agreement and management salaries are disclosed in job postings. Notably, the WCBSU appears to be satisfied with the level of remuneration. The WCBSU is interested in the number of applicants per job posting; this information is available and could be provided to the union.

Most information desired by HR and WCBSU is readily available, with the exception of a new area of business related to the transfer of OHS (prevention and training) from the provincial government (Department of Labour) to the WCB. This transfer brought an entirely new function to the WCB and the integration of staff from two organizations. Further, since the transfer of this function to the WCB, the HR Department has experienced considerable difficulty in recruiting and retaining staff in this area. This may account for the HR Department’s interest in gathering more information on the impact of this organizational change.

As indicated in the table below, the HR Department and the WCBSU are interested in the annual number of training days and the number of leadership/career development courses taken by staff members.

Table 7.6: Training and Development Information

Performance Measures	WCBSU Response	HR Response	Reported by WCB
Number of training hours/days	Y	Y	Y
Number of course taken	Y		N
Number of staff denied course reimbursement			N
Number of leadership/career development courses taken	Y	Y	N
In-house training seminars (especially for management)		Y	N

The WCB publishes the number of training days per person in the BSC section of the annual report, but it does not report information on leadership/career development courses. The HR Department indicates that information on in-house training seminars would be useful, particularly for management. Information on these three topics is tracked by the HR Department. There is no interest in the number of staff denied course reimbursement, and this may be attributed to the fact that nearly 100% of courses taken are reimbursed.

The following table depicts the types of information of interest regarding employee morale and motivation:

Table 7.7: Employee Morale and Motivation Information

Performance Measures	WCBSU Response	HR Response	Reported by WCB
Employee feedback results (survey)	Y	Y	Y
Absenteeism	Y		Y
Level of employee engagement			N
Performance goals and periodic review		Y	Y
Exit interviews	Y		N
Factors which contribute to current negativity		Y	N

The HR Department and the WCBSU express interest in the level of staff satisfaction. A survey is conducted annually by an external research company, and the results are published both internally and externally in the BSC section of the annual report. Included also are absenteeism rates and the number of staff performance reviews completed. There is no interest on the part of either group in the level of employee engagement. The WCBSU indicates that summary information from exit interviews would be beneficial. Since the HR Department conducts exit interviews, this information could be provided. Meanwhile, the HR Department indicates that they would like information on the factors which contribute to current staff negativity. It could be argued that some of this information exists in the staff surveys and the feedback derived from the exit interviews.

The WCB does not report workforce profile information. As reflected in the following table, the WCBSU is interested only in seniority information while the HR Department indicates that statistics regarding the number of employees with degrees, professional qualifications and years of experience in the various departments would be useful.

Table 7.8: Workforce Profile Information

Performance Measures	Union Response	HR Response	Reported by WCB
Number of employees with university degrees		X	N
Number of employees with professional qualifications		X	N
Seniority	X		N
Years experience with organization and in a particular position or department		X	N

When asked about the type of information that prospective employees may find helpful, the HR Department indicates the following information would be beneficial:

- a) Four-year HR plan (the WCB planned staffing reductions due to organizational and technological change)
- b) Training programs
- c) Hours of work (flex-time, compressed work schedule, family leave, sick leave)
- d) Job classification process (how positions are rated for salary purposes)
- e) Benefits (health, dental, long-term disability)

Given the WCB's financial challenges, the future viability of the organization concerns the staff union. This concern is not unexpected since organizations, when faced with financial difficulty, tend to reduce staffing levels as a cost reduction measure. Historically, the WCB has responded to financial crises by reducing benefits to injured workers, increasing premiums for employers and freezing staff salaries rather than resorting to staff layoffs. Since administration costs, including staff salaries, represent only 20% of the WCB's operating cost, staff layoffs would not make a significant financial contribution.

When exploring the issue of staff health and safety, the HR Department claims that staff members do not know enough about health and safety. So more training is necessary. Conversely, the WCBSU does not share this opinion and claims the organization is proactive in health and safety. The WCBSU claims that programs are piloted among employees before introduction in other workplaces. The wide

variation in the HR and WCBUS views on employee health and safety may be explained by the level of injuries sustained by WCB staff. The HR Department seems to attribute staff injuries to a lack of knowledge about health and safety practices rather than to working conditions. The HR Department's view may be misguided since a significant number of staff members perform repetitive duties such as typing and scanning, so they are prone to repetitive strain injuries.

When asked about the WCB demonstrating accountability, not surprisingly, the WCBSU representatives associate accountability with financial controls rather than with service delivery. This focus on financial accountability may be attributed to the WCB's emphasis in recent years on addressing its poor financial performance. This attitude is expressed in the following:

“...accountability means we're the keepers of the organization. Employers are paying us money, claimants are having accidents, we have to ensure that everything is in order before we dispense any money or before we take any money in” (WCBSU).

As hypothesized in Chapter 4, the WCBSU views injured workers and employers as the most salient stakeholder groups. This supports Mitchell et al's (1997) salience framework, whereby certain stakeholders are viewed as more important or salient than others.

“We [WCB staff] are accountable to everyone...injured workers, employers, government...we're accountable to every stakeholder that deals with the WCB. There is a pecking order of accountability... first and foremost is the injured workers. Then the pecking order falls to employers because the employers pay the bill. Then last but not least we [WCB staff] are on the bottom. When it comes to WCB staff, we are the low man on the totem pole. We have to accept that...there is not a whole lot we can do about it, the pecking order is the pecking order and it has always been that way”. (WCBSU)

The staff union appears to accept that they are not the most salient stakeholder group. This view seems to be shared by the WCB executives as they place more emphasis on the informational needs of employers and unions than on needs of its own staff members.

7.5 Governance and Audit

Since responsibility for the workplace injuries insurance program has been delegated to the WCB, it is incumbent on government to play an oversight role to ensure the agency fulfils its accountability obligations. As a public sector agency, it is essential that the WCB adhere to a high standard of governance. The importance of governance is illustrated through three mechanisms to ensure that the needs of stakeholders are met: Statutory Review, appeals bodies and the Board of Directors.

The Statutory Review is the main mechanism currently utilized for a broad based independent evaluation of the WCB and is regarded as an excellent accountability tool (EX1 and EX3). This process enables all stakeholders to provide government with input regarding changes that should be made to the agency. In the event stakeholders believe they are not adequately represented by their stakeholder group or Board representative, this affords them the opportunity to make their views known.

Injured workers and employers may also avail of an external appeals body if they disagree with a decision of the WCB agency. This external appeals body is comprised of Review Commissioners appointed by government. Their decisions are final and must be implemented unless the agency applies to the courts for a judicial review. This recourse is used only in exceptional circumstances when the agency believes the Commissioner erred in interpreting the WCB legislation.

In addition to the appeals mechanisms, three union respondents (TU2, TU3 and TU4) claimed that another level of an independent review, such as an Ombudsman, would be beneficial. This suggests that some stakeholders do not believe that their appeals are given adequate consideration. This illustrates a perceived gap in the organization's ability to provide stakeholders with an adequate level of independence in appeals. It could be argued that if the stakeholders perceive the appeal process to be a fair and unbiased, then an additional independent review in the form of an Ombudsman would not be needed.

The Board of Directors is one of the chief mechanisms through which the WCB's accountability obligations are met. The Board of Directors is comprised of three employer representatives, three union representatives, three public representatives and the Deputy Minister of Labour. This structure is intended to strengthen accountability by ensuring that the key stakeholder groups are represented. One employer expressed concern with how government selects Board members and, in turn, how the Board represents their constituents (ER4). In response, a WCB executive also shares this viewpoint.

“If government was prepared to leave...the identification of potential board members up to the various stakeholder groups and let them nominate their representatives, I think the Board would be more effective. And have government pick from a list of nominees prepared by the Employers' Council or Canadian Federation of Independent Business. I think that the system of political appointees doesn't necessarily give you the best people on the Board.” (EX1)

Although the oversight role of government in appointing Board members is outside the scope of this study on accountability of the agency, it is a crucial underlying component of an effective accountability arrangement. Respondents are concerned with the accountability of the Board of Directors to the

stakeholders, owing to government's political appointment of its members. It is incumbent on the government to have a governance process which meets the accountability needs of the primary stakeholder groups. Government is obliged to ensure such appointments reflect the accountability needs of the agency's stakeholders. One WCB executive claims this could be accomplished by government soliciting suggestions for Board candidates from the employer and union stakeholder groups.

One employer interviewee expressed concerns about the lack of consultation between the Board members and their constituents:

“There seems to be some disconnect in employers feeling they're really linked to the Board in terms of representation...one would think that as an employer, the employer Board members would be contacting me on a quarterly basis...to ask my views on matters. I know some consultation takes place through the Employers' Council, but we've never been contacted by the employer representatives on the Board. You can ask some employers who their representatives are on the Board, they wouldn't know.” (ER4).

The governance of a public sector agency may be viewed as Steps 11 and 12 (delegated power and stakeholder control) on Friedman and Miles' (2006) stakeholder management ladder. Only government, not the agency, has the power to delegate authority to stakeholders to control the organization. Government determines the Board structure, appoints the Board members and Chair and approves the appointment of the CEO. Since the structure and operations of the Board are under the purview of government, not the WCB agency, this is outside the scope of this research. The focus of this study is on how the agency can be accountable to its stakeholders, not on how government establishes the governance structure of such agencies.

Public sector entities rely on external audits to enhance the credibility of their financial reporting. It must be recognized that the audit itself does not demonstrate accountability; rather, it adds credibility to the account and thus enhances the value of the account. The WCB annual audit is conducted by commercial auditors and attests only to the validity of the account. Although the Auditor General's scope is broader, his role does not currently include accountability; rather, the focus is on compliance with legislation. Some stakeholders may place undue reliance on the audit to confirm/verify that the agency is meeting its accountability obligations. An audit provides the public with a level of assurance that it is meeting its financial stewardship expectations and legislative obligations. Within public sector entities, there is a further debate regarding the use of the Auditor General versus commercial auditors.

The WCB stakeholders express a fairly wide range of views regarding the external auditor's role. While the role of Newfoundland's Auditor General is restricted to performing an attest audit and a review of compliance with legislation, three employer respondents would like to see this role expanded to include program evaluations, BSC reports and statistics. There is a strong perception in the employer community that the WCB's evaluation of a program or initiative takes the form of 'we think it is a good idea' (ER1, ER3 and ER4). Therefore, an independent audit of program evaluations would provide stakeholders with greater confidence in the results. One union respondent claimed that the Auditor General, as an arm's length organization, should play an impartial role in the analysis of government agencies (TU1). According to the Auditor General's Office, they do not perform value-for-money or comprehensive auditing, nor do they audit

statistics; rather they focus on legislative auditing (GV1). In response, a WCB executive concurs with the need for independent verification or audit of statistics.

“I think there still might be a tendency (not that numbers would be deliberately manipulated) for people to put their own spin on the results. So I think we need to have some standard...independent review of the statistics. It is something that could be done either by the internal audit or by the external auditor. It is very similar to what the public companies are going through with respect to CFO and CEO certification of the financial statements, and the information contained in the financial statements.” (EX1)

The research indicates that stakeholders expect a more comprehensive audit than just an attest audit. For example, one employer respondent (ER4) indicates that they would like to have the BSC results audited, but Newfoundland’s audit does not extend to the BSC. Indeed, only one WCB jurisdiction has its performance indicators audited. The lack of audited performance indicators presents difficulties in terms of the level of reliance which stakeholders can place on unaudited performance results. Two employer interviewees would like to have the WCB’s various programs formally evaluated from a cost-benefit perspective (ER3 and ER4). A government interviewee preferred that the Auditor General conduct the attest audit owing to a perception that a private sector audit can be manipulated since it is paid for by the WCB (GV2). Consequently, there are two audit issues which the WCB needs to address: (1) stakeholder interest in having the BSC indicators audited and (2) the perception that an audit conducted by the Auditor General rather than commercial auditors provides a greater degree of accountability to stakeholders. It appears that accountability would be enhanced if the Auditor General conducted the attest audit and also verified the BSC results and other statistics.

7.6 Conclusions

This chapter highlights the views of primary stakeholders concerning the mechanisms of accountability and stakeholder reporting. The information gathered through the interviews provides valuable insight into the factors to be considered in designing a public sector accountability model. The research found that the major mechanisms of accountability are comprised of two elements: (1) provision of meaningful performance information and (2) stakeholder involvement in the accountability process.

As with most other organizations, the financial statement information only partially addresses stakeholders' accountability needs. Employer associations and trade unions expect greater non-financial performance outcome information. In spite of the increased accountability expectations of its funders (employers) and beneficiaries (injured workers) for explanations of significant inter-jurisdictional performance variances, the WCB rarely provides this type of comparative information. Rather, it provides comparisons of actual results to preceding years or to pre-determined targets for selected KSMs.

The overriding theme of stakeholders' responses centres on the provision of information as vital in demonstrating accountability. Stakeholders view the simple dissemination of information as insufficient. Instead, the WCB is expected to ensure that the information is easily understood, that stakeholders' input is solicited, and that only essential information is disseminated.

The research indicates that a stakeholder reporting model should not exclusively rely on the annual information. Rather, it should also emphasize quarterly reporting of non-financial dimensions. The research also suggests that the model include realistic targets and inter-jurisdictional comparisons. Stakeholders would like to have the strategic plan targets set at a reasonably challenging level (and updated as they are met) and to be provided with inter-jurisdictional comparisons.

The research reveals that stakeholders would like to have more involvement (Step 8 of Friedman and Miles' Ladder of Stakeholder Management), whereas they believe they only had reached Step 5 (placation). This suggests that a stakeholder reporting model must move beyond mere placation (Step 5) towards Steps 8 and 9 (involvement and collaboration). Only then are stakeholders likely to accept that accountability has been fully achieved. Public sector agencies need to be aware that merely holding round table meetings does not necessarily constitute consultation and two-way communication. These research findings show that an effective stakeholder accountability model needs to encompass stakeholder participation in the development of the strategic plan and selection of key performance indicators and targets. Ideally, a stakeholder reporting model would include feedback from a broad base of primary stakeholders rather than rely on one or two highly salient primary stakeholder groups. Stakeholder involvement would assist the agency in ensuring its financial and performance reporting meets stakeholder needs.

The next chapter presents a stakeholder reporting model which may be used to address the needs of the primary stakeholders of the WCB agency.

CHAPTER 8: STAKEHOLDER ACCOUNTABILITY MODEL

8.0 Introduction

This chapter introduces the multi-dimensional WCB stakeholder reporting model comprised of financial and non-financial reporting combined with stakeholder consultation. The primary WCB stakeholders and their stakes or needs are identified. The reporting model is developed through linking Stewart's (1984) Ladder of Accountability and Friedman and Miles' (2006) Ladder of Stakeholder Management and Engagement.

8.1 Stakeholder Reporting Model – Public Sector Agencies

The proposed reporting model is comprised of three strands: stakeholder identification and classification, stakeholder needs assessment and stakeholder management. The objective of this model is to enhance how public sector agencies demonstrate accountability to stakeholders. It illustrates the importance of not only providing financial and performance outcome information, but also the need to adopt a stakeholder management style which actively encourages and facilitates the involvement of stakeholders in the agency. The level of involvement goes beyond conducting surveys and soliciting feedback on ideas and plans proposed by the agency. Rather, the stakeholder management approach proposed under this model enables stakeholders to submit their own ideas and proposals to the agency. As explained in Chapter 9, this stakeholder reporting model may be used by WCB agencies in Newfoundland as well as other jurisdictions and is transferable to other public sector agencies such as health care boards, school boards and hydroelectric crown corporations. The utilization of this model is expected to improve accountability to stakeholders of public sector agencies.

8.1.1 Stakeholder Identification and Classification

The first major theoretical underpinning for this model is a narrow view of stakeholders which is informed by Clarkson's (1995) definition: persons or groups that have or claim ownership, rights or interest in an organization which may be legal or moral, individual or collective. According to Mitchell et al (1997), scholars who prefer a narrow definition of stakeholders are those searching for a normative core of legitimacy that enables managers to focus on the claims of a few legitimate stakeholders. This supports the underlying premise of this model: that managers should focus on the accountability needs of its most salient stakeholders. The narrowing of stakeholders is based on the premise that an agency cannot be everything to everyone. Thus, by concentrating on the most salient stakeholders, the agency may identify and meet their needs. This narrow view of stakeholders is considered in the context of the public sector which has by definition, considerably wider stakeholder groups than commercial stakeholders who are primarily concerned with investors and creditors.

Having chosen a narrow view of public sector stakeholders, this study adopts Clarkson's (1995) typology to classify stakeholders as primary or secondary. This typology defines primary stakeholders as those whose continuing participation in the corporation is essential for its survival. As illustrated in Chapter 2 the primary stakeholders for the WCB agency are employers, (potential) injured workers, government, WCB staff and health care providers. These groups are all essential for the continued operation of the WCB. Secondary stakeholders are described as those who can influence or effect or are influenced or affected by an organization,

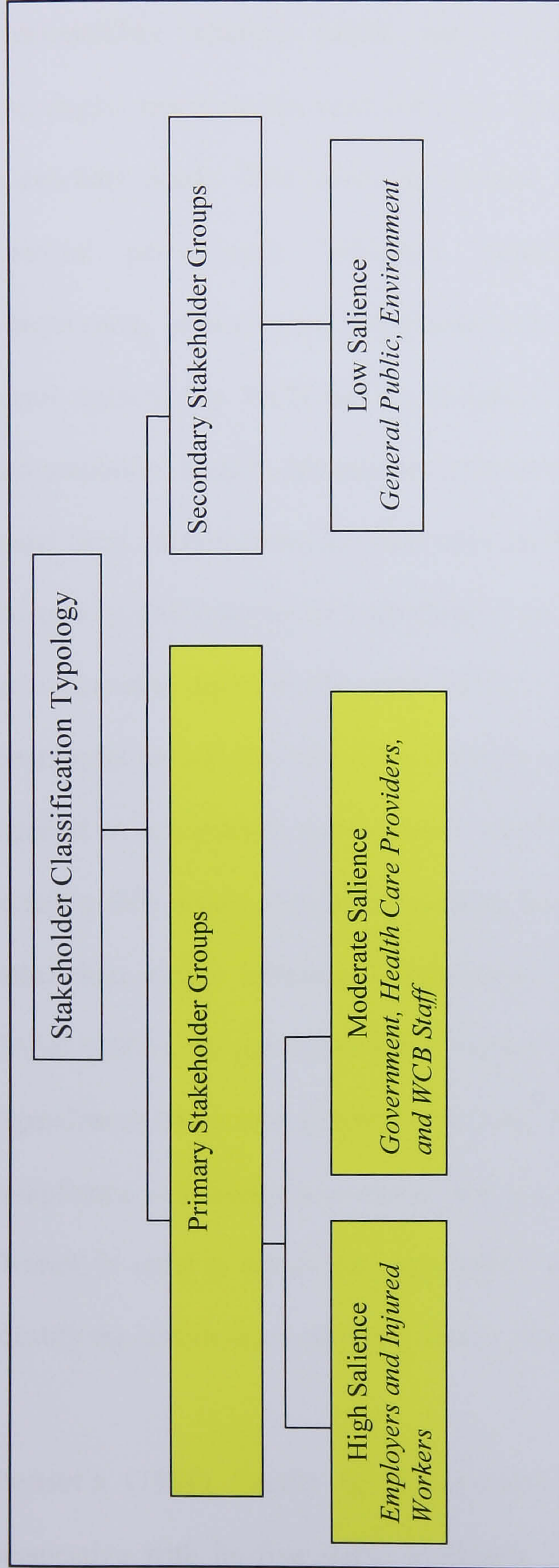
but are not critical for its survival (Clarkson, 1995). In the WCB example, the general public and environment are secondary stakeholders and thus excluded from this study.

In developing a model to demonstrate accountability, it is important to make the accountability process more manageable, this can be accomplished by assigning individual stakeholders to related groups. According to Clarkson (1995), stakeholders who have similar interests can be classified as belonging to the same group. In this case study, individual employers are represented by employer associations, (potential) injured workers by trade unions, WCB staff by their union and HR Department and health care providers by their respective associations. The assignment of individuals to groups facilitates communication and consultation with stakeholders. However, a major risk with reliance on stakeholder groups is that they may not be effective representatives of the underlying individual stakeholders. For example, the groups could portray their personal views to the focal organization rather than the perspectives of their constituents, they may not effectively consult their members or they may not disseminate essential information to their constituents.

The final step in narrowing the groups of stakeholders is to identify their relative importance (or salience). This can be accomplished through the application of Mitchell et al's (1997) stakeholder salience framework. As depicted in Chapter 4 (Table 4.3), all WCB primary stakeholders meet the criteria of moderate or high salience. The salience criteria are based on stakeholder attributes of power, legitimacy and urgency. Stakeholder groups displaying all three attributes are

classified as highly salient while those with only two attributes are moderately salient and those having one attribute are described as having low salience. In this case study, those exhibiting only one attribute are considered to be secondary stakeholders and are, therefore, outside the scope of this research. It is suggested through this research study that only those in the high and moderate salience categories within primary stakeholder groups be considered in order to effectively manage the accountability process. Since public sector agencies have many stakeholders with often conflicting multi-dimensional needs, it may be advantageous to focus on the needs of the most salient groups rather than attempt to respond to all groups. This stakeholder classification typology is depicted in Figure 8.1 on the following page.

Figure 8.1 Stakeholder Classification Typology



Note: the shaded areas refer to the accountability focus of the stakeholder model

8.1.2 Stakeholder Needs and Hypothesized Stakes

The second major theoretical underpinning of this model is a broad view of accountability whereby public sector agencies are expected to provide a meaningful report on the organization's financial condition but also meet further stakeholder needs. This wider perspective encompasses a broad array of non-financial performance indicators regarding service delivery, efficiency, effectiveness, consultation, communication and strategic planning. As a public sector agency, the WCB has an obligation to demonstrate more than financial accountability. It must demonstrate accountability to multiple stakeholders over a broad array of non-financial categories such as service, meeting the mandate of the agency, and stakeholder consultation and involvement. Public sector agencies are expected to report on the organization's financial condition in a manner that is meaningful for stakeholders. This research suggests that the financial condition be reported in accordance with industry specific accounting standards and include certain public sector accounting characteristics such as comparisons to budgets, rather than simply adhering to commercial accounting standards. According to GASB (2006), in government the budget is the main source of control over expenditures and is thus a public document. Demonstrating accountability through compliance with budgets is one of the key objectives of government reporting. Overall, in order to ensure that stakeholder reporting is relevant, it is necessary to identify the stakeholders and their stakes (needs).

Stewart's (1984) Ladder of Accountability forms the basis of this broad perspective with its five steps: legal/probity, process, performance, programme and policy. When examining the application of Stewart's Ladder of

Accountability to the WCB, it appears that probity and legality are discharged through the maintenance of records verified by the audit function. It is the responsibility of management to provide the account in a manner that can be confirmed. The process rung is addressed through statistical information. It is argued that the performance and programme rungs are addressed through the strategic plan and BSC. The fifth step, policy, is a vital aspect of accountability. In the case of the WCB, as well as in many other public sector agencies, high level policy is the responsibility of government. WCB policy is determined through the Minister's legislative responsibility which is largely met through the Statutory Review process and more recently the Transparency and Accountability Act. In response to pressure from stakeholders through the Statutory Review process, the Newfoundland government periodically amends the WCB Act to change benefit levels and revenue arrangements. While the WCB agency must adhere to government policy, it should be recognized that policy development is largely the responsibility of government. It is essentially excluded from this study since the research focus is on the accountability of a public sector agency, not on the accountability of government itself.

Certain public sector agencies that provide goods or services to citizens are classified by the CICA accounting guidelines as a government business enterprise (GBE). In the WCB example, this agency meets the criteria of a GBE as outlined in Chapter 5 and is consequently expected to adhere to commercial accounting guidelines. However, the WCB is also a public sector organization since it provides essential services which, arguably, may not be available at the same level or at the same cost in the private sector. It is essential that public sector agencies

such the WCB be held accountable due to their monopoly power. Since there is no market to ensure that employers' and injured workers' needs are met, this presents a strong case for a high degree of accountability.

Since financial reporting is the cornerstone of accountability, it is critical that a stakeholder accountability reporting model clearly identify the underlying accounting framework. When determining the accountability standards for a public sector agency, consideration should be given to the development of industry-specific standards where the existing standards are not appropriate. For example, the fair valuation of financial instruments may not be the best approach for the WCB since these assets are held for the long term. In this instance, the life insurance standards may be more appropriate since they value financial instruments on a moving average market (MAM) basis. While it can be argued that adoption of industry specific standards may appear non-compliant with the accounting standards, the conceptual framework actually allows for an industry to develop standards where they do not exist or where the existing standards do not meet the needs of stakeholders. In fact, there are two recent examples where the WCBs developed their own standards: adoption of the life insurance MAM valuation standard for long-term investments until 2004, and adherence to the life insurance standard of recognizing the liability for future administration cost.

The proposed stakeholder reporting model is based on the premise that if a public sector agency meets the criteria of a GBE and hence must comply with the commercial accounting standards, that these standards be adopted with the provision that in situations where the needs of stakeholders are not fully

addressed, industry-specific standards be developed. Despite the CICA's conceptual framework provision for accountants to use their professional judgment and modify commercial standards, it may be challenging to determine when the existing standards are lacking or do not meet stakeholders' needs. A disadvantage of modifying accounting standards to accommodate industry specific reporting is the possibility that public sector agencies may manipulate their financial results. Although the WCB agency is regarded as a GBE that is subject to commercial accounting standards, it is still a public sector organization and is therefore expected to demonstrate accountability to its stakeholders. One of the main vehicles to accomplish this is the provision of information beyond the financial statements to include comparisons to budgets, targets, and other jurisdictions as well as key performance outcome indicators.

The proposed model is based on the assumption that when commercial accounting standards have been adopted, the public sector agency should fulfil its wider accountability obligations by providing additional narrative and key performance indicators in a manner consistent with public sector accounting guidelines. Since public sector agencies should arguably be held to a higher standard of accountability than government departments, they must endeavour to ascertain stakeholders' informational and other accountability needs. To accomplish this, it is suggested that the focal organization undertake a two-way consultative process.

Carnaghan et al (1996) suggest that stakeholder interests and concerns can be summarized and described as their stakes. The following tables depict the stakes of the primary stakeholder groups. The specific performance indicators of interest

are discussed in Chapter 7. Before embarking on the development of a stakeholder reporting model, it is suggested that the public sector agency gain an understanding of its stakeholders and their stakes through a case study entailing open-ended questions, Likert scale questions and checklist questions. It is important to note that the concept of stake is not limited to performance indicators; it also encompasses how stakeholders view consultation issues along with financial and performance reporting mechanisms. Tables 8.1 – 8.5 (adapted from Carnaghan et al) on the following pages depict the WCB primary stakeholders and their stakes as ascertained through the interviews. The results are based on responses of interviewees from six employer associations, six unions, two government officials, two health care providers and two WCB staff representatives.

Table 8.1: Employer (Funder) Stakeholders and Their Stakes

Hypothesized Stakes	Hypothesized Accountability Criteria	Research Validation	Unmet User Needs
Minimize premiums	Funding position Average premium rate	5 in agreement 6 in agreement	Total cost Cost per claim Types of injuries
Reduce injuries	Injury frequency	4 in agreement	Number accepted Percentage appealed
Prompt return to work	RTW success rate ESRTW outcomes	5 in agreement 4 in agreement	Percentage on LTD ESRTW RTW
Operated efficiently and effectively	Reduce administration costs Total costs Cost per claim Number claims denied Percentage claims appealed	6 in agreement 6 in agreement 6 in agreement 5 in agreement 5 in agreement	Monthly billing Comparative referents Involvement Collaboration Two-way communication

*Legend: LTD – Long-term disability; ESRTW – Early and Safe Return-to-Work
RTW – Return-to-Work*

The WCB stakeholders and their hypothesized stakes are presented in Chapter 4, Table 4.4. Through this research study, these hypothesized stakes and

accountability criteria are analyzed. As depicted in Table 8.1, employer respondents agree with most of the hypothesized stakes and criteria. However, their preference for injury frequency (5 respondents) and outcomes for ESRTW (5 respondents) is somewhat lower than expected. The high degree of interest in funding position and assessment rate reflects stakeholder concern with the WCB's financial health. As indicated in Chapter 7, stakeholders indicate they do not place a high level of reliance on financial statements, but rather, depend on statistics and the BSC report. According to the documentary review, performance indicators are not provided for some of the validated accountability criteria: RTW, ESTRW, total costs, cost per claim, number of claims denied, and percentage of claims appealed. Overall, six of the ten (60%) accountability criteria desired by employer respondents are not provided by the WCB. Furthermore, as depicted in Table 8.1 there are several other areas where stakeholders' needs are not fully addressed: monthly billing, comparative referents, percentage of claimants receiving LTD, involvement, collaboration and two-way communication. Claims cost and monthly assessment information reflect the employers' stake of lower premiums; types of injuries, as well as number of claims accepted and appealed respond to their stake of reduced injuries; and the return-to-work stake is addressed by LTD and ESRTW indicators. According to this research, employer interviewees express a strong desire to be involved in the accountability process in terms of developing the strategic plan and targets along with other performance indicators. Employer respondents indicate that comparative referents to the Atlantic WCBs or national AWCBC statistics are considered more helpful than year-over-year actual results.

Table 8.2: Injured Employees (Beneficiary) Stakeholders and Their Stakes

Hypothesized Stakes	Hypothesized Accountability Criteria	Research Validation	Unmet User Needs
Rehabilitation and return to work	RTW success rate ESRTW outcome Duty to accommodate	5 in agreement 5 in agreement 6 in agreement	Number of claims denied Types of injuries Number accepted
Improved safety	Injury frequency	6 in agreement	Percentage appealed ESRTW
Operated efficiently and effectively	Reduce time to first payment Number of claims denied Number of claims accepted Percentage of claims appealed Funding position Administration costs	6 in agreement 6 in agreement 5 in agreement 5 in agreement 4 in agreement 3 in agreement	RTW LTD Comparative referents Involvement collaboration Appropriate strategic plan targets

As illustrated in Table 8.2, the research reveals that all six union respondents, representing injured workers, express a strong interest in injury frequency, time to first payment, duty to accommodate, number of claims denied while five union interviewees were interested in RTW, ESRTW, number of claims accepted, and percentage appealed. There is considerably less interest in administration costs and funded position. As depicted in Table 8.2, there are several areas where stakeholders' needs are not fully met. For example, although all six respondents indicate they would like information on the number of claims denied, and five would like performance indicators on types of injuries, RTW and percentage appealed, this information is not reported. In fact, six of the ten (60%) of the validated accountability criteria are not provided. Like the employer associations, trade unions are also interested in more relevant comparisons along with increased involvement and collaboration, particularly with the development of the strategic plan and targets.

Table 8.3: Government Stakeholders and Their Stakes

Hypothesized Stakes	Hypothesized Accountability Criteria	Research Validation	Unmet User Needs
Adherence to legislation	Audit opinion (Auditor General)		Transparency and Accountability Act (Strategic Plan)
Financially viable insurance coverage for employees and employers	Funding position Average premium rate Wage replacement rate Reduce administration costs		Compliance with WCB legislation
Minimize financial impact on other government social programs	Number of claims accepted Number of claims denied		

As displayed in Table 8.3, government interviewees do not express interest in any of the hypothesized accountability criteria but are primarily concerned with the Transparency and Accountability Act and the WCB legislation compliance. It appears that government defers decisions regarding the specific dimensions to be measured to the WCB agency. Government's relinquishment of operational control of the WCB correlates with their focus on the higher policy issues that can be addressed through legislation. To demonstrate accountability to government, the agency needs to focus on compliance with relevant legislation. Currently, there is no mechanism to ensure legislative compliance. Instead, verification of compliance with legislation is the responsibility of the Auditor General. This may be problematic since the Auditor General conducts only periodic audits every four to five years of selected accounts of the WCB agency. Consequently, the agency may need to consider expanding its attest audit to include legislative compliance.

Table 8.4: WCB Staff Stakeholders and Their Stakes

Hypothesized Stakes	Hypothesized Accountability Criteria	Research Validation	Unmet User Needs
Recruitment and retention	Employee turnover rate	HR and WCBSU agreement	Skill shortages Career development courses
Training and development	Number of training days	HR and WCBSU agreement	
Employee morale	Staff satisfaction	HR and WCBSU agreement	

The research shows that WCB staff members, represented by the Human Resources Department and the WCB staff union, are in agreement with the hypothesized accountability criteria. In addition, both the union and the HR Department express interest in having information on skills shortages and career development courses. Data regarding skills shortages enables the staff union to advise their members of possible areas for advancement and where they might wish to upgrade their skills and education. Both the HR Department and the staff union indicate an interest in the number of career development courses offered. This would supplement the information on the number of training days which is currently published.

Table 8.5: Health Care Provider Stakeholders and Their Stakes

Hypothesized Stakes	Hypothesized Accountability Criteria	Research Validation	Unmet User Needs
WCB as a revenue source	Funds available for health care providers	1 in agreement	Quality and efficiency of work; Amount spent on each health care category; Average number of treatments per claimant; Number of claimants participating in treatments; Amount spent on clinic based services
Maintain professional standards		2 in agreement	
Assist injured workers medically recover and return to work		2 in agreement on medical recovery aspect (not on return to work)	

One health care interviewee claimed her organization does not view the WCB as a revenue source. Instead, they are interested in information regarding any restrictions on the number of treatments they are entitled to provide to injured workers. Perhaps they perceive a focus on revenue as unprofessional. However, their concentration on treatments ultimately has revenue implications.

Both health care respondents agree with the importance of maintaining professional standards. Their emphasis is on professional medical conduct in the treatment of injured workers. They view accountability to the WCB as restricted to administrative issues such as invoicing and payments. At the outset of the research, it was hypothesized that one of their stakes would be assisting injured workers medically recover and return to work. However, both health care interviewees claimed they are interested in the medical recovery aspect, but they view return-to-work as the responsibility of the WCB. Again, the focus is on their professional responsibility to the injured worker, not on their accountability to the WCB.

Finally, the two health care interviewees indicated they would like to have information in the following five areas:

- a) Quality and efficiency of work;
- b) Expenditures on each health care category;
- c) Average number of treatments per claimant;
- d) Number of claimants participating in treatments;
- e) Amount spent on clinic based services.

Information regarding the quality and efficiency of health care providers' work is the only outcome based informational item identified. The WCB does not directly measure or monitor quality and efficiency; rather, the agency captures data on the number of claimants receiving treatments. One health care provider argued that simply providing raw data is not beneficial. Instead, they prefer to have more in-depth analysis by considering how the diagnosis of the injured workers might explain success or failure of the patients' return-to-work. The remaining four data categories are captured by the WCB and could be reported.

As illustrated in Tables 8.1 – 8.5, the research validates most of the hypothesized accountability criteria and identifies areas where stakeholder reporting needs are not fully addressed. The research found that although the WCB agency provides some of the information needed by stakeholders, there is opportunity for improvement both in the type of information reported and in the approach to stakeholder management and consultation.

8.1.3 Managing Stakeholder Needs

As discussed earlier, public sector agencies are responsible for managing the relationship with their primary stakeholders. This study argues that the broad view of stakeholder management that embraces both the agency executives and the stakeholder groups, as advocated by Friedman and Miles (2006) is appropriate for public sector agencies. It is suggested that public sector agencies endeavour to utilize the management tools on the higher steps of Friedman and Miles' (2006) Ladder of Stakeholder Management. As illustrated in Chapters 6 and 7, only when managers apply steps 6-10 on Friedman and Miles' Stakeholder Management Ladder do they tend to achieve the higher steps on Stewart's (1984) Ladder of

Accountability. In the case of the WCB, stakeholders view accountability as more than the agency disseminating information. Stakeholders want to be involved in the development and evaluation of the strategic plan and related targets.

Table 8.6 illustrates the proposed stakeholder reporting model for semi-autonomous public sector agencies. This model is essentially three dimensional in that it identifies and classifies stakeholders, links their main stakes to Stewart's (1984) Ladder of Accountability, and employs Friedman and Miles' (2006) Ladder of Stakeholder Management and Engagement method in managing stakeholder relationships. The proposed stakeholder reporting model illustrates the relationship between the accountability and stakeholder management ladders. This reporting model focuses on the stakes of its primary stakeholders. Emphasis is placed on employer associations and trade unions as highly salient stakeholders; a lesser degree of attention is placed on the moderately salient stakeholders: government, WCB staff and health care providers.

As discussed earlier, Tables 8.1 – 8.5 present the hypothesized stakes and related accountability criteria for each stakeholder group. The research validates most of these hypothesized stakes and identifies areas where user needs are not fully addressed. These research results are summarized and categorized along the corresponding rungs of Stewart's (1984) Ladder of Accountability and Friedman and Miles' (2006) Stakeholder Management Ladder in Table 8.6. As shown in this table, the stakes for each primary stakeholder group are summarized into main categories. For example, Table 8.1 shows employers' concern with minimizing premiums as measured through funding position and average premium rate, and

this is summarized and displayed in Table 8.6 as a main stake of financial viability on Step 1 (probity and legal) on Stewart's Ladder of Accountability. Similarly, employers' concern with prompt return to work, as reflected through RTW success rate and ESRTW outcomes, is included in Table 8.6 under Step 4 – Programme as a main stake of achievement of the agency's goals.

Table 8.6 Stakeholder Reporting Model

Accountability Ladder	Stakeholder Management Ladder	Primary Stakeholders	Main Stake	Form of Accountability	Method of Account	WCB Key Performance Indicators
1. Probity and Legality	1. Manipulation 2. Therapy	Employers (Injured) workers Government	Financial viability Legality	Financial reporting Compliance with legislation	Published annual report Periodic audits by Auditor General	Number of claims accepted Number of claims denied Percentage of claims appealed Investigation outcomes Percentage of claims successfully appealed
2. Process	3. Informing 4. Explaining	Employers (Injured) workers	Efficiency	Financial reporting, statistics, annual report	Published annual report	Types of injuries Time to first payment Number claims paid by employer Administration costs Total costs, cost per claim Cost by type of claim Period from acceptance to referral to case management
3. Performance	5. Placation	Employers (Injured) workers	Performance Outcomes	Financial reporting, statistics, annual report and BSC	Published annual report; Stakeholder round table meetings	Duty to accommodate Percentage claims resulting in LTD, Duration Average assessment rate
4. Programme	6. Consultation 7. Negotiation 8. Involvement 9. Collaboration 10. Partnership	Employers (Injured) workers Government WCB Staff Health care providers	Achievement of agency's goals	Financial statements, statistics, annual report, BSC and outcome based performance information, expanded narrative explanation, comparisons to budgets/other jurisdictions	Published annual report; Round table meetings; Satisfaction surveys; Ad hoc consultation	Return-to-work success rate ESRTW success rate Injury frequency
5. Policy	11. Delegated power 12. Stakeholder control	Government	Compliance with legislation	Statutory Review; Transparency and Accountability Act; Legislative changes; Policy changes; Appointment of Board of Directors	Public consultation by government Published BSC Periodic Auditor General Review	

Source: Developed from Stewart (1984) and Friedman and Miles (2006)

The proposed stakeholder reporting model is based on five underlying principles that emerge from this research study:

- 1) The model should be reviewed and updated on a regular basis to reflect changing environmental and operational conditions.
- 2) Stakeholder involvement and collaboration needs to occur more frequently than every three to five years when the strategic plan is developed. This involvement extends to stakeholders working with the organization to establish the strategic plan and targets and performance indicators.
- 3) Stakeholder representatives should be responsible to represent their membership, seek their constituents' input and disseminate essential information. The agency needs to be cognizant of potential risk of placing excessive reliance on the advice of one or two powerful stakeholder groups.
- 4) Government is expected to play an active oversight role to ensure the agency's targets are rigorous and its reporting mechanisms meet stakeholder needs.
- 5) Government is expected to exercise an accountability role by soliciting input from stakeholder groups when selecting the Board of Directors. Government is also expected to recognize the impact of frequent CEO and Board Chair personnel changes on the agency's accountability relationship with government and other stakeholder groups.

8.1.4 Aligning the Rungs

As stated, the stakeholder reporting model in Table 8.6 correlates Stewart's (1984) Ladder of Accountability with Friedman and Miles' (2006) Ladder of Stakeholder

Management and Engagement. The primary stakeholders with a stake or interest at each level on Stewart's Accountability Ladder are displayed, along with their combined main stakes. The main stakes identified in the model differ somewhat from the stakes depicted in Tables 8.1-8.5 because they represent the overall interests of all stakeholder groups associated with each rung on the Accountability Ladder. The form of accountability refers to the reporting mechanisms and stakeholder management style employed to demonstrate accountability for each rung of the Accountability Ladder. The method of account refers to the mechanisms utilized to demonstrate accountability such as the annual report. Finally, the performance indicators reflect the specific indicators and statistics that are desired by stakeholders. These key performance indicators are classified according to the relevant rung on the Accountability Ladder. As one moves up the rungs of both ladders, the accountability base and stakeholder management approach becomes wider and more complex. The following sections explain and justify how the steps on Stewart's Ladder of Accountability are linked with those on Friedman and Miles' Ladder of Stakeholder Management and Engagement.

Probity and legality with manipulation and therapy

As outlined in Chapter 2, Table 2.1, the probity and legality rung is concerned with fiscal accountability and legal compliance. This rung is of interest to the highly salient stakeholder groups (employers and trade unions) and moderately salient group (government). Accountability at this rung may take the form of audited financial statements and confirmation of compliance with legislation. The method of account is through the published annual report and legislative compliance, as verified by the Auditor General's report. In addition, the types of performance indicators employed at this step are concerned with fiscal

accountability (number of claims accepted and denied) and legality (investigation outcomes, number of claims appealed, and percentage of appeals won).

The stakeholder management approach suggested to address accountability for probity and legality is manipulation and therapy (Steps 1 and 2 of Friedman and Miles' Ladder of Stakeholder Management). Friedman and Miles describe this as largely a public relations exercise which relies on the most basic form of stakeholder management: corporate reports, newsletters and other publications. There is virtually no dialogue. In the case of the WCB, the agency influences or manipulates stakeholders' views of the organization by illustrating fiscal responsibility through audited financial statements. The therapy aspect is addressed through the non-financial information in the narrative section of the WCB annual report, aimed at convincing stakeholders that the agency is indeed meeting its fiscal and legal accountability obligations. In other words, the financial statements and the annual report are used in a 'therapeutic' fashion to cure stakeholders of the notion that the WCB may not be fiscally responsible. Legal compliance is addressed through the periodic audits conducted by the Auditor General. Friedman and Miles' stakeholder management techniques of manipulation and therapy are one-way communication tools comprised of financial statements and the annual report; these tools are sufficient to meet only Stewart's lowest level of stakeholders' basic needs, probity and legality.

Process with informing and explaining

The process accountability rung of Stewart's Ladder of Accountability emphasizes efficiency, adherence to procedures and effective administration. At

this level, stakeholders are seeking information, confirming that the agency is operating efficiently, and ensuring that all applicable procedures are followed. This rung is of interest to employers and trade unions, and their high level stake is efficiency. The form of accountability proposed for this rung is comprised of the annual report and statistics. The method of account is the publication and distribution of the annual report in hard copy format and through the web. The key performance indicators represent the type of data that should be included in the statistical section of the annual report.

The stakeholder management approach at the second rung is characterized as informing and explaining, which employs workshops and reports containing both good and bad news. Steps 3 and 4 (informing and explaining) of Friedman and Miles' Stakeholder Management Ladder are employed to disseminate information on various process indicators. This involves corporate statistics that are typically provided in the WCB's annual report, such as time to first payment, time from claim acceptance to case manager referral and cost per claim. This one-way communication tool is described by Friedman and Miles as informing.

The WCB uses its annual report and BSC information, distributed at its round table meetings, as the main mechanisms to explain its operational results from a process perspective. During the round table meetings, the agency's executives explain its results and progress towards achieving its strategic plan as reflected in the BSC report. The WCB also demonstrates accountability by explaining decisions and processes to independent third parties such as the Statutory Review Committee (which is appointed by government every five years to review the

WCB agency) and the external appeals body. These two-way communication tools characterize Step 4 (explaining) of Friedman and Miles' Ladder of Stakeholder Management. Friedman and Miles' informing and explaining stakeholder management techniques, achieved through dissemination of financial and non-financial information supplemented by verbal explanations, will meet only Stewart's second rung of accountability for process.

Performance with placation

The performance step on the Accountability Ladder correlates with Step 5 (placation) on Friedman and Miles' Stakeholder Management Ladder and is primarily concerned with its highly salient stakeholders. According to Stewart, at the performance rung, output data should be provided. At this step, the emphasis is on whether standards and targets are met; this is of particular interest to employers and trade unions and can be captured under the heading of performance outcomes. This information is included the annual report with its financial and non-financial performance information, narrative explanations, statistics and BSC. The method of account is round table meetings where information is disseminated and explained and the annual report and BSC are distributed. The obligation to give an account as to whether the WCB meets its standards implies that specific targets already exist. Indeed, the WCB's targets and standards are included in its strategic plan, reported on through its BSC. It should be noted that it is not essential for an agency to use the BSC to demonstrate accountability for the performance rung. Rather, the objective is to provide stakeholders with sufficient information to illustrate that the agency has achieved the required or expected standards.

The chief stakeholder management technique employed to demonstrate accountability for performance includes advisory panels, task forces and two-way dialogue; this is described by Friedman and Miles as placation (Step 5). Placation certainly fits the WCB's stakeholder management approach, built on round table meetings and ad hoc consultation. To demonstrate performance, the WCB relies on Friedman and Miles' placation strategy whereby round table meetings are held with the primary stakeholder groups. These meetings enable the WCB to have two-way dialogue with stakeholders, through which participants may provide the agency with their expert opinion. However, the agency is not obliged to accept this advice. Friedman and Miles (p. 170) caution that this level of stakeholder management can be used for political purposes to portray a degree of legitimacy.

As some of the interviewees indicated, the WCB appears to use placation to portray a higher level of stakeholder involvement than is actually the case. The WCB sets the agenda for the round table meetings and uses this forum to present information to stakeholders. According to one of the respondents, the round table meetings are highly scripted and too tightly controlled. One of the main disadvantages of placation relates to the possibility that some stakeholder groups may not be comfortable providing their opinion in the round table meetings as they do not want to appear to be in conflict with other constituencies represented such as union groups. Friedman and Miles suggest when placation is used as a one-way communications vehicle, it will be viewed as a form of tokenism. Although the placation management style facilitates stakeholder input and feedback, it is largely a reactive rather than proactive approach. It engages

stakeholders and seeks their opinions on plans developed by the organization rather than proactively soliciting proposals from stakeholders.

Programme with consultation, involvement, negotiation, collaboration and partnership

Stewart describes the programme rung as demonstrating that the organization has achieved its goals and objectives. At the programme level, all primary stakeholder groups are involved since the overriding stake is achievement of the agency's goals. This is the highest level of accountability for a public sector agency. Essentially, this rung evaluates whether the agency has achieved its mandate. For the WCB, this rung is concerned with whether the agency ensures that injured workers return to work and that the WCB programme is delivered at a reasonable cost to employers.

The programme level is associated with Steps 6-10 on the Stakeholder Management Ladder (consultation, negotiation, involvement, collaboration and partnership). The main form of accountability includes consultation and all the previous forms. The preferred method of account is stakeholder consultation and involvement. This research shows that stakeholders do not want to rely exclusively on the form of consultation described by Friedman and Miles as surveys; rather, they prefer involvement and collaboration. Unfortunately, when the WCB engages in what it perceives to be consultation, it could be argued its actual approach more aptly fits the description of placation. The WCB does not fully involve stakeholders, on an ongoing basis, to the degree suggested by Friedman and Miles.

As illustrated through the semi-structured interviews, stakeholder groups regard accountability as comprising both information and involvement. Stakeholders expect to have greater influence on the direction of the agency. To demonstrate programme accountability to stakeholders, it is argued in this research that agencies should encourage stakeholders to play a role in setting the organizational direction by working together to set goals, targets and meaningful performance outcome indicators. Arguably, five of Friedman and Miles stakeholder management strategies (consultation, negotiation, involvement, collaboration and partnership) facilitate programme accountability to varying degrees.

The proposed reporting model suggests that stakeholder accountability at the programme level is fully achieved when stakeholders have an opportunity to influence the agency. The most basic level of stakeholder influence is the consultation rung (Step 6) which Friedman and Miles define as surveys, a token measure, since the organization controls, through the questions posed, the issues to be examined. Consequently, there may be areas not addressed which are of concern to stakeholders. The WCB engages a marketing research company to conduct annual stakeholder surveys of employers and injured workers. Survey results provide management with a general impression of stakeholder expectations and their level of satisfaction. It is suggested in the proposed model that a survey serve as the first step in the stakeholder consultation process.

While the WCB does not use negotiation (Step 7) on a regular basis, it was employed in the 2001 Task Force initiative to facilitate agreement between employers and trade unions on a course of action to ensure the continued viability

of the system. Both primary stakeholder groups agreed to mandatory participation in Early and Safe Return to Work and Duty to Accommodate programs. This negotiation exercise was pivotal in securing cooperation from stakeholders and helped the agency achieve its programme goals of fewer injuries and earlier return to work. According to Friedman and Miles (p. 163), negotiation is the first category in which the stakeholder group has a realistic probability of influencing the agency. However, Friedman and Miles also classify negotiation as a form of tokenism and as a reactive process. This classification is illustrated in the situation encountered by the WCB when it did not utilize negotiation with its stakeholder groups until it faced significant financial challenges. Friedman and Miles contend that negotiation is not ranked higher since the organization may force the stakeholders to agree to an action plan. Consequently, negotiation may offer stakeholders only minimal opportunity for true involvement and influence on the organization. In the WCB setting, the highly salient stakeholder groups do not necessarily have the power to influence decisions through the control of resources, in the sense of employees threatening a strike. Rather, the highly salient stakeholder groups (employers and unions) may hold out the possibility of facilitating or guaranteeing the co-operation of their constituents in improved workplace safety and participation in return to work programs.

Friedman and Miles characterize the stakeholder management strategy of involvement (Step 8) as the first rung where stakeholders have a proactive say in the direction of an organization. Involvement can be achieved through stakeholder round table meetings where representatives are expected to draft proposals rather than just respond to management plans or provide advice. Arguably, when

stakeholders are involved and have a say in decision making, true accountability is achieved. To ascertain stakeholder expectations, the WCB should provide them with an opportunity to advance proposals rather than merely respond to its ideas. The distinction here is that stakeholders be given an opportunity to advance their own ideas rather than respond to the ideas of the agency. Once the agency has fully ascertained stakeholders' expectations, they are well positioned to determine if their programs meet these expectations. In other words, it is challenging to demonstrate accountability when the agency does not have an in-depth understanding of stakeholder expectations for its programs.

Other mechanisms which the WCB may use to demonstrate accountability for program delivery include collaboration and partnership (Steps 9 and 10). Friedman and Miles (p. 174) describe collaboration as “marriages between the organization and its stakeholders”. The organization and its stakeholders contribute skills and resources which aid in the achievement of the organization's programs. Partnerships are typically joint ventures between the organization and its stakeholders. In differentiating partnership and collaboration, Friedman and Miles (p. 176) describe collaboration as focused on joint outcomes while partnerships involve joint processes leading up to joint outcomes. One of the outcomes of the 2001 WCB Task Force was a partnership with the Federation of Labour (umbrella group representing individual trade unions) which delivered, in return for a substantial fee, safety training to all Occupational Health and Safety Committees in Newfoundland. The WCB's motive for this partnership was to achieve worker buy-in for improved workplace safety and early return to work initiatives. Ultimately, this partnership was instrumental in helping the WCB

achieve financial stability through reduced injury frequency and increased worker co-operation in return to work programs.

Clearly, by employing the stakeholder management techniques of consultation, involvement, negotiation, collaboration and partnership, the WCB was able to demonstrate programme accountability during the 2001 Task Force review. Unfortunately, the agency used Friedman and Miles' higher level stakeholder management approaches only at a critical stage. Based on the interview responses, the stakeholders felt the agency did not continue with this management style. Rather, despite the initial success achieved with increased stakeholder involvement, negotiation, collaboration and partnerships, the WCB reverted to operating for the subsequent five-year period with placation and consultation (surveys) stakeholder management styles. It seems that the WCB used higher level stakeholder management techniques only to secure stakeholder buy-in for the major changes needed to save the system; once these changes had been implemented, the organization appeared to limit stakeholder involvement by using a predominately placation style.

Policy with delegated power and stakeholder control

The highest level on Stewart's Accountability Ladder is policy and on Friedman and Miles' Stakeholder Management Ladder it is delegated power and stakeholder control. These levels are under the domain of government and are excluded from this study on the agency's responsibility to demonstrate accountability. It is the responsibility of government to set policy through legislation and to establish stakeholder control through the appointment of the Board of Directors. Government fulfils its accountability obligations to the public through the

Statutory Review and the Transparency and Accountability Act. The method of account is comprised of government's broad consultation with the general public through its Statutory Review process. Compliance with the WCB Act and the Transparency and Accountability Act can be achieved through periodic legislative audits performed by the Auditor General. In the same fashion, WCB's in other jurisdictions as well as other self-funded agencies would not have responsibility to demonstrate accountability at the highest levels of these models.

Concluding comments on aligning the rungs

The demonstration of accountability at each of the levels of Stewart's Ladder of Accountability requires varying types of stakeholder management. To demonstrate accountability for the first level, probity/legality, minimal stakeholder management is needed. At this level, the one-way provision of information is sufficient. The next level of accountability, process, requires an increased level of stakeholder management including a basic level of two-way dialogue with stakeholders. The provision of non-financial performance information fits with the informing rung of Friedman and Miles' stakeholder management ladder, while WCB executives' discussion at the round table meetings reflect the explaining rung.

The third rung on Stewart's Ladder of Accountability, performance, requires more interaction with stakeholders in order to demonstrate accountability for outcomes and expected standards. Friedman and Miles' Ladder of Stakeholder Management includes advisory panels and task forces as ways to solicit stakeholder feedback regarding their performance outcome expectations. The WCB's use of the round table meetings to solicit stakeholder feedback on its plans and objectives reflects

Friedman and Miles' advisory panels and tasks forces. This style of stakeholder management is described by Friedman and Miles as placation.

Stewart's programme rung needs the highest level of stakeholder management techniques. To determine if the agency has fulfilled its accountability obligations for programme delivery, a number of stakeholder management techniques may be employed: consultation, involvement, negotiation, collaboration and partnership. The proposed model suggests that public sector agencies should aim, at a minimum, to employ the stakeholder management techniques of consultation and involvement (Steps 6 and 8 on Friedman and Miles' Ladder of Stakeholder Management). Consultation, defined as surveys by Friedman and Miles, enables the agency to ascertain stakeholders' views, while involvement invites stakeholders to advance proposals regarding the organization's strategic direction. According to the interviewees, stakeholders want to be more involved and have a greater control over the direction of the organization. They want to submit proposals rather than just provide feedback on the agency's plans.

Whenever feasible, it is further suggested that negotiations, collaboration and partnerships be employed to more fully engage stakeholders and demonstrate accountability. It may not always be feasible for organizations to employ negotiation, collaboration and partnership (Steps 7, 9 and 10 on Friedman and Miles' Ladder). However, as illustrated through the WCB case study, these three levels are effective stakeholder management tools since they gain union and employer buy-in to the agency's strategic plan, thus aiding its programme delivery. Given the WCB's initial success with these higher level stakeholder

management approaches, it is interesting that the agency did not continue to utilize these techniques.

In the case of the WCB, it took a major crisis, the near financial collapse of the system, for the agency to invoke the higher levels of stakeholder management: involvement, negotiation, collaboration and partnership. Once a resolution to the crisis had been agreed upon with the stakeholders, it seems that the agency no longer wanted to use involvement, negotiation, collaboration and partnership with stakeholders. Rather, they reverted back to regular operations and their former placation and consultation management styles. It could be argued that these higher level management styles give greater power to stakeholders and that the agency was willing to share power only when there were no other alternatives.

As the agency moves up the rungs on Stewart's Ladder of Accountability, it becomes necessary to supplement financial information with narratives and comparisons to budgets and targets, to provide non-financial performance outcome information and to consult stakeholders and involve them in setting the organizational direction. The model integrates stakeholder theory and management with Stewart's accountability ladder. As the rungs on the ladder are linked, enhanced stakeholder accountability is achieved.

The following chapter presents the contributions and limitations of this research study as well as overall conclusions.

CHAPTER 9: CONTRIBUTIONS, LIMITATIONS AND CONCLUSIONS

9.0 Introduction

This chapter identifies the contributions of this research to the stakeholder reporting and accountability literature. It also examines the limitations associated with this study and how these limitations have been minimized or mitigated. The application of the model to other government agencies is discussed before drawing overall conclusions.

This research explored stakeholder accountability of public sector agencies and culminates in a model for stakeholder reporting. The first major aspect of the research encompassed how the identification and classification of stakeholders enhances accountability. Identification is achieved by first narrowing stakeholders to groups representing the underlying individual stakeholders and then determining the relative salience of these groups.

The second aspect of this research centred on the demonstration of accountability. It is argued that to be truly accountable to their stakeholders, public sector agencies should provide relevant financial reports and wider non-financial information. Relevant financial information requires consideration of the nature and purpose of agency reports. The model calls for the financial report to be supplemented with comparisons to budgets as well as additional narrative explanations regarding actuarial assumptions, basis for investment accounting and calculation of funding position. Agencies are also expected to provide wider performance reporting that includes outcome based information with comparisons to targets and to other jurisdictions. It is advocated that, at their highest levels, public sector agencies should demonstrate accountability by moving beyond

merely disseminating information. They should involve stakeholders by soliciting their input and engaging in a two-way consultation process to determine their needs, subsequently incorporating this feedback into the organization's strategic plan and related targets. In essence, the stakeholder reporting model is comprised of three main strands: relevant financial statements with budgets, supplementary narratives, wider performance outcome information and stakeholder consultation. Consultation is utilized to ensure stakeholder needs are adequately identified and that the reporting model is relevant and provides meaningful information.

The WCB agency in Newfoundland, Canada, is used as an example of how a semi-autonomous public sector agency demonstrates accountability to its stakeholders. Government delegated responsibility for workplace injury benefits to the WCB agency, and both the funders and beneficiaries have relinquished significant rights as they participate in this 'no fault' system. Consequently, these stakeholders should be afforded a high level of accountability. In view of government's ongoing devolution of essential services to such agencies, this topic is timely and relevant. The stakeholder reporting model may be used by other public sector agencies to demonstrate accountability as discussed in Section 9.1.

Chapters two to seven provided a context for stakeholder accountability of public sector agencies through a literature review, documentary review and semi-structured interviews with the primary stakeholder groups. The stakeholder reporting model was presented in Chapter 8.

9.1 Contributions

This research provides insight into how public sector agencies may utilize a reporting model to demonstrate stakeholder accountability. Since there is a paucity of research in the area of accountability for public sector agencies, this study contributes toward an understanding of the issues. This is particularly timely in the context of increasing public demand for accountability. The proposed reporting model is not only relevant for the Newfoundland WCB, but may be used by the WCB's in other jurisdictions. In addition, the model, with some modification for industry specific performance indicators and context, may be used in the wider public sector for self-funded and government-funded agencies. For example, as discussed later, it is suggested that the model could be adapted for government owned hydroelectric utilities, health care boards and school boards. This is significant, since health care and education represent an important and substantial proportion of government spending. As more programs are devolved to an increasing number of agencies, it is timely that such an accountability reporting model be available for adoption.

This research study makes three important contributions: firstly, an approach to identify and classify stakeholders; secondly, the development of a stakeholder reporting model embracing financial statements, wider performance information and the linkage of Stewart's (1984) Ladder of Accountability with Friedman and Miles' (1997) Ladder of Stakeholder Management and Engagement. Both these contributions are implicit in the model and are transferable to other government agencies. The third contribution of the thesis is the potential to aid the WCB in

Newfoundland reform its stakeholder accountability arrangements and generate AWCBC interest in industry-specific accounting standards.

This first contribution of this research stems from the application of Clarkson's (1995) primary/secondary typology and Mitchell et al's (1997) salience framework to classify stakeholders. Stakeholders whose participation is vital for the organization are classified as primary, while all others (general public and environment) are considered secondary. The proposed model advocates further delineation of the primary stakeholders according to salience level (high, moderate or low). The combination of both Clarkson's and Mitchell et al's classification frameworks provides a model which narrows and prioritizes the stakeholder groups to a manageable number rather than expecting the organization to be accountable to everyone.

The second contribution of this research is the development of a multi-dimensional stakeholder reporting model which not only identifies the various forms and methods of accountability, but also links the basis of accountability (Stewart) with a stakeholder management approach (Friedman and Miles). Many of the multi-dimensional performance reporting frameworks in the literature emphasize including both financial and non-financial measures, but this approach assists agencies in identifying stakeholder needs and ensuring a relevant stakeholder report is provided. This multi-dimensional model is based on the premise of compliance with the underlying commercial accounting standards supplemented by budgets, narrative explanations and the introduction of industry-specific standards where necessary. The model also includes the wider

performance outcome information which stakeholders would like to have compiled.

A key contribution of this model is the linking of Stewart's Ladder of Accountability with Friedman and Miles' Ladder of Stakeholder Management and Engagement. This linkage recognizes that at the performance and programme accountability rungs, agencies need to more fully involve stakeholders in order to adequately demonstrate accountability. This research study revealed that stakeholders are not satisfied with a superficial approach to consultation. Instead, they want to have a deeper level of involvement including making proposals to the agency rather than just providing advice and feedback on the agency's plans. The linking of Stewart's Ladder of Accountability with Friedman and Miles' Ladder of Stakeholder Management and Engagement makes an important contribution to accountability research in the public sector. The integration of the stakeholder dimension (their needs, management and engagement) strengthens public sector accountability. The proposed model advocates that different stakeholder management styles are needed to demonstrate accountability on the various rungs of Stewart's Ladder of Accountability. To meet stakeholders' accountability expectations, public sector agencies need to match the management style with the level of accountability being demonstrated. The chief contribution to the literature is the linking or merging of stakeholder management styles to Stewart's Ladder of Accountability. Stewart's Ladder of Accountability is strengthened and expanded through this linkage.

The third contribution of this research is its potential to reform the Newfoundland WCB's accountability arrangements and to encourage the development of industry-specific accounting standards at the national AWCBC level. It is expected that the WCB will examine its stakeholder consultation approach in light of this study's findings. The research shows that stakeholders want to be proactively involved in setting organizational direction rather than reactively providing feedback to the agency's plans.

The model provides an approach that is transferable to other government agencies. As indicated in Chapter 4, Newfoundland's hydroelectric corporation, health care boards and school boards have governance structures that are virtually identical to the WCB: government appointed Board of Directors, Board Chairperson and CEO hired by the Board. The Newfoundland and Labrador Hydro Corporation (NLHC) generates revenue through the production of electricity which is sold to commercial and retail customers. It does not receive government funding; rather, it is a revenue source for government. There are eight health care boards and eleven school boards in Newfoundland. Unlike NLHC, the health care and school boards' operations are jointly funded totally by the federal and provincial governments. Although this does not limit the scope of the agencies' Boards of Directors, the provincial government may intervene on school or hospital closures. These organizations are subject to strong political scrutiny and the stakeholder model must be modified accordingly to include greater political accountability for spending and consideration of political objectives and targets.³ For example, in addition to its general purpose health care funding, the federal government has

³ Ellwood and Rixon (2006) found the UK industrial injures system (which unlike the Canadian WCB system is government funded) had strong political accountability through Resource Accounting and Budgeting and public service agreements.

provided additional funding targeted to reduce patient wait times for certain key services such as hip replacement, heart surgery and cancer treatment.

The only further changes needed to adopt the proposed WCB reporting model to other public sector agencies relates to the stakeholder consultation approach and the identification of industry-specific performance outcome information. For example, when applying this model to NLHC, the WCB performance indicators such as duration and return-to-work would be replaced by industry-specific indicators such as average rate per kilowatt hour charged to various customer groups and generating capacity. Similarly, when applying the model to health care boards, the performance outcome measures would be extensive and likely include wait times for certain tests and procedures.

The approach taken for consultation would need to be modified to reflect the primary stakeholder groups which are unique to these organizations. Possible stakeholder groups are outlined in Appendix 12 for the NLHC, school boards and health care boards. Just as the WCB consulted with employer and union stakeholders, other government agencies need to include their stakeholders and representative groups when undertaking a consultation process. In addition, to soliciting the input of the indicative stakeholder groups, the NLHC, school boards and health care boards would also need to consider other mechanisms, such as holding consumer forums and public meetings and inviting written submissions, to ensure that the concerns of all interested citizens are heard.

As a prerequisite to applying this model to other public sector agencies, it is suggested, in addition to the surveys, that semi-structured interviews with stakeholders be held to inform the selection of performance indicators. The participants for the semi-structured interviews could be selected through an advertised call for expressions of interest or by soliciting the participants from the public meetings. The semi-structured interviews would provide the agency with insight into stakeholders' accountability expectations. Overall, the stakeholder reporting model remains the same, but modifications are necessary for the particular public service area and relevant indicators. Adaptation of the model to directly funded government agencies will require greater consideration of the government stake and political accountability.

9.2 Limitations

While this study makes several contributions to the stakeholder accountability theory, it is acknowledged that there are a number of limitations. For example, this case study cannot be generalized to the population at large since it is not based on a statistical sample. That being said, this case study approach to developing a user-needs based accountability reporting model is applicable to other public sector agencies. It can be argued that the mixed data collection methodology employed by this case study provides more in-depth and richer information than that which could be obtained from a large quantitative statistical sample. Administering a survey to a large statistical sample of employers and injured workers is not as fruitful as a case study in fully identifying user needs. A further limitation of this research is the assumption that stakeholder groups represent the interests of their constituents. The investigation of how well these groups represent their membership would constitute a separate study itself.

The researcher's employment in the focal organization may appear to limit objectivity in forming the research questions, analysis and conclusions. Although it is possible that the researcher's extensive experience with the WCB system may contribute to a degree of bias, this is largely mitigated through confirming the research findings and verifying assumptions with experts in the field. In addition, it is argued that the value of the researcher's insight adds to the interpretation of the findings. In addition, further bias was limited as a result of the researcher's decision not to attend the round table stakeholder meetings as discussed in Chapter 4.

As the research indicates, governance of a public sector agency plays a central role in accountability. However, the inclusion of governance issues such as its appointment of the Board of Directors and the accountability of government to citizens could easily constitute another thesis. As the scope of this research is focused on the agency's accountability to its stakeholders, it includes a limited examination of government's accountability to citizens. In light of government's trend of delegating essential services to agencies, further study on government's accountability issues would be a fruitful area of research.

Although this study identified areas where commercial standards may not be appropriate for the WCBs, further research is also warranted to develop a method or system to identify situations where accounting standards are not appropriate in providing a meaningful account. This is particularly relevant for government agencies classified as GBEs that are required to adhere to commercial accounting

standards. Adherence to commercial standards is becoming more problematic as international accounting develops. Due to the growing trend to delegate responsibility for certain key government services to agencies, such a study would be particularly relevant, beneficial and timely.

This study found that greater interaction between the CICA and groups like the WCBs would be beneficial in establishing accounting and reporting standards to meet stakeholders' needs and reflect the substance of their financial environment. The relationship of accounting standard-setting bodies with those public sector agencies that are designated GBEs is another area where further research is warranted. The exploration of the approach to the CICA's standard setting is outside the scope of this study, but it represents an area where additional research would be worthwhile.

Finally, this model has been developed on the basis of research on a self-funded public sector agency. Consequently, as discussed in preceding section, the model will need refinement for those agencies whose funding is provided by government.

9.3 Conclusions

Using the WCB as a case study, the objective of this research was to develop a comprehensive stakeholder reporting model to enhance accountability. It employs Friedman and Miles' stakeholder management techniques to demonstrate accountability on the probity, process, performance and programme rungs of Stewart's Ladder of Accountability. It is a comprehensive reporting model which

moves beyond the mere provision of information to embrace a deeper level of stakeholder involvement. The model includes financial and wider non-financial performance information, along with an increased focus on stakeholder communication and engagement.

Accountability, it is shown, is enhanced when stakeholders are more fully or actively involved in the agency, rather than passively receiving information and providing feedback on the organization's plans. By utilizing a management style that engages and involves stakeholders, the agency can better demonstrate accountability. The stakeholder reporting model has predictive value since it consults and involves stakeholders to ascertain their accountability expectations. This requires two-way communication through which stakeholders influence the organization rather than simply respond to its proposals. The stakeholders have significant input, it can be predicted that the accountability measures will reflect the articulated stakeholder needs. Thus, the model not only improves the quality of the account, but it aids public sector agencies in fulfilling stakeholder accountability expectations.

The model will be presented to the CEO and senior executives of the Newfoundland WCB. It is expected that the WCB will take the findings of this research into account by providing more detailed narrative explanations to accompany the financial statements and by including wider performance outcome information desired by stakeholders. In addition, the WCB may act upon the research findings by introducing stakeholder involvement into its stakeholder consultation and management style.

The model and the research findings will also be presented to the AWCBC Financial Comparability Committee. It is expected that the Committee will undertake an examination of the performance outcome information desired by stakeholders as well as act upon the need to develop industry-specific accounting standards for investments, reserves and funding position. The proposed public sector stakeholder reporting model can be used without major modification by all WCB jurisdictions in Canada to improve their accountability to stakeholders. With modification, the model could be extended to other public sector organizations.

The foundation of the proposed stakeholder reporting model is Stewart's (1984) Ladder of Accountability. As one progresses up the rungs of the ladder, the forms of accountability become wider and include more dimensions. At the lower levels of Stewart's ladder, accountability involves one-way communication in the form of audited financial statements. At the higher levels, financial statements are supplemented with the annual report narrative, statistics, BSC, performance outcomes, comparisons to budgets, targets and other jurisdictions; ultimately, at the programme level, stakeholder consultation is required in the form of involvement and collaboration.

The research shows that stakeholders prefer to receive performance information on a quarterly basis. There is limited interest in financial statements as stakeholders prefer performance outcome information that is generally available in the BSC. The research also indicates that stakeholders prefer comparisons to

targets and to other jurisdictions, rather than year-over-year actual results. Therefore, the proposed model suggests that financial statements be issued annually but that key performance outcome information (BSC) be provided quarterly either through the web or at the round table meetings. It is suggested the agency comply with the commercial accounting standards but also provide wider performance outcome information, budgets and interjurisdictional comparisons to satisfy the service expectations of stakeholders.

The documentary review found that the WCB agency meets the criteria of a GBE and is thus subject to commercial accounting standards. Although researchers such as Ellwood and Newbury (2006) and Barton (1999) argue that commercial accounting standards may not necessarily be the best fit for public sector organizations, the proposed reporting model suggests the continued adoption of commercial accounting standards where designated, supplemented by budgets and any industry specific standards necessary to meet the needs of stakeholders. It is important for the WCB agency not to lose sight of the purpose of financial statements and to always remain cognizant of the users' needs and modify the accounting standards when necessary. When modifying accounting standards to develop industry specific standards, the agency should consider taking steps to mitigate the potential to manipulate results. In the case of the WCB, such mitigation mechanisms include independent review by an external actuary and the external audit. While it is argued that the WCB should adhere to commercial accounting standards, the research found that the value of financial statements could be enhanced by providing additional comparisons to budgets and narrative explanations to aid readers' understanding of such concepts as unfunded liability.

The model calls for non-financial performance information and comparisons with budgets, targets and other jurisdictions.

Although the model was developed for the self-funded WCB agency, the accountability rungs and stakeholder management rungs are also applicable for government funded public sector agencies. The provision of financial statements and wider performance outcome information along with stakeholder consultation involving round table meetings and submission of proposals can be employed by other public sector agencies. This model can also be applied to other self-funded public sector agencies as well as those funded directly by government. It is argued that agencies' sources of funding should not have a significant impact on their ability to involve stakeholders. The model would also be beneficial for self-funded agencies such as hydroelectric crown corporations as well as government funded agencies such as health care boards and school boards. Although the discussion in Section 9.1 of the model's application to other public sector agencies is based on Newfoundland's agencies, it could be utilized across Canada since each province has similarly structured agencies.

This study into stakeholder reporting for a public sector agency is particularly timely due to the heightened awareness of public sector accountability. Recent government spending scandals by both the Canadian and Newfoundland governments have heightened public scepticism and the need for government to implement transparency and accountability legislation. This research is also beneficial at a time when governments are delegating essential services to agencies. As governments continue to delegate various services to agencies in the

form of government business enterprises, they need to ensure agencies are accountable to their stakeholders. This is particularly pertinent in situations where agencies have a monopoly, since funders and beneficiaries have relinquished their right to a market-based service. Research suggests that a higher level of accountability is warranted. It is essential that government and executives recognize the while these agencies are often regarded as GBEs, ultimately they are public sector organizations. Therefore, their financial statements and financial reporting should comply with required commercial accounting standards, but at the same time provide the level of accountability that is expected from a public sector organization. This encompasses the provision of budgets and variance explanations, comparisons with other jurisdictions and key performance indicators. The proposed stakeholder reporting model suggests mechanisms to effectively manage stakeholders and demonstrate accountability on various levels. In addition to the provision of financial and performance information, it calls for involvement and collaboration with stakeholders in an effort to identify their needs and concerns. Finally, the model assumes that government will play an oversight role to ensure its agencies provide meaningful information and meet the accountability needs of primary stakeholders and the scrutiny of a more sceptical public.

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History of Workers' Compensation

The Canadian workers' compensation system was developed largely by Sir William Meredith, who was a lawyer, politician and a judge. In 1910, Meredith was asked to head up a Royal Commission into workers' compensation in Ontario. The full title of the Commission was "Royal Commission Relating to the Liability of Employers for Injuries Received in the Course of their Employment". The principles outlined in his report formed the basis of workers' compensation in Canada. Ontario passed worker' compensation legislation in 1914 to take effect on January 1, 1915. Meredith outlined the following principles to govern workers' compensation:

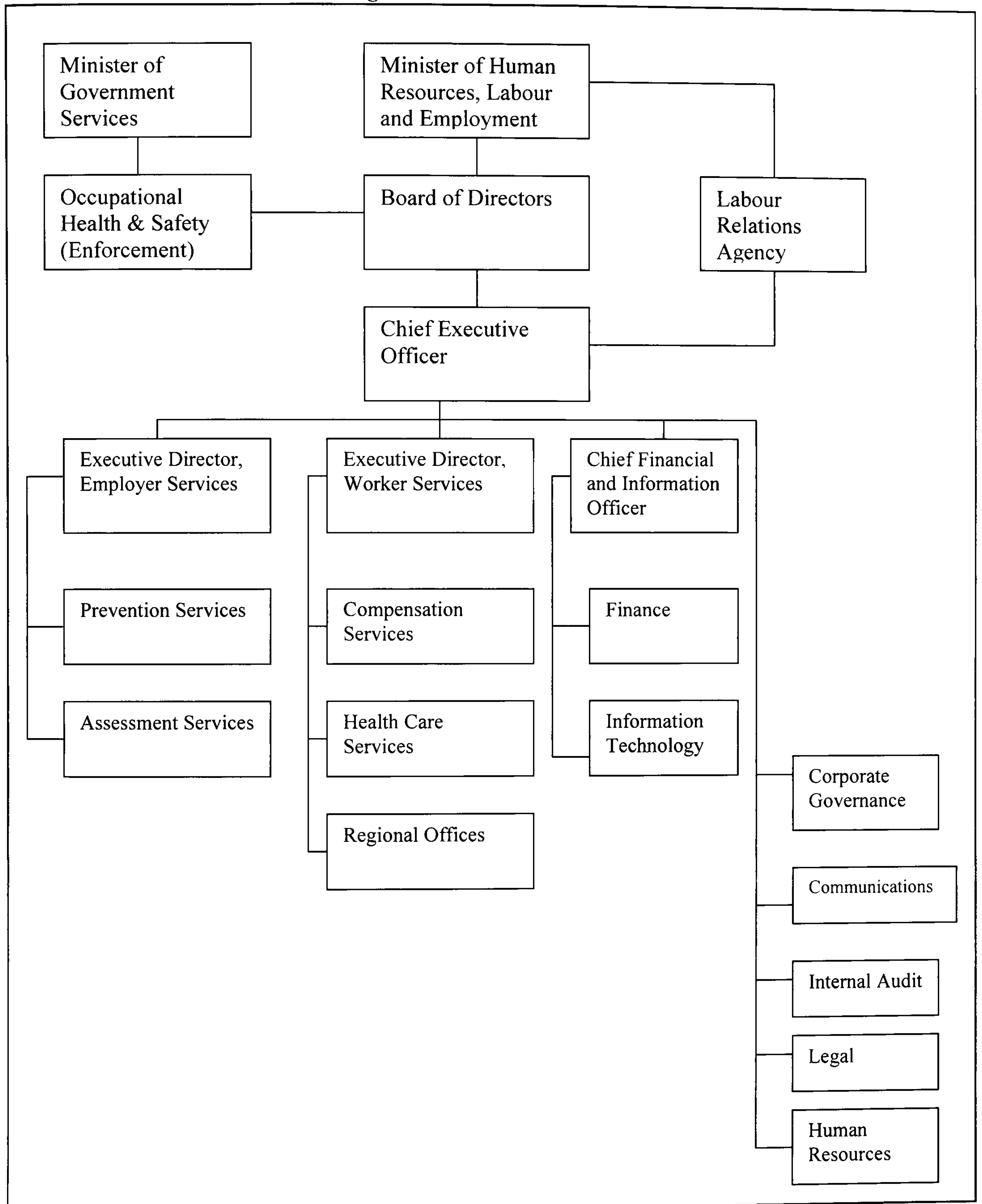
- 1) An insurance system with collective liability
- 2) The plan would be compulsory for defined groups of workers
- 3) Workers would not have to show fault
- 4) The system would be state-run
- 5) The system would be financed entirely by employers and levies would be based on different classes of industry.
- 6) Workers' compensation and health care would continue as long as the disability lasted (Mastromatteo, 1993).

Subsequent to the Ontario workers' compensation legislation, all other provinces in Canada introduced similar legislation. Prior to joining Canada, Newfoundland had operated its workers compensation system in accordance with British-style employer liability laws. After joining Canada in 1949, Newfoundland appointed a Workmen's Compensation Committee to oversee the creation of the new agency.

Newfoundland's workers' compensation system, which was based largely on the Canadian model, came into effect on April 1, 1951.

Up until 1984, the Newfoundland WCB had a disability system which compensated injured workers based on the nature of their disability rather than replacing their lost wages. In 1984 the legislation was changed from a disability system to a wage loss system. Until this legislative change, the WCB was financially stable. However, by the early 1990's it became apparent that due to the lack of historical claims cost information surrounding the new system, it was extremely difficult to estimate the future costs of injuries which had occurred since 1984. In fact, the actuaries determined that during the 1980's since the change in legislation, there were substantial future liabilities for which there was no funding. This is referred to as an "unfunded liability" and it had grown by 1991 to \$176 million. The WCB embarked on a strategy to lower benefits and increase premiums in order to reduce the unfunded liability and by 1997 had reduced its unfunded liability to \$92 million. However, by 1999, the unfunded liability had again grown to \$180 million. This level of deterioration from 1997 to 1999 is largely attributed to a legislated increase in benefits in conjunction with overall increases in the injury rate and duration periods (Auditor General, 2002).

WCB Organizational Chart



Appendix 3

**Responsibility of CEO and Board of Directors
As Outlined in the WCB Act**Board of Directors

- (1) The board of directors shall establish policies and programs consistent with this Act and regulations in relation to
- (a) compensation benefits to injured workers and dependents;
 - (b) rehabilitation and return to work of injured workers;
 - (c) assessments and investments under this Act; and
 - (d) and the policies shall ensure the intent of this Act and regulations is being applied to provide services to injured workers and dependents and shall promote adequate funding for the services through sound financial management.
- (2) The board of directors shall
- (a) consider and approve annual administrative and operating budgets and appoint auditors to audit the books and accounts of the commission, in addition to those audits that may be done under section 11;
 - (b) enact by-laws and regulations for the adoption of a seal and for the conduct of the business and affairs of the commission;
 - (c) establish, maintain and regulate advisory committees and their function and composition; and
 - (d) review this Act and regulations and recommend to the minister those changes that it considers advisable.
- (3) The board of directors may delegate in writing the powers of the board of directors to a director and the powers may be subject to the limitations, conditions and requirements that may be noted in the delegation.
-

Chief Executive Officer

The board of directors shall, subject to the prior approval of the Lieutenant-Governor in Council, appoint a chief executive officer of the commission who shall devote the whole of his or her time to the performance of duties under this Act.

Source: Workplace Health, Safety and Compensation Act (2006)

**Semi-structured Interview Questions
Employer Associations and Trade Unions**

Open-ended questions

1. What does the concept of accountability mean to you? Does it include stewardship and financial accountability?
2. To whom do you think the WCB should be held accountable? What are the consequences of the WCB not being accountable?
3. Is accountability just about providing information?
4. Do you think stakeholders should be able to sanction the WCB? How should stakeholders call the WCB to account? How does your organization want to exercise accountability? Is an intermediary necessary? What aspects of the WCB do you want to impact upon?
5. How can the WCB improve its accountability to stakeholders?
6. How does the accountability of WCB compare with other organizations? Would being more accountable improve WCBs performance?
7. What purpose is served by the WCBs financial statements? Are there particular problems that should be addressed? Are further disclosures needed?
8. Is the accounting information sufficient? Is it sufficiently forward looking?
9. What work should the auditor do? Who should the auditor report do? Who should appoint the auditor?
10. How can the WCB improve on its stakeholder consultation process?
11. What changes should the WCB take to improve its strategic plan?
12. What is meant by WCB performance? Does it involve financial performance, getting injured workers back to work, other?
13. Do you have confidence in the reliability and validity of the PM information which the WCB is currently providing? Would an audit of these statistics improve your comfort level?
14. What additional information should the annual report contain?

Checklist Questions

The following topics were addressed through checklist-format questions and participants were asked to check off all responses that apply:

1. Which of the following groups should be held accountable for the WCB system?

Government
 WCB administrators
 Board of Directors
 Employers/employer associations
 Workers/unions
 Others (specify) _____

2. Please identify which of the following groups you consider to be stakeholders of the WCB system.

Government
 WCB administrators
 Board of Directors
 Employers/employer associations
 Workers/unions
 Health care providers (doctors, physiotherapists, etc.)
 Others (specify) _____

3. How frequently should the WCB provide information to its stakeholders?

Annually
 Monthly
 Quarterly
 Others (specify) _____

4. Which of the following forum(s) should be used to provide information to stakeholders?

Hard (paper) copy
 Web
 Media press release
 Others (specify) _____

5. Which of the following performance measures are of interest to you and your organization?

Injury frequency
 Types of injuries
 Time to first payment
 Return to work success rate
 Outcomes for Early and Safe Return to Work Program
 Outcomes for Duty to Accommodate Program

- Number of claims denied
- Number of claims accepted
- Number of claims paid directly by employer
- Percentage of claims appealed
- Administration costs
- Unfunded liability percentage
- Total costs (employer paid and WCB-paid)
- Investigation results
- Average assessment rate
- Percentage of claims in receipt of long-term disability
- Cost per claim
- Others (specify) _____

6. Which of the following comparative referents are of interest to you when comparing the results of Newfoundland's WCB?

- Atlantic WCBs
- National WCB statistics
- Budgets
- Targets
- Private sector insurance companies
- Year-over-year actual results
- 5 years actual results
- Others (specify) _____

7. Which of the following information do you obtain from the website?

- Annual Report
- Strategic plan
- Policies and procedures
- Others (specify) _____

Likert-scale questions

1	2	3	4	5
Strongly Disagree	Disagree	Neither Agree/ Disagree	Agree	Strongly Agree

1. The WCB effectively demonstrates accountability to its stakeholders.
2. The WCB annual report provides sufficient information.
3. The WCB annual report provides meaningful information.
4. The annual report is your main source of information.
5. The information provided in the annual report is easy to understand.
6. The annual report recognizes the contribution of stakeholders.
7. The website contains information that is useful.
8. Administration costs are reasonable.
9. The strategic plan is appropriate.
10. The targets contained within the strategic plan are appropriate.
11. The measures are appropriate in relation to the WCBs goals and objectives.
12. The Round Table meetings are effective.
13. Round Table meetings should be open to the public rather than by invitation only.
14. More regional representation is needed at the Round Table meetings.
15. It is important to have a collaborate approach in the development of KSMs.
16. There is an adequate level of two-way consultation and communication between the WCB and its stakeholders.
17. WCB is a social program.
18. Monthly assessment premium billing is important for my organization.
19. The WCBs mission and role is clearly defined and understood by the general public.

**Semi-structured Interview Questions
WCB Executives**

Open-ended Questions

1. What does the concept of accountability mean to you? To what extent does it include stewardship and financial accountability?
2. To whom do you think the WCB should be held accountable? *Prompts (if required) employers, workers, government, public, etc.*
3. With the introduction of government's Bill 39 (Transparency and Accountability Act), do you foresee any need to change the Commission's existing accountability arrangements?
4. Is the Transparency and Accountability Act likely to require changes in the Commission's strategic plan and Balanced Scorecard reporting process? If so, will the changes be to the direction of the Strategic Plan or more in how it is reported, monitored and measured?
5. What role does the Statutory Review have on WCB's accountability? Does it improve accountability or does it just ensure that the Commission continues to be accountable to its stakeholders?
6. Do you view the Board of Directors as adequately representing the interests of stakeholders of the workers' compensation system?
7. Do senior management and the Board of Directors receive or seek direction from government when developing its strategic plan?
8. Can you suggest means by which the WCB can improve its accountability to stakeholders?
9. Is the current level of accounting information sufficient? Is it sufficiently forward looking?
10. What is the relative importance of the Commission's Balanced Scorecard versus its financial statements? Does the Balanced Scorecard drive the organization or is it a tool to help monitor performance?
11. What changes, if any, should the WCB take to improve its strategic plan?
12. Should WCB performance be measured by financial performance, getting injured workers back to work, social/environmental performance or other indicators of success?

13. Do you have confidence in the reliability and validity of the performance measurement information which the WCB is currently providing? Would an audit of these statistics improve your comfort level?
14. What additional information should the annual report contain?

Checklist Questions

The following topics were addressed through checklist-format questions and participants were asked to check off all responses that apply.

1. Which of the following groups should the WHSCC be held accountable to?

Government
 WHSCC administrators
 Board of Directors
 Employers/employer associations
 Workers/unions
 Health care providers (doctors, physiotherapists, etc.)
 Others (specify) _____

2. Please identify which of the following groups you consider to be stakeholders of the WHSCC system, ranking them in order of importance (1 – highest, 7 – lowest, etc).

Government
 WHSCC administrators
 Board of Directors
 Employers/employer associations
 Workers/unions
 Health care providers (doctors, physiotherapists, etc.)
 Others (specify) _____

3. How frequently should the WHSCC provide information to its stakeholders?

Annually
 Monthly
 Quarterly
 Others (specify) _____

4. Which of the following forum(s) should be used to provide information to stakeholders?

Hard (paper) copy
 Web
 Media press release
 Others (specify) _____

5. Which of the following performance measures are of interest to you and your organization?
- _____

- Injury frequency
- Types of injuries
- Time to first payment
- Return to work success rate
- Outcomes for Early and Safe Return to Work Program
- Outcomes for Duty to Accommodate Program
- Number of claims denied
- Number of claims accepted
- Number of claims paid directly by employer
- Percentage of claims appealed
- Administration costs
- Unfunded liability percentage
- Total costs (employer paid and WHSCC-paid)
- Investigation results
- Average assessment rate
- Percentage of claims in receipt of long-term disability
- Cost per claim
- Others (specify) _____

6. Which of the following are of interest to you when comparing the results of Newfoundland's WHSCC?

- Atlantic workers' compensation agencies
- National workers' compensation statistics
- Budgets
- Targets
- Private sector insurance companies
- Year-over-year actual results
- 5 years actual results
- Others (specify) _____

Likert-scale Questions

Please respond to the following questions by circling one of the following to indicate your level of agreement with each of the following statements:

1	2	3	4	5
Strongly Disagree	Disagree	Neither Agree/ Disagree	Agree	Strongly Agree

1. The WHSCC's mission and role is clearly defined and understood by the general public.
2. The WHSCC effectively demonstrates accountability to its stakeholders.
3. WHSCC is meeting Government's accountability guidelines.
4. The Board of Directors is effective in ensuring the needs of stakeholders are met.
5. The strategic plan is appropriate.
6. The targets contained within the strategic plan are appropriate in relation to WHSCC's goals and objectives.
7. The WHSCC annual report provides meaningful information.
8. The information provided in the annual report is easy to understand.
9. The website contains information that is useful.
10. It is important to have a collaborate approach in the development of performance measures.
11. There is an adequate level of two-way consultation and communication between the WHSCC and its stakeholders.
12. Administration costs are reasonable.

Semi-structured Interview Questions Government

Open-ended Questions

1. What does the concept of accountability mean to you? To what extent does it include stewardship and financial accountability?
2. To whom do you think the WCB should be held accountable? *Prompts (if required) employers, workers, government, public, etc.*
3. Do you have any issues or concerns regarding WCB demonstrating accountability? How does government ensure that stakeholders' accountability expectations for WCB are adequately addressed?
4. Is accountability more of an issue for government departments than for workers' compensation?
5. Does government have different accountability expectations for agencies/crown corporations than for line government departments? Are there any advantages, from an accountability perspective, in having a stand-alone agency rather than direct government provision for workers' compensation?
6. Are there different accountability expectations for agencies that contribute to government revenue (e.g. Hydro and Liquor Corporation) than those such as workers' compensation which levy their own revenue to provide a service? If so, what are these differences?
7. Can you suggest means by which the WCB can improve its accountability to stakeholders?
8. Is the current level of accounting information sufficient? Is it sufficiently forward looking?
9. Would there be any benefit in having the Auditor General audit the WCB rather than allow the Board of Directors to appoint external auditors? What is the role of the Auditor General as it relates to WCB?
10. What is the approach of the Auditor General – is it an attest function to give an opinion on the accounts or does it also have a wider perspective in terms of a 'value-for-money' audit?
11. How much reliance is placed on the Commission's Balanced Scorecard versus its financial statements?
12. What changes should the WCB take to improve its strategic plan?

13. Should WCB performance be measured by financial performance, getting injured workers back to work, social/environmental performance or other indicators of success?
14. Do you have confidence in the reliability and validity of the performance measurement information which the WCB is currently providing? Would an audit of these statistics improve your comfort level?
15. What additional information should the annual report contain?

Checklist Questions

The following topics were addressed through checklist-format questions and participants were asked to check off all responses that apply.

1. Which of the following groups should the WCB be held accountable to?

- Government
- WHSCC administrators
- Board of Directors
- Employers/employer associations
- Workers/unions
- Health care providers (doctors, physiotherapists, etc.)
- Others (specify) _____

2. Please identify which of the following groups you consider to be stakeholders of the WCB system, ranking them in order of importance (1 – highest, 7 – lowest, etc).

- Government
- WHSCC administrators
- Board of Directors
- Employers/employer associations
- Workers/unions
- Health care providers (doctors, physiotherapists, etc.)
- Others (specify) _____

3. How frequently should the WCB provide information to its stakeholders?

- Annually
- Monthly
- Quarterly
- Others (specify) _____

4. Which of the following forum(s) should be used to provide information to stakeholders?

- Hard (paper) copy
- Web
- Media press release
- Others (specify) _____

5. Which of the following performance measures are of interest to you and your organization?

- Injury frequency

- Types of injuries
- Time to first payment
- Return to work success rate
- Outcomes for Early and Safe Return to Work Program
- Outcomes for Duty to Accommodate Program
- Number of claims denied
- Number of claims accepted
- Number of claims paid directly by employer
- Percentage of claims appealed
- Administration costs
- Unfunded liability percentage
- Total costs (employer paid and WCB-paid)
- Investigation results
- Average assessment rate
- Percentage of claims in receipt of long-term disability
- Cost per claim
- Others (specify) _____

6. Which of the following are of interest to you when comparing the results of Newfoundland's WCB?

- Atlantic workers' compensation agencies
- National workers' compensation statistics
- Budgets
- Targets
- Private sector insurance companies
- Year-over-year actual results
- 5 years actual results
- Others (specify) _____

Likert-scale Questions

Please respond to the following questions by circling one of the following to indicate your level of agreement with each of the following statements:

1	2	3	4	5
Strongly Disagree	Disagree	Neither Agree/ Disagree	Agree	Strongly Agree

1. The WCB's mission and role is clearly defined and understood by the general public.
2. The WCB effectively demonstrates accountability to its stakeholders.
3. WCB is meeting Government's accountability guidelines.
4. There is a higher level of government monitoring of WCB than other Crown Corporations.
5. The strategic plan is appropriate.
6. The targets contained within the strategic plan are appropriate in relation to WCB's goals and objectives.
7. The WCB annual report provides meaningful information.
8. The information provided in the annual report is easy to understand.
9. The website contains information that is useful.
10. It is important to have a collaborate approach in the development of performance measures.
11. There is an adequate level of two-way consultation and communication between the WCB and its stakeholders.
12. Administration costs are reasonable.

Semi-structured Interview Questions Health Care Providers

Open-ended Questions

1. What does the concept of accountability mean to you? How do you view the reciprocal accountability between WCB and health care providers? Do you consider your organization to be a partner in the workers' compensation process?
2. The WCB is accountable to its stakeholders (claimants and employers) for the performance of health care providers. Do you think the WCB is effective in demonstrating to these stakeholders that it is holding health care providers to account?
3. How do you view your organization's role in helping WCB achieve its goals of effective claims management and return-to-work recovery process?
4. WCB expects increased accountability from health care providers in terms of achieving results in injury recovery and return to work. Are WCB's increased expectations reasonable? Does it cause a conflict between your accountability to the WCB versus your client (the claimant)? If so, how do you prioritize?
5. How is your performance monitored by WCB? Is the Commission's approach to monitoring appropriate and effective? Are there changes which should be made to how the WCB monitors the performance of the health care providers?
6. Are WCB's accountability expectations (in terms of results/outcomes) higher for claimants than is expected for your other clients?
7. How should the WCB be held accountable to health care providers? Can you suggest means by which the WCB can improve its accountability to health care providers? Is there any particular type of information/statistics which the WCB should provide to health care providers?
8. How should health care providers call the WCB to account to them? How does your organization want to exercise accountability?
9. How can the WCB improve on its stakeholder consultation process? Is your organization as involved as you would like?
10. Are you aware of the WCB's strategic plan? What changes should the WCB take to improve its strategic plan? Is the role of health care providers adequately recognized in the strategic plan?

Checklist Questions

Please respond to the following questions by checking any or all responses that apply:

1. To whom (which stakeholders) should the WCB be accountable to?

- Health care providers (OT, chiropractors, physiotherapists, physicians)
 Government
 WCB administrators
 Board of Directors
 Employers/employer associations
 Workers/unions
 Others (specify) _____

2. Please identify which of the following groups you consider to be stakeholders of the WCB system, ranking them in order of importance (1 – highest, 7 – lowest, etc).

- Health care providers
 Government
 WCB administrators
 Board of Directors
 Employers/employer associations
 Workers/unions
 Others (specify) _____

3. Which of the following information is of interest to you and your organization?

- Amount spent on each health care category (OT, physiotherapy, chiropractors, physicians and hospitals)
 Average number of treatments per claimant for each category (OT, physiotherapy, chiropractors, physicians and hospitals)
 Number of injured workers participating in each treatment category (OT, physiotherapy, chiropractors, physicians and hospitals)
 Others (specify) _____

4. How frequently should the WCB provide corporate performance information to its stakeholders?

- Annually
 Monthly
 Quarterly
 Others (specify) _____

5. Which of the following forum(s) should be used to provide corporate performance information to stakeholders?

- Hard (paper) copy
- Web
- Media press release
- Others (specify) _____

6. Which of the following information do you obtain from the website?

- Annual Report
- Strategic plan
- Policies and procedures
- Others (specify) _____

Likert-scale Questions

Please respond to the following questions by circling one of the following to indicate your level of agreement with each of the following statements:

1	2	3	4	5
Strongly Disagree	Disagree	Neither Agree/ Disagree	Agree	Strongly Agree

1. The WCB's mission and role is clearly defined and understood by the general public.
2. There is a reciprocal accountability relationship between the WCB and health care providers.
3. The WCB effectively demonstrates accountability to health care providers.
4. WCB clearly defines the outcomes/results which it expects health care provider to achieve.
5. The level of health care provider monitoring by WCB is appropriate.
6. Health care providers play a critical role in the workers' compensation system.
7. The WCB provides an adequate level of feedback regarding the performance of health care providers.
8. There is an adequate level of two-way consultation and communication between the WCB and its stakeholders.
9. The strategic plan is appropriate.
10. The annual report is your main source of information.
11. The WCB annual report provides meaningful information.
12. The information provided in the annual report is easy to understand.
13. The website contains information that is useful.

**Semi-structured Interview Questions
WCB Staff**

Open-ended Questions

1. What does the concept of accountability mean to you?
2. Is the WCB sufficiently accountable to its employees? How do you feel the WCB is demonstrating accountability to its employees? Which aspects of accountability are important to you?
3. Can the WCB do more to demonstrate accountability to its employees?
4. What information about the organization do you think employees would want to know before taking a job with the WCB or continuing their employment?
5. Do you think employees and potential employees have concerns about the viability of the organization? Would this create a need for information about its ability to pay wage increases as well as comparative employment and training information?
6. What type of information would you like to have regarding health and safety issues which might impact staff members?

Checklist Questions

Please respond to the following questions by checking any or all responses that apply:

1. Types of recruitment and retention information which would be beneficial to have made available?

Employee turnover
 Retention rates
 Number of applicants per job posting
 Levels of skills shortages
 Number of employees promoted
 Remuneration policies
 Other(specify _____)

2. Types of information would you like to have provided on training and development?

Number of training hours
 Number of courses taken
 Number of staff denied course reimbursement
 Number of leadership/career development courses taken
 Other(specify _____)

3. Types of information you would like regarding employee morale and motivation?

Employee feedback results
 Absence rates
 Level of employee engagement
 Performance goals and periodic performance reviews
 Other(specify _____)

4. Types of performance and workforce profile information which would be of interest?

Number of employees with university degrees
 Number of employees with professional qualifications (accountant, lawyer, etc)
 Other(specify _____)

AWCBC Key Statistical Measures

The following table shows the performance categories measured and reported by the AWBCB along with the researcher's classification of key statistical measures (17 – 36) as outcome measures:

	AWCBC KEY STATISTICAL MEASURES – 2006	Non-financial Outcome Measure
1	Number of Claims Reported	
2	Number of New Lost-Time Claims for Assessable Employers	
3	Number of New Lost-Time Claims for Self-Insured Employers	
4	Total Number of Lost-Time Claims	
5	Number of Fatalities Accepted	
6	Current Year Benefit Costs Incurred for Assessable Employers	
7	Current Year Benefit Costs Incurred for Self-Insured Employers	
8	Benefit Payments for All years Paid During the Year for Assessable Employers	
9	Benefit Payments for All years Paid During the Year for Self-Insured Employers	
10	Benefit Costs Incurred	
11	Total Benefit Liabilities for Self-Insured Employers	
12	Administration Costs for Assessable Employers	
13	Total OH&S Costs Paid	
14	Assessment Revenue for Assessable employers	
15	Total Premium Revenue	
16	Assessable Payroll for Assessable Employers	
17	Actual Average Assessment Rate for Assessable Employers	X
18	Provisional Assessment Rate for Assessable Employers	X
19	Market Rate of Return	X
20	Percentage Funded	X
21	Average Calendar Days for Injury to First Payment Issues	X
22	Average Calendar Days from Registration to First Payment Issues	X
23	Average composite Duration of Claim	X
24	Average New Impairment Award Percentage	X
25	Proportion of Claims Awarded Impairment Benefits	X
26	Injury Frequency (per 100 workers of assessable employers)	X
27	Percentage of Workforce covered	X
28	Real Rate of Return to Discount Fully Indexed Benefits	X
29	Percentage of Lost-Time Claims Receiving Wage-Loss Benefits at the End of the 2 nd Year After the Accident Year	X
30	Percentage of Lost-Time Claims Receiving Wage-Loss Benefits at the End of the 6th Year After the Accident Year	X
31	Administration Costs per \$100 of Assessable Payroll	X
32	Current Year Benefit Costs per \$100 of Assessable Payroll	X
33	Benefits Liabilities Expressed as a Multiple of Benefit Payments Made in the Year	X
34	Occupational Health and Safety Costs per \$100 of Assessable Payroll	X
35	Current Year Average Benefit Cost per Lost-Time Claim	X
36	Administration Costs per Lost-Time Claim	X

Source: www.awcbc.org; X – denotes the KSM as an outcome measure

Appendix 10

**Semi-Structured Interviews
Respondents' Identification Codes**

Respondent Title	Organization Name	Type	Code
President	Royal Nfld. Constabulary	Union	TU1
Director, Industrial/Retail Sector	Fish Food & Allied Workers	Union	TU2
Secretary-Treasurer	Nfld. Association of Public & Private Employees	Union	TU3
President	United Food & Commercial Workers	Union	TU4
Manager	International Brotherhood of Electrical Workers	Union	TU5
Administrative Officer	Newfoundland Teachers' Association	Union	TU6
CEO	Nfld. & Labrador Construction Safety Assoc.	Employer	ER1
Director, Provincial Affairs	Canadian Federation of Independent Business	Employer	ER2
President	Employers Council of Newfoundland & Labrador	Employer	ER3
Executive Director	Association of Seafood Producers	Employer	ER4
President	Nfld. & Labrador Construction Assoc.	Employer	ER5
Executive Director	Hospitality Newfoundland	Employer	ER6
CFIO	Workplace Health, Safety & Compensation Comm.	WCB Executives	EX1
Chair, BOD	Workplace Health, Safety & Compensation Comm.	WCB Executives	EX2
CEO	Workplace Health, Safety & Compensation Comm.	WCB Executives	EX3
Audit Manager	Auditor General's Office	Government	GV1
CEO	Labour Relations Agency	Government	GV2
Co-chair, Liaison Com.	Occupation Rehabilitation Therapist Association	Health Care	HC1
Chair, Liaison Com.	Physiotherapists Association	Health Care	HC2
President	WHSCC Staff Union	WCB Staff	WCBSU
Director (Acting)	WHSCC, Human Resources Department	WDB Staff	WCBHR

Transcript Coding Topics

1. To whom is the WCB accountable
2. How the WCB should be called to account
3. Stakeholders' definition of accountability
4. Wider performance outcome information
5. Performance reporting
6. Transparency and Accountability Act
7. Financial reporting
8. Strategic plan
9. Annual report
10. Role of the external audit
11. Stakeholder consultation
12. Round table meetings
13. Board of Director representation
14. Statutory Review (system review)
15. Role of Ombudsman
16. How the WCB should improve accountability
17. Comparability of the WCB's stakeholder accountability with that of other public sector agencies
18. Organizational complexity
19. Communication

Appendix 12

The Stakeholder Model Applied to Other Government Agencies

The model could be adapted for other government agencies. This firstly requires the identification of primary stakeholders specific to each agency. The following tables identify potential stakeholders for the NLHC, school boards and health care boards.

NLHC Indicative Stakeholders

Stakeholders	Indicative Stakeholder Groups
Consumers of electricity	Public Utilities Board (Note 1)
Citizens impacted by hydroelectricity development projects	City and Town Councils Labrador Innu Associations Wildlife Federation Various environmental groups
Business enterprises	Chamber of Commerce Board of Trade Various Industry Associations whose members are impacted by hydroelectricity projects and rate increases
Government	Politicians Treasury Board Department of Natural Resources

Note 1: Public Utilities Board is an agency established by government to regulate the rates charged by the NLHC and other utilities.

Indicative School Board Stakeholders

Stakeholders	Indicative Stakeholder Groups
Students and Parents	Newfoundland and Labrador Federation of School Councils Local School Councils Board of Trustees
Teachers	Newfoundland and Labrador Teachers' Association
Communities	City and Town Councils
Government (as funder and overseer)	Politicians Treasury Board Department of Education

Indicative Health Care Stakeholders

Stakeholders	Indicative Stakeholder Groups
Patients	Board of Directors Various patient-oriented associations such as: <ul style="list-style-type: none"> • Canadian Mental Health Association • Alzheimer's Society • Arthritis Society • Lung Association • Cancer Society
Health care professionals	Professional associations and unions representing: <ul style="list-style-type: none"> • Nurses • Physicians • Laboratory and X-ray Technologists • Pharmacists • Speech Pathologists • Audiologists • Pharmacists • Social Workers
Communities	City and Town Councils
Government (as funder and overseer)	Politicians Treasury Board Department of Health