ACCOUNTING AND THE ARTS

A Thesis

submitted in partial fulfilment

of the requirements for the Degree of

MASTER OF COMMERCE

in Accountancy

at the

University of Canterbury

by

G. D. THOMPSON

University of Canterbury

1993

Contents

Page

Exhibits

Abstract

Two trends in accounting thought and regulation are discernible. Firstly, the scope of the resources and resource attributes which are recognized by accounting is being broadened—from a preoccupation with the financial characteristics of economic resources to also embracing non-financial characteristics and non-economic resources. Secondly, some of the traditional "branches" of accounting are becoming less divisive—concepts, techniques and rules are crossing the boundaries and the practice of focusing attention on one branch to the exclusion of the others is yielding to more holistic approaches.

The main concern of this thesis is non-financial recording and reporting and the role it can play. It argues that service performance reporting, as proposed and implemented in New Zealand, is conceptually incomplete and requires research to discover how it might become an adequate accounting tool. The strength of the accounting world-view lies in the way it represents the duality and reciprocality of giving and receiving. Building a non-economic reporting regime involves identifying the non-economic motivations underlying giving and receiving. Since the activities of enterprises are many and varied, different classes of enterprise are likely to be motivated by different mixes of objectives. Arts enterprises are one class of enterprises, chosen in this thesis for closer investigation.

The role of accounting in arts enterprises and their funding intermediaries has traditionally been equivocal. Accounting has assisted in obtaining funds and in planning and control, but it has also been a tool for submerging non-economic in favour of economic objectives. Service performance reporting could modify these roles by giving non-economic objectives an equal billing with economic objectives, legitimizing the non-economic and altering the balance of power in favour of those with social and economic policy objectives or with personal aesthetic objectives. The identification of objectives and performance measures is, however, not an easy task and an analysis of service performance reporting by local authority art galleries illustrates this point.

Chapter 1
Introduction

This wondrous frame of things is as a scroll
Of mystic import, teaching us to see,
Though vaguely, and through shrouds of mystery,
The working of that power which moves the Whole.

from "The Deepest Yearning" by Henry Allison[1].

This thesis builds a model to explain the world of accounting as it impinges or promises to impinge on the world of art. The goal is positive, not normative—to systematize and describe and build a framework for analysis. This may provide a foundation for later empirical studies.

The thesis approaches the world of accounting from the viewpoint of recent developments in accounting thought and regulation. Grounds are found for contending that these developments herald a more holistic approach to accounting and promise to expand the range of its application. What could be called an 'emergent' accounting regime is found in the accounting practice which has resulted or promises to result from the recent Public Finance and Local Authorities Acts and the NZ Society of Accountants' exposure drafts issued as a set under the title *A Proposed Framework for Financial Reporting in New Zealand* (NZSA, 1991).

Probably the most novel feature of the new regime is the concept of 'service performance' reporting, which was introduced by NZSA (1987) and later

---

1 In *A Treasury of New Zealand Verse*, 1926, Auckland: Whitcombe and Tombs Limited.

embraced by the aforementioned public sector legislation and NZSA (1991). This newest addition to accounting's range of techniques and reports aims to codify information associated with the pursuit of objectives other than the traditional financial objectives of profit maximisation, solvency and a balanced budget. Bringing the service performance concept into the legislative and regulatory arena promises to widen the purview of accounting to embrace the range of 'non-economic' objectives normally associated with enterprises which are funded by public or voluntary contribution and which supply output either free or at subsidized prices. The Public Finance and Local Authorities Acts require service performance measurement by central and local government enterprises, respectively, and NZSA (1991) promises the extension of service performance reporting to private entities whose production is not funded by the consumer of the product.

It is argued in this thesis that the recognition of service performance measurement as an accounting function may eventually allow the recording and reporting of non-economic variables on a much more comprehensive scale than the recent moves require. The key to the accounting world-view found to be emerging lies in the redefinition of three elements of the accounting rationale: resources, the motivations for giving and receiving, and the source of enterprise objectives. In the light of the analysis of these three elements, service performance reporting is seen to have the potential to alter considerably the role of accounting. Moreover, it may partially answer two objections voiced by critics of accounting:

1. that accounting reinforces existing wealth differentials, serving as a tool of those with wealth against the erosion of their wealth by those without.
2. that accounting causes the erosion of the global commons, yielding short-term advantages at the expense of long-term environmental sustainability.

On the other hand, accounting for non-economic phenomena poses considerable difficulties. The study goes on to consider the challenges to service performance measurement provided by one activity, the arts.

The relevance of the arts

As presented in current proposals, service performance measurement applies only to enterprises which are substantially funded by compulsory or voluntary contributions. These include entirely publicly funded non-trading government agencies which provide services like defence, justice and police. They also include enterprises funded by taxation or by voluntary contributions which share their industries with for-profit unsubsidized enterprises. The arts industry is such an industry. Others include the education, health, welfare, recreation and sports industries.

This thesis aims to draw parallels between accounting concepts as they pertain to for-profit, nonprofit and public sector enterprises. A suitable focus for study is therefore an industry which covers the range of the forms of funding. The arts is such an industry.

Moreover, the arts may enjoy the distinction of having the most tenuous claim to its status as a recipient of public funding. Of all the activities which receive public support the arts are arguably the group about which opinions are most polarized. This polarization make it a particularly poignant focus for a study of the role of accounting in decisionmaking by funders—a reason for its choice as the specific focus in this thesis.

The method employed

The method employed in preparation for this thesis was to review relevant literature, to analyse alternative theoretical constructs, and to interview key decisionmakers in selected arts and arts funding contexts.

Inspiration for the approach taken was drawn from critical accounting thought.

The contribution of critical accounting thought

Accounting theory and research has tended to be bound up in the profit-maximising concerns of the shareholder constituents of companies (Laughlin and Gray, 1988, p. 5), and mainly concerned with technical issues (Broadbent and Guthrie, 1992, p. 9). Hines (1991, p. 328) characterises the basis for this research as the "normal discourse of society" which "conditions the perceptions that social costs, as opposed to market costs, are "values" rather than "facts", and talk about such issues as alienation, poverty, unemployment, warfare, chemical poisoning, and the consumption of non-renewable resources, is seen pejoratively as subjective and emotional, rather than objective and rational. Hines calls for "critical, 'edifying' and socially 'constructive'" accounting research, based on "abnormal discourse".

Critical accounting advocates stepping outside the traditional view of accounting as an impartial and objective tool to assist in rational decisionmaking of shareholders, to consider accounting practice in terms of social and political variables and view accounting as a tool for implementation of policy. The critical accounting message also presents accounting with a moral imperative—since the way we account influences the decisions we take, accountants are implicated in social and

environmental issues. There is an implicit social contract between the accounting profession and society in addition to the explicit contract that exists between auditors and shareholders (Neu, 1991).

The critical accounting writers have revealed and highlighted hitherto unquestioned assumptions behind accounting theory and practice. Covaleski et al (1985, p. 278), suggest that a new way of viewing accounting is emerging. They contrast the "traditional view" of accounting as assuming purposive, rational, goal-seeking individuals and organizations and the emergent view that sees behaviour and action as less rationalistic and acknowledges the effects of social and political variables on the accounting process. Current accounting practice is steeped in the traditional view and the rhetoric of accounting practice is replete with images of impartiality and objectivity. The "emergent view" sees accounting as an instrument for maintaining existing power bases and supporting covert causes. It is its very aura of impartiality and objectivity, its "patina of rational behaviour" (p. 280) that enables accounting to be used in this way. These pretensions or pretences of objectivity and independence mask the social allegiances and biases of accounting (Tinker et al, 1982, p. 167). Amidst the complexity and uncertainty of modern human enterprise, accounting provides information focused upon key decisions, and these decisions are in turn legitimated by the respectability accorded to the accounting tradition. This legitimation creates acquiescence and support and the issue of how well the information reflects underlying economic conditions becomes secondary. In this emergent view, therefore, accounting's key role is more as a tool for implementation of policy than as a means of rational decisionmaking, because the decision cues provided by the accounting model are highly influenced by the underlying presumptions of the model.

That the 'explanation' provided by accounting is shaped and coloured by the choice of data is unavoidable and unexceptionable. "Observers are a product of the reality (objects) they observe" (Tinker et al, 1982, p. 173) and "Our classifications are human impositions, or at least culturally based decisions on what to stress among a plethora of viable alternatives" (Gould, 1990, p. 73). The relevant question is, Do we regard the particular colouration provided by traditional accounting as desirable? In the last decade a number of writers and researchers and regulators have been answering in the negative and are now experimenting with alternatives.

Having acknowledged that the accounting model is value-laden is it possible to envisage a value-free accounting model? In the emergent view the answer is 'no': it is axiomatic that when we record reality we create reality (Hines, 1988) . What we can do, however, is envisage an accounting model which builds on a different, or at least a modified, set of values from those which can be inferred from traditional accounting. There is some evidence that, over the last decade, accounting practice has been evolving towards such a different set of values—that the underlying reality which accounting depicts is being redefined.

Cooper and Hopper (1990) maintain that interest in the academic field of critical accounting is growing. They attribute this growth to "a reaction to the politics of our time, especially the re-emergence of the so-called intellectual right, represented, for example, by the espousal of monetarism, individualism, self-regulation, the idolatory of markets, and a general distaste displayed towards public enterprise and collective action." Society's confidence in business may be decreasing as a result of damage to the physical environment, consumer health and safety and technological unemployment, as Patten (1991, p. 298) asserts. It is suggested in this thesis that service performance reporting, being promoted by a monetarist government to resolve problems of 'administrative inefficiency' in public enterprise, may

paradoxically come to serve the interests of the critical accounting movement, by providing the nucleus for the inclusion into accounting reporting of the sort of non-economic issues which monetarists eschew.

Overview of the argument

Accounting is performed in the context of social, legal and political systems and its world-view is a view of these structures. The changes to that view are seen as occurring in two ways.

Firstly, the purview of accounting is being widened. Accounting selects from a wide range of possibilities to present a particular view. The widening of that view is occurring on three fronts:

- what resources to recognize?
- whose concerns or interests are relevant?
- what motivates human endeavour?

Secondly, a more holistic view is being taken. 'Branches' of accounting, formerly treated in isolation, are coming to be viewed in terms of a more global structure of thought, resulting in a merging of approaches. This is occurring in respect of:

- the distinction between public sector and private sector enterprises
- the distinction between internal and external reporting

The aim of Chapters 2 to 4 is to articulate a model of the "territory" of accounting (Sterling, 1990) which is implied in this evolution. The aim is not to state any fundamental inalienable truths but to identify the "network of concepts" by which accountants appear to be understanding or "making up" the organization and the people involved with organizations (Miller and O'Leary, 1990). The aim is an integrating one: to "work with a model of the organization that has been built up

of the commonly found characteristics instead of a shifting spectrum of differences (Hagan and Staunton, 1986).

Chapter 2 deals with the first of the two issues—the nature and scope of resources, motivations and constituents which are relevant to the question of enterprise objectives is wider than those acknowledged by traditional accounting. Traditional accounting assumes the double coincidence of wants which gives rise to transactions but ignores aspects of the social reality of those transactions. Traditional accounting records only the economic characteristics of transactions, limiting itself to those measurable and verifiable factors controlled by or controlling the entity, the ownership of which is being exchanged between the two parties to a transaction. It focuses only on private costs and benefits (Freedman and Stagliano, 1990). It ignores the benefits and detriments caused by, and happening to the entity as a result of the production and consumption of public goods and externalities, or the pursuit of altruistic, religious and other aims.

Chapter 3 deals with the second issue, arguing that the concepts developed in Chapter 2 cross the traditional boundaries between management and financial accounting and between for-profit, nonprofit and public sector accounting.

The issues dealt with in Chapter 2 have a dual relevance to the whole discussion. Firstly they represent the topic which accounting aims to describe. However, accounting belongs to the world it is describing, so that the issues dealt with in Chapter 2 relate also to the choices and concerns associated with the activity of accounting. This is the topic of Chapter 4. Chapter 4 seeks political, social and economic causes for the emerging accounting regulatory regime.

Probably the most radical change to occur to accounting regulation in the last decade is the concept of service performance. This concept, articulated in the

public sector legislation and the proposed accounting standards regime, is the topic of Chapter 5. Though sketchy and incomplete, and arguably in need of modification as articulated so far, service performance reporting could be pivotal in both the broadening and integration of accounting. The new techniques currently being forged may have the potential to answer much criticism of the narrow focus of conventional accounting, redressing its power bias and providing a practical solution to social and environmental accounting problems, in the sort of expanded view of the uses of accounting systems envisaged by Freedman and Stagliano (1990). Although the techniques have been developed primarily to address perceived problems of accountability in the public sector they could have application in addressing emerging issues in private sector accounting. Public sector accounting has been adopting many new techniques from private sector accounting in recent years. The solution to some of the problems of bias and omission being identified in the social and environmental accounting literature may lie in the adoption of this new public sector accounting technique by the private sector.

The remainder of the thesis is an application of the concept of non-economic measurement and service performance to one class of activity: the arts. Chapter 6 explains the arts as an activity with its own exclusive rationality. 'Art' is a characteristic attributed to some activities, goods and services and not to others. The 'art' attribute is the outcome of the interaction of three power groups: intellectual 'gatekeepers' and educators, politicians and public officials, and the market. These three groups operate their own definitions of 'art' which only partially overlap. This explains why some art receives grants funding and some art does not, and why the distinction between high art and popular art does not determine whether an activity will (or should) receive non-market funding.

Chapter 7 builds on the notions of funding and accountability developed at the beginning of Chapter 4, and of motivation developed in Chapter 6, to profile the arts industry and its distinctive funding intermediaries. Chapter 7 goes on to discuss four roles attributed to accounting in the context of the arts. Firstly, accountants and accounting are sometimes described as facilitating the achievement of the aims of artistic enterprises by contributing to the processes of arts management. Secondly, accounting can be used as a 'legitimizer', overcoming prejudices of potential funders to artistic enterprise as an avenue of investment. Thirdly, accounting can be a 'de-legitimizer', disabling artistic and other non-economic rationalities with its aura of cool economic rationality. Fourthly, the arts is seen as an inspiration, motivating accountants to associate themselves with the production of art via the donation of funds and accounting services.

Probably the most comprehensive examples of service performance reporting by arts enterprises is found within the territorial authorities, and of territorial authorities' arts activities public art galleries are the best documented. Chapter 8 shows a content analysis of the published reports of the art galleries operated by eleven city and district councils in New Zealand. The weakness of the linkings between objectives and performance measures, and their wide disparity, seem to indicate that the preparers of these reports were unequal to the challenge posed by the legislation requiring service performance reporting. It is suggested that art galleries are unlikely to be an isolated case. A lack of theoretical and practical tools to handle the task of service performance reporting and the incompleteness of the concept itself are likely to be an obstacle to meaningful and comprehensive service performance by many of the wide range of activities attempting to undertake the task.

Conclusion

This study concludes that the concept of service performance reporting is pivotal to the broader more integrated view of accounting heralded by the emerging accounting regulatory regimes, but that the concept is underdeveloped and inadequate. Research is required to ascertain the valuation and performance criteria associated with the wide range of specific non-economic phenomena that enter into the objective functions of constituents of enterprises.

Chapter 2
Widening the Scope of Accounting

The Light of Lights
Looks always on the motive, not the deed,
The Shadow of Shadows on the deed alone.

from "The Countess Kathleen" by W. B. Yeats[1]

Traditional accounting is based on a narrow "exchange economics" model which views the market as "a piece of machinery which automatically weighs the contribution which each competitive interest brings to it and just as automatically doles out the equivalent which is taken away" and "the formally accepted machinery for adjustment of conflicting economic interests" (Scott, 1931, pp. 37, 197). The emergent view acknowledges that such an economic model "cannot come to grips with some of the most important problems of our day—for instance, those involving the distribution of power, income and wealth, which exchange economics takes for granted" (Boulding and Pfaff, 1973)[2]. Booth (1991, p. 6), identifies three classes of action which accounting does not measure:

1. All actions not having financial implications;
2. Many economic externalities, despite their having obvious financial effects;
3. Much of the complexity of the items that are measured.

---

1 In Tripp, 1976, p. 416.

2 This emergent view is not entirely new. For example, Scott (1931) cites the failure of "a market dominated by large super-corporate enterprises" to "adjust conflicts of interests between creditors and stockholders" and calls on "the law and accounts" to "round out a complete system for the settlement of conflicting economic interests".

"If the actors in the system, rather than 'market forces', are to determine the allocation of Society's resources, then a nonconventional worldview may be needed to reframe and prescribe the input of accounting" (Freedman and Stagliano, 1990, p. 267).

Rubenstein (1992, p. 506) argues that accounting has been gradually moving in the direction of an expanded definition of assets and liabilities, and that this expanding definition is encompassing less measurable estimates such as pension liabilities, oil reserves and actuarial valuations. He sees the expansion as continuing, with the inclusion of some form of accounting for environmental and public welfare issues as a further development in this trend.

Enterprises and power

Miller and O'Leary (1990, p. 494) refer to "a loosely associated network of concepts of the enterprise and of the individual" that "has been woven into the thought and practice of managerial accountancy". They are: that the enterprise is a hierarchy of responsibility centres, that decisionmaking constitutes the principal activity across these centres and that the enterprise is driven by an economic mission, evolving across time in the interests of individual and social wealth. Accounting assumes a world in which the whole human population—or at least some sub-set of that population such as a nation—co-operates, more or less, in the utilization of all the resources available to them. Rights and obligations concerning the resources are seen as shared amongst the people, and people pursue aims which require the marshalling, combination, storage and distribution of those resources.

One of the means that people employ both for the sharing of the rights and obligations and the pursuit of their aims is the enterprise. An enterprise comprises one or more people, an agreed mission, and the activities associated with that mission. The raison d'etre of any enterprise is the expectation that the agreed mission will be achieved by activities such as planning and control, and marshalling, combining and distributing resources. Individuals, groups and communities acknowledge the existence of enterprises as entities to represent these missions.

Enterprises serve also as a part of the system of resolving the economic problem of scarcity of resources and competing ends in society. In most societies the control of scarce or 'economic' resources is shared amongst the people in the form of individual rights and obligations. Without enterprises all that a society regards as its scarce resources might have been shared amongst individual people in this way: enterprises provide a means of sharing out these rights and obligations on behalf of groups of people. In most societies there is a mix of ownership between individuals and enterprises. The marshalling, combining, distribution and stewardship of economic resources is achieved by the assignment of rights and obligations amongst people and enterprises. Enterprises and people are the entities trading and storing these rights and obligations.

At any time there is a certain mix of ownership of resources and range of enterprise missions in a community or nation. Pursuit of the missions requires a different mix of ownership of resources, necessitating a giving and receiving of resources. This giving and receiving is an ongoing process that yields a stream of outcomes caused by the pursuit of enterprise missions.

The powers to decide about the resources which a particular organization is to receive, hold or part with are usually shared amongst a number of entities. The basis of that sharing can be a complex network of political, economic and administrative relationships. An enterprise mission can therefore be seen as an amalgam of the aims of a number of different entities.

Enterprise missions, in the sense presented here, are not limited to the aims presented in formal written statements by the managements of enterprises, but include also unwritten, even unvoiced, aims which influence the behaviour of enterprises via the decisions of a wide range of entities, sometimes called the 'constituents' of the enterprises.

The ability to pursue aims depends in large part on powers to decide what is to happen to resources—that is, the power to exercise their discretion as to whether to grant or withhold rights to resources, and who are to be favoured or not favoured by grants of resources. Power over resources gives entities the power to influence the fate of enterprises. Such power is exercised in the process of giving or taking—these are the events which convert the aims of any entity into action. This power over resources is derived either directly, from rights of ownership of the resources, or indirectly, by agents elected or appointed to represent the interests of holders of rights of ownership.

Power, it is argued here, is the ability to give or to take resources. Power resides in the possession of this ability and is exercised by giving or taking. If it is assumed that everything is always owned by somebody, then every event of giving by one entity involves taking by another, and vice versa. From the giver's point of view, the gift is an output and from the taker's point of view it is an input. The

following exhibit provides examples of the common forms of giving and taking by enterprises.

EXHIBIT 2.1: COMMON FORMS OF GIVING AND TAKING BY ENTERPRISES

From the giver's point of view - outputs	*From the taker's point of view - inputs*
Pay for investment	Contributions of capital received
Transfer shares to investor	Receive shares from divestor
Pay out loan	Receive proceeds of loan
Pay for purchase	Receive payment for sale made
Transfer goods sold	Receive goods purchased
Expense incurred	Revenue received
Work done	Labour and other services received
Taxation expense	Taxation revenue
Gifts donations or grants given	Gifts, donations and grants received.

Conclusion

Accounting is based on a model which sees all resources as belonging to people and enterprises and the giving and taking of those resources as the principal means by which people manifest their power over resources and pursue their personal and group aims.

A definition of resources

Resources are "means of supplying some want or deficiency" (Shorter Oxford Dictionary). In terms of enterprise missions, therefore, resources are the means

by which the constituents of enterprises seek to satisfy their aims. This makes the definitions of resources and enterprise missions given here rather circular, but nevertheless adequate for the purpose of the discussion. The terms 'capital', when it is used to mean a stock of resources, and 'property' are essentially synonymous with 'resources'. Paton (1922, p. 35) said:

> Evidently the accountant's class, properties, is somewhat akin to the economist's 'capital,' especially as conceived by those who make no distinction between land and produced goods. . . commonly the accountant makes no fundamental distinction between 'natural' and 'produced' factors.

The scope and nature of accounting's purview depends on the definition of resources that it adopts. The view that "the one who holds the purse strings also dictates direction" (Pekar, 1982, p. 43) confines enterprise power to control over liquid financial resources and is perhaps consistent with a cash accounting model. The traditional accounting model recognizes a broader range of resources to encompass what are often called *economic* resources. Economic resources could be defined as resources, the rights of ownership or control over which have been assigned to people and enterprises.

Paton (1922, p. 37) pointed out that the definition adopted by traditional accounting "is a very imperfect representation of the true economic strength of a business enterprise" since it "connotes not valuable and advantageous conditions and circumstances in any broad sense but rather definite structures, commodities, and rights capable. . . of explicit value expression".

Economic resources are increasingly being seen as only a subset of the total of resources involved in the pursuit of missions by enterprises. Those resources which are not recognized by traditional accounting systems, but nevertheless affect

decision-making and outcomes, can be generally termed 'non-economic' resources. Non-economic resources fall into two categories:

- Resources to which ownership has not been ascribed to anyone, sometimes referred to as 'commons';
- Resources which reside in the minds of individuals, or human capital.

The implication of the term 'common property' or 'commons' is that if property is not owned by anybody in particular it must be available to everybody in some general way. The notion that human beings may have no right, even communally, to take some resources does not seem ever to have had much currency. The commons, therefore, are usually regarded as categories of resources which are controlled jointly either by communities, by nations, by groups of nations or by the whole human race.

'Commons' include natural physical resources such as the water, the stratosphere and the diversity of life-forms on Earth. Commons can also be man-made. The terms infrastructure assets and heritage assets are used to denote certain man-made resources which are usually controlled by public sector authorities. They include roads, bridges, government buildings, railways, water, sewage, gas and electricity reticulation systems, dams, docks, airports, parks gardens, museums, monuments and historic buildings (Rowles, 1991, p. 48).

According to Sax (1990, p. 1142) the terms "heritage" or "cultural property" or "patrimony" all mean "artefacts of historic or aesthetic value" but have no specific meaning. Merryman (1989, p. 341) describes cultural property as "principally archaeological, ethnographical and historical objects, works of art, and architecture" but goes on to suggest that "the category can be expanded to include almost anything made or changed by man." Sax (1990, p. 1143) points out that

the idea that there is some collective obligation to identify and protect cultural artefacts is quite modern and his evidence suggests that it is a twentieth century phenomenon.

Baden and Hardin (1977, p. x) describe how the belief that the individual is the best judge of his own welfare, and that the aggregate of individual actions produces the optimal collective welfare, furnishes the supposedly objective justification for asserting rights of all individuals to use such resources. The idea of the commons is "the view that whatever is owned by many people should be free for the taking by anyone who feels the need for it" (Hardin, 1977, p. 47). However, Hardin (1968, p. 28) argues that the commons, if justifiable at all, is justifiable only under conditions of low population density. As the human population has increased, the commons has had to be abandoned in one respect after another. Two well established ways in which the idea of the commons has been abandoned are the assignment of personal ownership to much of the Earth's resources, and the imposition of laws which regulate behaviour in respect of common property.

Since the commons are not deemed to be 'owned' by anybody in particular, their appropriation often does not *seem* to involve a giver. It is generally agreed, however, that there are implicit givers, either in this generation or in later generations, who lose the enjoyment of the resource or the choice of what to do with it.

Commons also include less physical, human-oriented, resources such as public health, literacy and other benefits of the welfare state (Thomson, 1991). However, the ownership of some human resources is often not regarded as communal.

Lev and Schwartz (1987, p. 628) argue that the dichotomy in accounting between human and non-human capital is fundamental; human capital is totally ignored by accountants, yet is treated in modern economic theory on a par with other forms of earning assets.

Gray (1992, p. 418) sees man-made capital as including ethical and aesthetic values, human freedom and self actualization, justice, community and so on. The term 'cultural capital' is sometimes used to denote the accumulated knowledge and prestige which people obtain from education (Schlesinger, 1986) and other experience. The topic of cultural capital is discussed further in Chapter 6. This man-made non-physical capital is owned personally in that it resides in particular individuals, but is also communal in that it is the result of accumulated knowledge and cultural conventions shared by the community.

There is an important distinction between the motivations behind the transfer of resources and the resources themselves. A non-economic aim such as altruism may be satisfied by the transfer of economic resources such as food. Conversely, non-economic resources can satisfy economic aims: public health and literacy can both contribute to the productivity of the workforce.

Location of decision-making power

Conventional accounting models of decision-making have been predicated on the assumption that organizations are purposeful rational systems that should be internally consistent. The "ecological" or "descriptive" model challenges these assumptions (Dermer, 1990, p. 70). The ecological model "starts from the assumption that organizations are made up of a variety of stakeholders attempting to satisfy their individual wants amidst a host of conflicts and constraints" (p. 68).

Coordination occurs only because decisions are contingent upon one another. The joint effect produced by the conflicting stakeholders is unplanned: it just occurs (p. 69).

The view being presented here is of a complex network of transactions in which people and organizations give resources to each other. These transactions determine who gets what and how much. To discover who or what 'drives' the system involves locating the source of the decision-making power—locating who makes the decisions. In simple terms, the owners of resources have the power to command production and distribution—they possess the decision-making power. However, their decision-making power is considerably diffused in a number of ways.

Firstly, this diffusion of the power of the owners of resources can be seen as occurring as the result of the passage of resources along what could be called 'chains of funding'. Giving needs only to involve two entities, a giver and a receiver. However, most giving is conducted on behalf of and not directly by those who could be regarded as the 'ultimate funders' of the enterprises. Most giving is channeled through corporations, central and local government authorities, trusts, and incorporated and unincorporated societies. These organizations (or their managements) are intermediaries, acting on behalf of shareholders, taxpayers, ratepayers, members: the ultimate funders of the organizations. Chains of funding can be viewed as beginning and ending with individual humans, so that individual humans are all 'ultimate funders' or 'ultimate fundees' and organizations are all 'intermediaries' channeling funds between individual humans.

Secondly, although giving can conceivably be a one-person affair, it is almost always a cooperative effort involving a large number of people, each exercising

decision-making power in distinct ways and not necessarily in consultation. The result is a joint, rather than an individual, decision.

Thirdly, the ownership of resources is not the only source of decision-making power. Two other sources of decision-making power can be termed 'representative' and 'social'. Representative decision-making power resides in the right to reallocate the resources of others, for example, to tax them. Social decision-making power resides in structures of influence amongst individuals and groups: the power of self-interest and agency duties may be modified by others via social influences arising from the psychological need to identify with dependency and reference groups (Bolnick, 1975). The influence of these other sources of power further diffuses the result and some of the decision-making power lies with takers rather than with the givers of resources.

Fourthly, organizations involve the coordination of the activities of people, usually organized hierarchically. Such a hierarchy disperses the decision-making power over several levels of subordinates. Each subordinate tempers compliance with the instructions of his or her superior with other social and personal aims.

The managements and employees of organizations are paid to be agents of the capital contributors and to carry out instructions within the context of the organizational hierarchy. However they are also givers in their own right, by means of the labour which they contribute. Therefore, they possess two forms of power derived from giving: the indirect power resulting from their appointment by the equity-holders to represent their interests and the direct power resulting from their contribution of labour to the production process. Individuals functioning in roles as agents to implement the aims of principals, in this way, may therefore interpolate their own motivations into their decisions.

Via chains of funding, and organizational hierarchies people are appointed, elected and delegated to represent or appropriate the ownership interests of ultimate funders. Although enterprises and people are separate entities giving and taking from each other, the 'minds' and 'hands' of enterprises are those of people. The total number of 'levels' between ultimate funder and ultimate fundee is the sum of the number of intermediary organizations and the number of levels in the decisionmaking hierarchy within each of the intermediary organizations. Each level inserts the personal interpretations and motivations of another person into the decisonmaking process.

Givers are, therefore, not necessarily the same people as those who make the decisions to give. A person may possess delegated or socially-derived power to direct the giving of others. Tax- and rate-payers are compulsory givers to central and local government bodies. Shareholders and other stakeholders of for-profit corporations are willingly or unwillingly, wittingly or unwittingly committed to a bargain under which some of their funds are allocated to pursue aims which they have not ratified. Even in the case of voluntary organizations where contributors direct their funds on the basis of broadly defined sponsorship aims, detailed decisions will be delegated to management, and a contributor may not agree with some of these decisions. For example, donors to charities often want to see their donations used immediately and directly in the provision of those charitable services which are the raison d'etre of the particular entity. Management, on the other hand, sees the need to divert resources into administration, fund raising, fixed assets, working capital and reserves for long-term commitments (Bird, 1985).

Conclusion

Decisions to give and receive are diffused amongst a great many people by the influence of organizations, chains of authority, and the interaction of representative, economic and social power.

Motivated and unmotivated transactions

It has been argued, so far, that giving and taking drives enterprises and that decisions to give and take are widespread and diffuse. A more detailed understanding of the process, requires an investigation of what motivates decisions to give and take.

A giving transaction involves a giver and a receiver. The motivation underlying a transaction may therefore be a dual one, involving the motivations of both giver and receiver. The transaction can be the result of a bilateral decision in which the giver has decided to give and the receiver has decided to receive. On the other hand, a transaction may be the result of a unilateral decision by the receiver as in a burglary, or it may be the result of a unilateral decision by the giver as in the case of an unsolicited gift. Moreover, a transaction may be completely unmotivated, as in the case of an object lost by one person and found by another. Therefore giving may be bilaterally motivated, unilaterally motivated or entirely unmotivated.

An analysis of how a giving transaction is 'driven' can, therefore, be undertaken by considering the following three issues.

- the motivation to give
- the motivation to receive
- unmotivated giving or receiving

These three issues are considered in the sections that follow.

The motivation to give

There are two fundamentally distinct motivations for giving or directing giving (Boulding, 1973):

- an expected reciprocal benefit to the giver or director—such giving could be regarded as voluntary
- avoidance of detriment to the giver or director arising from not giving that outweighs the detriment of giving—such giving could be regarded as non-voluntary

Examples of non-voluntary transfers are the payment of taxes and property rates. These givers are not necessarily in sympathy with the policies of the organization to which they are contributing. In contrast, voluntary organizations such as sports clubs and art societies are funded by voluntary givers. The members of these societies choose to fund them because they identify with their aims. The funders of corporations are also clearly voluntary givers, though there may be non-voluntary elements in their funding. Shareholders of a company buy into a package of aims which may include maximization of the share price, company survival and other aims. Presumably investors who own shares in a company because of its wealth producing capabilities will not object to a modicum of sponsorship activity provided they do not use up too much of the wealth appropriable by the shareholders or the majority of shareholders can identify with the object of the sponsorship. Nevertheless, these shareholders are non-voluntary givers in respect of this sponsorship, since they do not choose the sponsorship

policy. On the other hand, they are voluntary givers in the sense that they are able to opt out of the sponsorship by selling their shares or to lobby the company for the appointment of a board of directors with views on sponsorship similar to their own.

It appears to be axiomatic that one or other of the above motivations underlie motivated giving. These two motivations are considered in turn below.

Motivation by avoidance of detriment

The expectation of a detriment from not giving as a motivation for giving can be seen in the case of legal requirements such as taxation, and in the case of insurance. Enforced standards of safety, health, morality and environmental friendliness may also motivate giving. For example, cars must have seat belts and meat must be wrapped. Purchasers are required to pay the cost of such standards even though they may not choose to.

Boulding calls this motivation "fear" and cites the extreme case as the armed hold-up where the choice is between "your money or your life".

Motivation by avoidance of detriment can either be economic or non-economic. Fines for non compliance create economic incentives to pay taxes and to observe standards. An example of non-economic incentives is provided in Bolnick (1975, p. 198) who uses the term "societal costs" for those social pressures, religious beliefs, and psychic unpleasantnesses, which are "generated by invective aimed at the tightwad, discounted by a factor representing the likelihood that others will detect his selfish behaviour". Societal costs, so defined, were postulated as the reason why individuals donate to charity, but may equally influence the observance of standards of safety etc.

Boulding (1973) argues that payment of taxes is not motivated entirely by the deterrents for non-payment because people identify with the community benefits which taxes fund, and regard these as reciprocal benefits to themselves. Standards of safety, morality etc., may be similarly inspired. Fisher (1988, p. 1746) develops the utopian concept of "the good life" under which people would "flourish" under social and political institutions which would encourage self-determination, commitment, moderate risk and meaningful work. In his utopian society, "resources would be deployed and divided in a fashion that enabled and encouraged its members to realize as fully as possible lives of the sort sketched above". In a similar vein Chapman (1992, p. 432) argues that "all who may be better able to exercise their freedom within an enabling environment" are obligated to "those unable, through their own capacities and resources, to progress towards any minimally reasonable conception of the good life".

Motivation by expected benefit

Motivation by expected benefit is the basis of a fundamental axiom of economic and accounting thought. Much economic theory is based on the assumption of the 'economic man', which is that entities will give up resources only if they receive resources of at least equivalent value in exchange. This selfishness is assumed to be an inherent quality of human nature. Conclusions from economics concerning the distributive efficiency of free markets rest upon the foundation of this assumption.

The assumption is challenged by a newer branch of economic theory which contends that entities may also be motivated by non-selfish concerns which lead them to give up resources without receiving value in exchange. The pure version of such motivation would give rise to the pure grant for which the funder expects

to receive nothing in return. In this view, the pure exchange and the pure grant are seen as the two ends of a continuum upon which all giving can be placed, with varying degrees of "lopsidedness" or subsidization lying between the two extremes (Boulding, 1973). The economic man assumption is replaced with a "bifurcated man" assumption (West, 1987, p. 46).

Exchange transactions are symmetrical—economic resources are exchanged for economic resources—and the motivations are similarly symmetrical. Grant transactions, on the other hand may be asymmetric—there may be both economic resources and non-economic resources components in the transaction. Therefore a consideration of the motivation to receive requires consideration of the motivation of the receiver of economic resources and the motivation of the receiver of non-economic resources.

Exchange transactions are those for which the giver is satisfied to have at least broken even by the receipt of transferable ownership rights in return for the rights given up. This involves either (McCulloch and Ball, 1992):

1. personal ownership or experience of the good or service funded (e.g. a purchase or a sale of goods or services)

2. personal ownership or other rights over the enterprise itself (a purchase of equity or debt capital)

In the case of revenue, expenses and investment the motivation lies in the utility which each party to the transaction derives from a direct exchange of value for value, and ownership for ownership. In the absence of coercion or deceit each party receives property or rights which he or she regards as a fair exchange for the property or right sacrificed.

In the case of exchange transactions the motivation to give is derived from the motivation to receive. The motivation to receive is discussed below.

Cramp (1991, p. 57) points to two basic and unprovable assumptions of market theory: "that people prefer 'more' to 'less'" and "that people behave consistently". He characterises these two characteristics as "private greed" and "private rationality". Greed as a motive force, however, is arguably more a response to pervasive cultural forces than to in-built instinctive impulses (p. 59), and often the antithesis rather than the correlate of rationality (p. 60). Ethical dilemmas provide such an antithesis—the moral high ground and not the self-serving alternative is recognized by the individual as the rational choice. Thus Collard's (1978, p. 3) reference to *rational altruistic* man is not a contradiction in terms.

Phelps (1975, p. 4) sees the assumptions of perfect information and perfect foresight as the chink in the armour of market theory. In a world of imperfect information and imperfect foresight, one sees unsafe factories, unsafe products, bad debts, extortion and short-weighing. The fact that one also sees:

> a producer may advertise his product truthfully when he need not, a labour union may refrain from breaking the law when it could do so for net gain, a producer may resist contaminating a river when he could do so without detection, a firm may elect to pay "fair wage rates" when it could exploit some workers' ignorance of wage rates and job availability elsewhere with immunity, a benevolent butcher may abstain from short-weighing.

. . . is evidence that (p. 5):

> altruism exists in the refusal to deceive through false information (truthfulness), or the refusal to mislead through concealed information, (disclosure), or the refusal to let uncertainty that others will keep their bargain discourage one's own good faith (trustingness).

McKean (1975, p. 31) points out that a private enterprise market-exchange system could not operate without a good deal of mutual trust. "Written contracts in business hit only the highspots of agreements, like the bulk of an iceberg, an enormous portion of such mutual understandings is unseen . . . "

These critics do not dispute that all voluntary giving is motivated by reciprocal benefits, but the presumption that people are motivated only by reciprocal ownership of economic goods: there is too much evidence of giving in return for less material or less appropriable benefits.

Conclusion

Giving is motivated either by fear of the negative consequences of not giving or by the positive consequences of the giving. The motivation for giving is not restricted to economic detriments or rewards.

The motivation to receive

It has just been argued that the expectation of receiving a benefit is a motivation for giving—people give in order that they may receive. A discussion of motivation for voluntary giving therefore collapses into a discussion of the motivation to receive. However, the motivation to receive can occur in isolation, without any expectation of giving. For example, thieves do not expect to give in return for what they receive. Social welfare beneficiaries fall into the same class. In the case of theft there is often an implied threat that worse will befall the victim who attempts to prevent the theft. In the case of social welfare, there is an implied threat that, in the absence of the benefits, social welfare beneficiaries would steal, beg in the streets or otherwise offend or prick the consciences of the

better off. The motivation to receive is, therefore, shared by those who expect to have to give in order to receive and those who do not.

Receiving can be seen as motivated by the pursuit of the "good life" as described by Fisher (1988), and as ranging from a basic survival need to a component of self-actualization as described by Maslow (1954). The distinction between economic and non-economic resources was made above. The needs and wants described by Maslow and Fisher include both economic and non-economic resources. It is useful to consider the motivation to receive in terms of this distinction because it differentiates the stand of traditional accounting from emergent views.

The motivation to receive economic resources

The receiver of economic resources receives something that can be exclusively enjoyed by the receiver. By definition, an economic resource, even if unwanted, is worth something to the receiver because it can be exchanged for something which is wanted.

Where an economic resource is acquired in an exchange transaction, then the exchange process evidences the receivers motivation to receive. On the other hand, receivers of gifts and grants may have sacrificed nothing, or very little, to obtain the resource.

Acceptance of a gift may be motivated by a simple appreciation of the goods received, or more indirectly by the desire to receive a token of friendship or affection, or by the desire not to offend the giver.

On the other hand, a gift may be rejected—the non-economic cost of receiving a gift may outweigh the benefit perceived by the giftee, as in cases where people

refuse to accept charity for reasons of pride or self-respect. A grant of charity or sponsorship may be rejected where conditions apply that are unacceptable to the grantee.

The motivation to receive non-economic resources

The needs or satisfactions yielded by non-economic resources do not confer transferable ownership rights. Two classes of these satisfactions can be identified:

1. influence motivated by altruism, philanthropy, or other beliefs (which may be missionary, mystical, political, humanitarian, sociological, economic, medical, educational, ecological, scientific, artistic)

2. association with the production of the good or service funded (e.g. some cases of contribution of labour)

This is a differentiation between publicly or externally derived satisfactions on the one hand, and privately or internally derived satisfactions on the other. They are explained below.

Influence

Giving requires two characteristics: power and a mission. A giver possesses power either in the form of economic wealth in excess of that required to satisfy the sponsor's own needs, or in the form of organizational or political status which empowers the sponsor to allocate communal wealth. A giver also possesses a desire for the world to be a certain way. If the world is that certain way without the giver's contribution, then the giver will not contribute. The giver contributes when it is deemed by the giver to be necessary in order to make the world that certain way.

Phelps (1975) refers to three alternative concepts of altruism: as "a *quid* for some implicit or conjectured *quo*"; as an unrequited transfer in which the giving provides its own gratification, and as the result purely of a generalized regard for human rights, social codes, business ethics and so on. Garner and Wagner (1991) refer to reciprocity, the observation of which enable consumers to create and maintain social interaction, which allows them to meet their social needs. The belief that the objective of most giving is to maximise the satisfaction and welfare of others may be more apparent than real. Giving is motivated by the desire for affection, status, distinction and maintaining a "network of love" amongst family and friends.

Collard (1978, p. 18) refers to "preferences" which are either "meddlesome" or "nonmeddlesome". Meddlesome preferences are concerned with the composition of the consumption of others, nonmeddlesome preferences are concerned only with "utilities". He suggests (p. 21) a "continuum of concern, running from the deeply committed to the apathetic", from extreme altruism to extreme egotism.

Vickrey's 1962 theory of philanthropic motivation suggests that individuals tend to empathize with others of similar status, favouring those of a slightly lower status and feeling a rivalry with those of similar or slightly higher status (Bolnick, 1975, p. 199)

Nagel (1975) identifies three cases of consideration for the welfare of others:

i. a "capacity to put oneself in another person's shoes" created or fostered by "making vivid to each participant what it is like for others who depend on him" (p. 64).

ii. certain causal relationships between his own welfare and that of others, such as reluctance to become a free rider, trust in others to share the burden of contribution fairly and recognition that without voluntary contributions a costly compulsory alternative would need to be instituted (p. 65).

iii. The inclusion of altruistic motives within the scope of a service offered for sale. For example, "when one hires a doctor, a nurse or a baby-sitter, one pays them not only to perform certain tasks and exercise certain skills which they can make available or withhold at will: one also pays them to act for certain motives which they cannot control at will. Nagel suggests that some motive broader than self-interest is part of what is being paid for when someone is hired to perform almost any service or task.

Bolnick (1975, pp. 217-219) suggests the following model:

> Given a mode of behaviour *B*, concerning which individual i must make a choice, his decision calculus can most generally be described by a stochastic function of four variables: D, the direct social pressures perceived; *I*, the indirect social pressures from identification with reference groups; *E*, the economic utility of *B* for the individual; and *C*, the objective cost of doing *B*. Thus the probability (*Pr*) of individual *i* choosing to do *B* can be written as:
>
> $$Pr(B) = F(I,D,E,C)$$
>
> We can see that the traditional theory of economic choice is a special case of our present generalized model. In particular, in the absence of any social pressures, Pr(B) will collapse into a function of E and C alone; and where E and C will be known with certainty, the probability operator will

degenerate into the form Pr(B) = 1 when E>C, and Pr(B) = 0 when E<C, assuming that the costs and benefits are measured in the same units.

Some giving is unmotivated or unwitting. For example, buyers of state-run lottery tickets may be unaware that a portion of the ticket price goes to fund charity; and the charities funded may not necessarily be those of which the ticket-holder would approve.

The motivation to fund often draws on perceived characteristics of the class of activity funded. However administrative or institutional distance between the ultimate funder and the ultimate fundee may hide the activity from the giver.

Association with production

Distinct from the motivation to fund in return for satisfaction at having influenced others in some way is motivation to fund in return for satisfaction at participating in the process of others. People value certain types of work or projects for their own sake (Heilbrun, 1988). In some areas of endeavour the line between work and leisure is not clearly drawn.

Marx drew a distinction between the worker/producer and the worker/consumer, arguing that as the result of the growth of industrial capitalism "the satisfaction of 'producing works' together and the pleasure derived from 'doing' were abolished in favour of only those satisfactions that money could buy" (Gorz, 1988, p. 22). In large complex organizations "individuals are induced to *function* in a complementary manner, like parts of a machine, towards ends that are often unknown to them *and different from those offered to them as personal goals*" (Gorz, 1988, p. 35). "Economic rationality" is to blame for this state of affairs.

Economic rationality "was, for a long time, held in check not only by tradition, but also by other types of rationality, other goals and interests which set limits that were not to be exceeded. Industrial capitalism was only able to take off when economic rationality freed itself from all the other principles of rationality and submitted them to its dictatorial control" (Gorz, 1988, p. 18).

The concept of "modes of rationality" has provided a basis for some longitudinal studies in organizations (Booth, 1988; Dent, 1991). "Modes of rationality" reside in the minds of people in different roles in an organization. For example, Booth (1988, p. 22) attributed what he called a "welfare" mode to the clergy of a church organization, and Dent attributed what he called the "railway culture" to officials in a railway company. In both studies, the prevailing modes of rationality (welfare and railway) were eclipsed by an "economic" mode of rationality over a period of months as the thinking of financially trained staff infiltrated the organization culture. Apparently, by taking over the delegated giving powers, the proponents of the economic mode of rationality refused to recognize some of the non-economic criteria motivating the clergy and railway officials to enter into lopsided transactions.

Despite Gorz's endorsement of the Marxian perspective and the gains of "economic rationality" in recent years documented by Booth (1988), Dent (1991) and others, there is still evidence of the influence of other modes of rationality.

Organizations which move from a non-economic to an economic mode of rationality can be expected to pay a price. Modes of rationality go beyond the giving decision-making of managements. The same mode of rationality that prompts an official to make a lopsided giving decision may prompt that official to donate his or her own labour to the organization, and may prompt givers to donate to the organization. People in management will play advocate for the various

views which their roles represent, not only on behalf of themselves, but also on behalf of givers which they represent. The various motivations which give rise to the whole pattern of giving for an organization will be represented by the particular occupational classifications that prevail in that organization.

Unmotivated giving and receiving

One or another party to a giving transaction may be an unwitting participant in a giving decision. This may occur as the result of either a malicious action (e.g. theft) or altruistic action (e.g. an unsolicited gift) by the other party to the transaction. Unmotivated giving and receiving may occur with or without awareness of the giving or receiving. For example, theft may be discovered or it may go undiscovered by the giver. It may also occur without either party being aware that they are giving and taking (e.g. an item lost and found).

Unmotivated giving and receiving have particular ethical and environmental relevance. The issue of monopoly and other unfair trade practices involves allegations of taking from innocent victims. The concept of externalities is also about unfair transactions. One of the parties in such transactions is often expressed in communal terms. Often, the giving and taking is seen as occurring between generations.

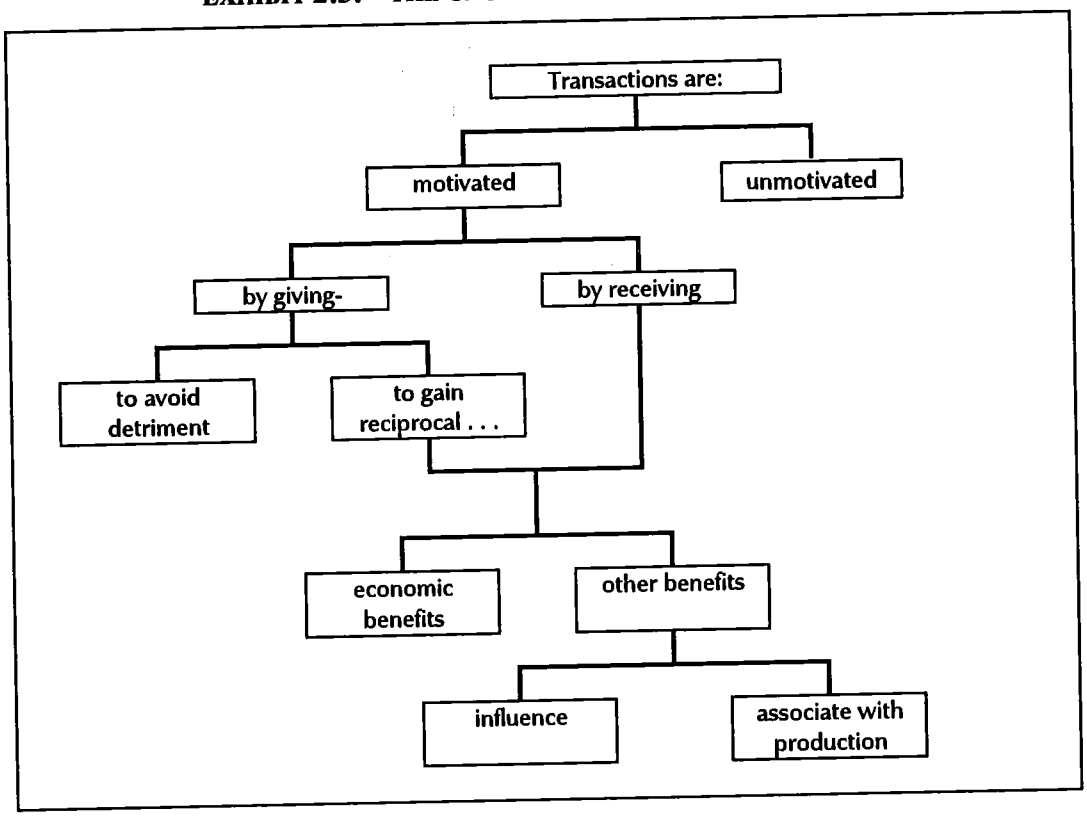
Such is the case when resources that are regarded by society as "free" become depleted. With hindsight, the hunting of the dodo and the moa to extinction can be seen as intergenerational giving and taking. But at the time the need to conserve stocks of these bird species was not recognised. The enjoyment of these birds whether as culinary or as visual delights has been sacrificed in order to provide more food for earlier generations. The taking was motivated but

unrecognized (since nobody thought that anybody else was giving anything away); the giving has been unmotivated but recognized.

Summary of causes of giving and receiving

Exhibit 2.3 charts the analysis of the last three sections.

EXHIBIT 2.3: THE CAUSES OF GIVING AND RECEIVING



Transactions possess a double duality. The first duality is that there are always a giver and a receiver. The second duality is that there are usually a reciprocal giver and receiver relationship: usually the giver is also a receiver and the receiver is also a giver. Therefore, there may be up to four motivations involved: the motivation behind each party's giving and the motivation behind each party's receiving.

Conventional understandings of commerce and enterprise are built around the 'motivated' arm of the above table. Voluntary transactions can be classed as either exchanges or grants transactions. The parties to an exchange both expect to be at least as well off after the transaction as before, in terms of economic resources. They are both motivated by economic benefits. The parties to a grant both expect and agree to a net transfer of economic resources from one to the other. One is motivated by economic benefits and the other by non-economic benefits.

The receiver of non-economic benefits expects either to gain an external satisfaction of influencing the way the world is in some way, or the personal satisfaction of association with the production process.

Exchanges, grants and lopsided transactions.

Transactions can be classed either as equal or unequal exchanges. Equal exchanges are purchases or sales or market transactions in the conventional sense of those terms. Boulding calls them "exchange transactions". The assumption is that the parties to the transaction all end up at least as well-off, in economic terms, as they were before the transaction.

Nevertheless, many ostensibly exchange transactions are unequal. For example, a doctor's scale of lower consultation fees for the young and the elderly implies a subsidy for one class of patient and a tax on another. Similarly, marketing practices such as loss leaders subsidize some consumers at the expense of others.

Transactions which are avowedly unequal go by a number of names, including: 'charity', 'contributions', 'grants', 'donations', 'patronage', 'philanthropy',

'sponsorship', and 'subsidies'. With the possible exception of sponsorship, these terms all have in common the assumption that, as a result of the transaction, the giver loses and the receiver gains in net well-offness.

Some of these terms have been defined in specific ways in the literature: 'charity' has a specific connotation of the relief of poverty; 'patronage' has an arts connotation[2]; 'subsidy' implies funding that supplements another source of funding.

The FASB defines the term 'contributions' as "transfer[s] of cash or other assets to an entity or a settlement or cancellation of its liabilities from a voluntary nonreciprocal transfer by another entity acting other than as an owner" (FASB, 1990, p. 51).

Sponsorship has been distinguished from grants on the grounds of differing motivations on the part of the sponsor. Sponsorship is motivated by the desire to promote the activity of the sponsor whereas grants are motivated by the desire to promote the activity of the recipient of the sponsorship[3]. Sponsorship under this definition, then becomes an exchange rather than a grant transaction, although often with a rather uncertain link between the cost and the benefit.

Terms like 'subsidy' and 'grant' imply a heavy element of non-exchange motivation. However, many ostensibly exchange transactions can be seen also to have a non-exchange element.

---

3 Professor Athol Mann, in an interview with the writer, describing the "Smokefree" campaign which allocates sponsorship and not grant money because it is promoting non-smoking and not the sporting and other activities which it is funding.

Boulding points out that the exchange and the grant form the two ends of a spectrum, and that most transactions lie somewhere away from the two extremes (Boulding, 1973). Many transactions are unequal or lopsided in terms of the exchange of ownership rights expressed in economic terms. However, if a transaction was voluntary, there must have been a motivation for the giver of the benefit to endure a net economic loss. In other words, there must have been non-economic factors motivating the transaction. These non-economic factors offset the lopsidedness of transactions.

A person proposing to enter into a voluntary transaction has certain expectations. The perception that the transaction is desirable lies with that person and is not necessarily shared by outsiders. This perceived desirability involves, in a greater or lesser proportion, two components: a perceived reciprocal benefit to the person and a perceived benefit to others. A continuum can be envisaged covering all of the shades of direct and indirect benefits. Towards the direct end of this continuum lie benefits enjoyed mostly by the giver and nobody else, for example, a free ticket to a function being sponsored. Towards the indirect end lie benefits enjoyed mostly by others and not by the giver, for example, aid to the victims of famine in a third-world country. Mid-spectrum are benefits such as sponsored events in the sponsor's own community which the sponsor would not have the opportunity to see or hear were it not for the sponsorship, yet sponsorship enables consumption by others as well. To the extent that sponsorship brings direct benefits it may be motivated by the sponsor's self-interest. Direct benefits can include rewards to a sponsor from advertising, lobbying power with government etc and economic rewards to sponsor's management via their involvement in or enjoyment of the recreation or art being sponsored. In respect of the indirect component of any sponsorship, the patron's motivation is derived from another

kind of interest. This interest may be religious, cultural, humanitarian, ecological, scientific, political . . . the list probably covers the whole range of human endeavour. The line between direct and indirect benefits may be hard to draw. Giving to the poor, for example, may be motivated by one of the motivations which will give indirect satisfaction to the donor. On the other hand, it may be motivated by the belief that such giving will reduce crime and thereby reduce the risk of a crime against the donor—a kind of insurance premium providing a direct benefit to the donor.

There is a sense, therefore, in which lopsided voluntary transactions might be assumed to be even like their exchange counterparts—the sum of the economic and non-economic motivations of one party can be equated to the sum of the economic and non-economic motivations of the other party.

Under such an assumption economic valuations could be placed on non-economic factors, (or non-economic valuations on economic factors), except where non-motivation or avoidance of detriment enters into either side of any transaction, or where non-economic factors enter into both sides of a transaction.

Theories of utility and revealed preference, were developed in economics to explain value transfers in economic transactions. The theories may perhaps benefit from the introduction of non-economic factors into the equation.

Summary

This chapter articulated a model of the economic, political and social environment of accounting. In this model, enterprises are driven by the will of those who control the allocation of resources. The practice of accounting is becoming more integrated and wide-ranging in its scope of concerns. The expression of the world

of accounting in terms of motivation for funding brings together the range of concepts implicit in the new accounting.

Accounting is based on a model which sees all resources as belonging to people and enterprises and the giving and taking of those resources as the principal means by which people manifest their power over resources and pursue their personal and group aims. The aims of enterprises are diffused amongst a great many people by the influence of organizations, chains of authority, and the interaction of representative, economic and social power.

Enterprises are 'driven' by those with power over the giving and taking of resources because this power enables them to decide what is to be produced in a community. The motivations behind the receiving, taking and giving of resources can be classed as economic or non-economic, a distinction that proves useful in the context of accounting theory and regulation because it:

- identifies the boundaries of traditional accounting, which 'sees' only economic resources.
- identifies a dichotomy in the decision-making structure amongst the funders and managements of enterprises, which provides the basis for discussions of 'modes of rationality'

Fundamental to the concept of a transaction is the assumption that there is always a giver and a receiver. There are differing motivations to fund. Giving is motivated either by fear of the negative consequences of not giving or by the positive consequences of the giving. The giving and receiving of resources which are not regarded as 'belonging' to anybody, and therefore do not have a dual motivation, are not satisfactorily handled by a system of accounting based on recording reciprocal costs and benefits.

Accounting information is a special case of a resource, the giving and receiving of which is motivated similarly to other resources, and this theme is taken up in Chapter 4.

Chapter 3
Integrating the Branches of Accounting

> Conjecture: Irresponsible precedent has
> us incongruously by the tail or our shortest
> hairs. Community is not tidily beset
> about, by barberry hedges' convenient limits,
> lines of non-communication.
>
> from "Intersecting Plains" by Kendrick Smithyman[1]

In Chapter 1 it was argued that the world view of accounting is changing in two ways. Chapter 2 discussed the first of these, the widening of the purview of accounting. This chapter develops the second theme: that a more holistic view is being taken.

The generally accepted ways of accounting have evolved over a long period. This evolution has been to some extent shaped by the compartmentalization of accounting according to differences in the contexts in which it is conducted. Compartmentalisation of the topic was a means by which the topic could be made conceptually more manageable. If a basis upon which a major sub-topic can be isolated from the rest of the topic can be found, then it can be handled with more ease and in more detail, within the constraints of time and individual intellectual capacity. At the same time, such compartmentalisations of a topic can shape developments by hiding similarities and duplicating efforts along parallel lines.

Probably the two most influential contextual distinctions which have shaped and compartmentalized accounting are:

---

1 In *Kendrick Smithyman: Selected Poems*, 1989, Auckland: Auckland University Press.

- the distinction between internal and external users of accounting information, which gave rise to the development of management accounting and financial accounting as separate branches of accounting.
- the distinction between the private sector and the public sector, and the distinction between for-profit and not-for-profit accounting, which gave rise to the three-sector classification of for-profit, nonprofit and public sector accounting.

It has been convenient for accountants to confine themselves to one or other of the major specialities, dealing either with management accounting, or with financial accounting or with public sector accounting. Accounting regulations, literature, education and research have all tended to follow this regime of compartmentalization.

It has always been acknowledged, however, that the activities performed in the different contexts, however different, have the common characteristic of being 'accounting', though little attention has been paid to the task of articulating the common principles which bind them all together.

The evidence of moves towards a more holistic approach are found in the recent proposals of professional accounting bodies. NZSA (1991) attempts to encompass public sector and private sector accounting them in a single model. However, it declares "special purpose" and "internal" reporting to be outside the scope of the document.

The Institute of Chartered Accountants of Scotland's *Making Corporate Reports Valuable*, on the other hand, takes the opposite view. It confines itself to business interests, declaring that "non-business entities, whose objectives are different, should, we thought, be providing rather different information" (ICAS, 1988, Para.

0.7), but concludes that the information needs of external users are largely similar to those of internal users. Their model plays down the traditional management accounting/financial accounting distinction in favour of a model which attempts to encompass the principles of both (ICAS, 1988, para. 1.12).

The following sections discuss the implications of a model which embrace the internal/external distinction on the one hand and the for-profit/nonprofit/public distinction on the other.

The internal/external distinction

It is conventional wisdom that data for management needs to be more prospective, detailed and frequent than data for external users and that issues of consistency and comparability and conformance to regulation are more important to external accounting than to management accounting (Edwards, 1986, p. 8).

Such ideas are the basis for the familiar distinction between financial accounting external reporting, on the one hand, and management accounting and internal reporting on the other. Consistent with the standard-setting tradition from which it derives, NZSA (1991) uses this distinction to delimit its scope to external reporting. It is argued here that conceptual framework models such as NZSA (1991) could better reflect the emerging world view if they embrace internal reporting. Only by including internal reporting in their models can they adequately reflect:

- the roles of internal reporting in the external reporting process; and,
- the considerable commonalities between the processes involved in internal and external reporting.

These two arguments are developed below.

The roles of internal reporting in the external reporting process

The exclusion of internal reporting from consideration could be regarded as inconsistent with the requirements of an external reporting standard-setting framework. Standards must relate not just to what external users see but to the way the entity goes about achieving its reporting output. The qualitative characteristics of the information output depend on internal reporting systems. Excluding internal reporting from consideration may result in external reporting proposals that are not cost effective or that yield information that will influence decision-making in ways that were not intended by the planners. The exclusion of internal reporting functions from the topic of external reporting is inconsistent with the view that decisionmaking is not simply a top-down process, but a diffused process occurring at many levels inside and outside an organisation. The Director of Finance of the Ministry of External Relations and Trade believes that it is essential to harmonize internal reporting with external reporting, and that internal needs should drive reporting.(Martin, 1992). In similar vein, McNally (1992, p. 548) expresses the view that public sector organizations should review their internal management reporting systems, so that the external financial reporting requirements are met by "rolling up" the results of the monthly reporting, rather than being considered a separate reporting system.

The commonalities of internal and external reporting

In a recent paper, Bromwich (1990) argues that management accounting should focus more on the reporting of the "attributes" of products. Bromwich's "attributes" closely parallel the "dimensions of service performance" that are proposed for each output and outcome to be reported in general purpose external

reporting (NZSA, 1991, ED-65, para. 12.2). The division between internal and external accounting discourages the drawing of such parallels.

Chapter 2 described the giving and receiving that determines enterprise activities as forming a chain of giving emanating from a person who could be regarded as the ultimate funder, passing through the hands of one or more intermediaries and terminating in an ultimate fundee. The ultimate funder is an individual who makes a payment, either by way of taxation or as a voluntary contribution, loan or purchase. Funding intermediaries decide where the funding is to be channeled, and the ultimate user uses the funding to produce something.

The links in the chain of decision-making between ultimate funder and ultimate fundee are made up of shareholder-company relationships, superior-subordinate relationships within an organizational structure, taxpayer-parliament relationships etc. The funding chain that supports an activity can be more or less integrated depending on how much of the chain is encompassed within a single organization. Under the management accounting/financial accounting distinction, the nature and extent of that integration will determine whether a particular level of decisionmaking is a matter of internal reporting or of external reporting.

Consider, for example, a company's decision as to whether to pursue an activity as an administrative division of the company or to form a subsidiary company to pursue the activity. The accounting information employed by the company to monitor the activity and support decisions under the former option would be management accounting; under the latter option the company would employ financial accounting. It is argued that the accounting 'needs' of these two alternative administrative structures are the same, because they both derive from the motivations which underlie the decisions to give and take resources to and from the particular activity.

It is argued, therefore, that a conceptual framework which excludes internal reporting is a less appropriate basis for standard setting than an all-inclusive one, because it over-emphasizes the importance of legal organizational structure, masking the similarities in motivations of individuals, whether they are inside or outside the formal organization.

There may be a tendency for giving and taking decisions at the top of a funding chain to be less targeted, less specific and longer term than those at the bottom of the chain. If such is the case, as in internal management reporting, then the level of the funding chain may therefore be a factor in the differentiation of accounting reporting needs. Reporting at a particular level can be a matter of internal reporting where an activity is conducted by a large vertically-integrated organization, but of external reporting where the funding of the activity is less vertically integrated. In either case, however, it may be that the level, and not the organizational structure, is the appropriate focus for determining the emphasis of the reporting.

The public/private and for-profit/nonprofit distinctions

The classification of all enterprises into the three categories of profit-seeking, government and nonprofit (or voluntary) has provided a basis for accounting regulation and general legislation and a tool by which economists and accountants have delimited the scope of their writings. The conventional basis for the classification is summarised in the following table:

Sector	Funding	Ownership
For-profit	voluntary	individual
Nonprofit	voluntary	communal
Public sector	non-voluntary	communal

Traditionally, the public/private sector distinction has been characterised by two factors:

1. The access to taxation revenues available to public sector entities and denied private sector entities
2. The overriding importance of profit to the private sector entities and its irrelevance in the public sector.

Public sector institutions are distinguished from for-profits and nonprofits by their ability to obtain funds via taxes. For-profits are distinguished from nonprofits and the public sector by their ability to pursue and distribute profits. Public sector entities are constituted to serve the interests of inhabitants of a territory, private sector entities to serve the interests of an individually identified group of people. Each constituent of a private sector entity has chosen to be a constituent. Constituents of public sector entities do not choose, except very indirectly via a political process.

For centuries accounting thought has followed somewhat independent paths based on two of these distinctions: for-profit accounting and public sector accounting. For-profit accounting has tended to dominate in accounting education and research alike, with public sector accounting tending to be regarded as a minor speciality and perhaps more a branch of economics, or public administration than of accounting (Blessing, 1991). Most of the theoretical works which shaped accounting theory dealt principally with for-profit activities, with passing references to nonprofits and public sector enterprises. Early developments in standard-setting were likewise confined to for-profit activities. When attention came to be given to public sector standard-setting it was via an independent set of standards.

Traditionally, accounting for nonprofits received less consideration as a separate topic, despite the sizeable proportion of the community's resources controlled by nonprofits [McCrae, 1982]. Fleming's (1985, p. 44) quip that the accounting profession has generally viewed not-for-profit organizations as not-for-profit clients, suggests a reason for the lack of interest on the part of accounting providers. Moreover, his comment that not-for-profit organizations are usually more concerned with products or services than with financial matters (p. 45) suggests that a lack of demand may also have contributed to the general lack of interest in accounting for nonprofits. The United States have led the way in the consideration of nonprofits as a separate topic, producing specific accounting standards in the 1970s and conducting major research projects in the 1980s.

New Zealand has seen the introduction of a basis for differential reporting by nonprofits with the introduction of service performance reporting NZSA (1991). However, the basis upon which this has been done is not quite consistent with the three sector differentiation above. Service performance reporting applies to public and to private entities but not to enterprises which are deemed to operate on a for-profit basis. Exhibit 3.1 represents the implied distinction:

EXHIBIT 3.1: UNIQUE FUNDING SOURCES OF DIFFERENT ORGANIZATION FORMS

	For-Profit	Nonprofit
Private Sector	equity	voluntary contributions
Public Sector	accumulated reserves	taxation revenue

Exhibit 3.1 identifies four, as opposed to three, types of entity, in a matrix. The source of funds shown in each cell of the table is a source uniquely available to the type of entity. The other sources of funds—debt and sales revenue—are available

to all sectors. This form of presentation also has the advantage of identifying the for-profit/public sector organization, which is consistent with Government policies of recent years, and the conversion of Government departments into 'state-owned enterprises'.

Private sector/for-profit enterprises are unique in that they are able to accept funding in return for ownership or partial ownership of the whole entity. Profits represent the *raison d'etre* of the enterprise, on the assumption that it exists for and because of the equity-holder, who is interested only in economic return. Enterprises encompassed by this category have in common the overriding objective of maximisation of profits by or on behalf of the owners of the enterprise. The argument in its traditional pure form is that all of the enterprise's activity is subordinated to this single goal. In a more recent watered-down form, the existence of agency contracts and a social or environmental 'conscience' provide competing objectives, but the contention remains that all other objectives are subordinated to the objective of profit maximisation.

Public sector/for-profit enterprises are unique in that they are able to employ funds sourced from previous years' taxes, and to pursue profits. This type of enterprise has been seen in recent political thought as a stage in the transition of enterprises from the public sector/non-profit sector to the private sector/for-profit sector.

Public sector/non-profit enterprises are unique in that they are able to levy taxes to fund current production.

Private sector/non-profit enterprises, sometimes called the 'voluntary' or 'third' sector, are unique in that they are not permitted to accept funding in return for ownership or partial ownership of the whole entity, nor to distribute profits (the "nondistribution constraint" (Hansmann, 1980, p. 835)). Nonprofits do not

necessarily eschew profits, but any profits made must be retained by the enterprise. This gives them access to voluntary contributions as a principal form of funding available to this kind of enterprise and not to others. They require the allocation to production of financial resources which confer to the donor neither ownership rights nor the exclusive right to goods in exchange.

Dependence on grants as the source of funding affects the relationship between revenues and expenses. In a profit-oriented company, particularly a manufacturing company, a large fraction of the costs is engineered; that is, costs are determined by the specification of the products and the manufacturing process. In contrast, a large fraction of the costs in most not-for-profit organizations is discretionary; that is the expenses can be varied within wide limits according to management decisions, especially those made during the budget formulation process (Beiner, 1987). Decision makers in profit seeking firms have a vested interest in the effective use of limited resources to share in the resulting profit. The objectives of nonprofits centre on the economic, social or spiritual benefits of persons who have no vested interest in such organizations in the form of monetary gain (Beiner, 1987).

Some argue that the absence of a strong profit orientation enhances the potential for managers to use the decisionmaking powers granted to them by their constituents to pursue aims that conflict with those of their principals, for example, to pursue "on-the-job leisure" (Peacock, 1979, p. 240). James (1990) contrasts private nonprofits and for-profits by suggesting that they "maximise faith or adherents, rather than profits".

The terms 'for-profit' and 'nonprofit' do not imply the exclusive presence and absence of the profit motive respectively (Cooper and Staunton, 1986). The objective functions of for-profit enterprises can include nonprofit goals such as

fulfilment of management's personal aims, and environmental and cultural goals. Similarly the objective functions of nonprofits can include profit maximisation. A nonprofit must pursue a policy of at least staying solvent, including "some cushion to provide for possible 'rainy days'" and "equity funds for working capital purposes" [Anthony, 1989, p. 341]. All of these involve more or less constrained forms of profit maximisation. Drucker (1990, p. 108) observes that, nonprofits have always had take into account a multitude of constituents, whereas businesses could plan in terms of one constituency: the customers and their satisfaction. However, for-profits now have to take the interests of a wider range of constituents into account in order to achieve long-term success (Drucker, 1990; *The Economist*, 1992b).

Two issues pertaining to this classification of enterprises are addressed in the remainder of this chapter. They are:

- That voluntary donors give only to nonprofits; and,
- That enterprises and industries straddle the boundaries between the forms of organization

Why voluntary donors give only to nonprofits

The above classification scheme is largely a product of legal statute, except for one characteristic: the availability of voluntary contributions to non-profits and its unavailability to other forms of organization. The reason why voluntary donors give only to non-profits is a social phenomenon which is discussed in more depth below.

As discussed elsewhere, donations are attracted by the nature of the activity the entity is engaged in and the personal attributes of the beneficiaries, factors which

impose no necessary relationship between form of organization and nature of activity. However, the form of organization does seem to affect the ability of an enterprise to attract donations, and nonprofits have a virtual monopoly on voluntary donations as a source of funding. There are two lines of argument which may, separately or in combination, provide a rationale for the contention that the nonprofit form of organization attracts donations. These two arguments—contract failure and tax concessions—are discussed next.

Contract failure argument

The nonprofit form may be perceived by donors as providing a more "trustworthy" vehicle for stewardship of donated funds because the nondistribution constraint reduces the incentive for managers to "raise prices and cut quality" [Hansmann, 1980, p. 62]. The nonprofit form comes into its own when commercial relationships which are normally relied on to regulate the funding transaction are absent. This is called "contract failure".

Hansmann argues that there are five situations under which contract failure occurs [Hansmann, 1980, pp. 63-76]:

1. Enterprises such as in overseas aid charities, where the donor does not get to see the service which his donation has provided (see also Easley and O'Hara, 1986);
2. Public goods suppliers such as radio stations, which are unable to exclude free-riders from consuming their product;
3. Organizations such as arts organizations which operate a form of voluntary price discrimination via donations by a proportion of those who attend performances;

4. Some private educational institutions which operate a sort of deferred loan scheme, by constantly reminding former students of their moral obligation to repay the cost of their heavily subsidized education;
5. Purveyors of complex personal services such as education and hospital care, where it is difficult to determine whether the services are performed adequately.

However, the process by which the non-distribution constraint creates the trust upon which Hansmann pins his contract failure argument must often be more indirect than direct. People are usually not particularly concerned at (or in some cases aware of) the formal structure of an organization to which they donate—foremost in their minds is the type of activity in which the organization is engaged, and its reputation or prospects as a provider of the product or service of interest to the donor. Hansmann's "trust" is, therefore, based not on the belief in the trust placed in nonprofits per se, but on the reputations of the particular nonprofits people choose to fund to deliver a better product or service than other enterprises.

The reputations which nonprofits earn are a function of their managements: nonprofits are typically managed by people who possess some degree of non-economic motivation. They apply a non-economic rationale to their management decisionmaking, and may even be prepared to work for a low salary for the privilege of avoiding the commercial sector and working for an organization from which they obtain non-economic satisfactions (Heilbrun 1988). The "economic" profit maximisation rationale of for-profit enterprises will tend to drive such managers out of or away from the for-profit sector and into the (public or private) nonprofit sector. Donors to nonprofits buy into the "non-economic" rationale of

their choice, reading the cues provided by the (non-commercial) backgrounds and training of nonprofit managers and their announced objectives.

The political priorities of public sector institutions may also deter voluntary donors. A *Christchurch Press* editorial (September 14, 1991) discussed the prospect of replacing the Canterbury Museum Trust Board with administration by the Christchurch City Council. The editorial argued that "people do not like subscribing to bureaucratic institutions" so that "the high degree of public support it now enjoys would probably decline".

West (1987, p. 46) holds the opposing view that the attitudes of managers towards their remuneration and nonpecuniary benefits is the same whether they work for nonprofits or profit-seeking organizations. Managers of nonprofits will maximise "something in the nature of profit substitutes". West (1987) also questions Hansmann's contention that the complexity problem—the problem of how to provide complex personal services like schools and hospitals—requires solution by nonprofits. He holds that the market can adequately provide the means to overcome the complexity problem, via the services of professionals such as valuers and critics who advise on the worth of goods and services. Therefore, complex enterprises such as schools and hospitals can be run on a for-profit basis[2].

---

2 West's conclusions would be applauded by the drafters of the Health and Disability Services Bill, currently being considered by Parliament, and decried by the Anglican Church, the National Council of Women,and the Nurses Union who all hold the view that the market model is not appropriate for the provision of health services ("Fear over hospitals driven by profit motive", *The Press*, Thursday, 12 November 1992).

Taxation incentive argument

The other main argument for nonprofits' unique role as recipients of voluntary contributions is that governments allow tax concessions for donations to nonprofits and not to other forms of organization. Tax concessions are essentially a form of government patronage of certain activities via income or property tax exemptions, though Nozick (in Dworkin, 1985, p. 173) does not agree. Under New Zealand's 1992 income tax regime, nonprofit organizations and their sponsors are allowed the following tax concessions:

- The first $1,000 of the assessable income of nonprofit organizations is free of tax;
- Donations by individuals to nonprofit organizations up to a maximum of $1,500 per annum are allowed a tax rebate of 33-1/3%. As the top marginal tax rate is 33%, this means that donations to this limit are free of tax and receive a modest subsidy;
- Public companies, public company controlled private companies, public authorities or local authorities are allowed to make tax-free donations to nonprofit organizations up to a limit. The exemption is limited to 1% of the company's assessable income and $4,000 for each donee, and to the greater of $1,000 and 5% of assessable income in respect of all donations in a year.

These concessions pale a little in comparison with the taxation concessions provided under the tax regimes of other some other countries. The United States, for example, allows unlimited tax-free status to both nonprofits' incomes and donations to nonprofits. The UK government's "Business Sponsorship Incentive Scheme" took tax relief on donations one step further in the 1980s by providing, in addition to complete tax deductibility for sponsorship of the arts, a pound for

pound subsidy on donations up to £25,000 [Brandenberg, 1988b, p. 65]. The New Zealand government, on the other hand, has declared in a recent statement on arts funding policy that tax incentives are "inconsistent with the economic philosophies adopted by both major parties in recent years" [Ministry of Cultural Affairs, 1991, p. 6].

Tax privileges highlight the issue of the definition of nonprofits. Simon (1990) uses the term 'border patrol' for the mechanisms by which nonprofits are regulated in the United States. Rules in the federal tax code tend to restrain nonprofits from wandering outside their own territory to exercise influence or play an active part in the government or business sectors. For-profit competitors allege unfair competition when a nonprofit runs a profit-making operation.

Under a progressive tax regime, tax privileges reduce the price of giving by the more wealthy relative to the less wealthy (Preston, 1988, p. 504), effectively "gearing up" the economic power which they already possess to influence the activities of enterprises.

Motivation by association with activity

A third argument with a bearing on the question of why voluntary grantors fund only nonprofits is derived from motivation by association with activity.

Gorz maintains that technological progress drives out the non-economic rationalities (Gorz, 1988, p. 34). However, some activities which do not or cannot receive the advantages of technological progress remain. Since technological progress is accompanied by a move from labour to capital intensivity, the activities left behind tend to be labour intensive. For some activities, the "hands-on" nature of low-technology, high-labour activity provides

more job satisfaction, and will therefore attract people seeking non-economic rewards from association with the activity. Hence employees will fund such activities via donated labour and low levels of income, or donations that give them the feeling of participating in production via access to meetings and newsletters.

Conclusion

Those who fund non-profits do so because they expect the managements of nonprofits to pursue non-economic objectives and to eschew economic objectives. The labour intensivity of much non-profit activity attracts funders who are motivated by the desire to participate in production. Tax incentives encourage the funding of eligible nonprofits by magnifying the size of the funding provided to the recipient or by reducing the economic burden to the funder.

An ability to attract donations gives an enterprise access to a source of funds in addition to revenues and capital. However, adopting the nonprofit form involves sacrificing the ability to raise equity capital. Therefore, the form of organization decision may involve a trade-off for the enterprise with regard to availability of alternative sources of funding.

Why activities straddle sectors

Many enterprises straddle the boundaries between these four forms. For example, a for-profit enterprise may be owned partly by private interests and partly by the government. James and Rose-Ackerman (1986) draw attention to the distinction between production responsibility and funding responsibility. Private for-profit enterprises which are substantially funded by government grants are in reality a public-private hybrid. Government funding can be seen in varying degree across

the range of for-profit and non-profit enterprises, although the political trend in recent years has been towards reductions in government funding. In the for-profit sector in earlier times New Zealand had government funding in the form of incentives for exports, regional development, import substitution etc. and subsidies on some inputs. Many of these have now been removed but some still remain. Some private for-profit practices are subsidized by the state. For example, physiotherapists' practices are subsidized by the Accident Compensation Commission, and doctors' practices are subsidized by the Department of Health. Private non-profits such as private schools and private hospitals are also subsidized by the State.

A second issue is the question of the association between type of activity and the form of organization. Nonprofits are supported by like-minded groups of people who identify with particular non-economic aims. However, it is not necessary that the activities via which those aims are to be achieved are inherently unprofitable. The desire to influence or to be associated with production can surface even when the profitable production of a good is feasible. This leads to enterprises in the same industry operating side-by-side under different forms of organization. Holtmann(1988, p. 39) suggests that the long-run stability of "three-sector industries" seems to suggest that all three types of firms (for-profit, nonprofit and public sector) contribute something to the efficiency of these industries.

Industry Classification And Motivation

Enterprises function in order to pursue activities and the nature and extent of those activities are determined by decisions to give and take resources to and from enterprises. The types of activity undertaken by enterprises are many and various.

It is convenient to group types of activity by industry. An industry is a grouping of all enterprises devoted to the production of a particular class of product.

It was found above that voluntary giving falls into two classes: exchanges and grants, based on the distinction between economic and non-economic motivation.

A readily observable characteristic of industries is the correlation between industry and forms of funding. It appears that different classes of activity or product motivate people differently. Accordingly, industries can be classed into three categories:

1. Industries funded by little or no grants (e.g. consumer goods, tourism, forestry, farming, banking);
2. Industries funded largely by grants (arts, welfare, defence);
3. Industries in which market-funded and non-market funded entities operate side by side (education, hospitals).

Market success or failure

The question of isolating the characteristics of production that determine which activities fall into which classes is handled in economics via the concept of "market failure"—when market forces do not provide the optimum quantity of a product then production must be boosted by community funding. The theory focuses on the output of the activity, making the distinction between private goods, which the market produces enough of, and public goods, which must be supplied by non-market means.

Private goods are the class of goods the benefits from which can be appropriated exclusively by the owner. Private goods pose no allocational problem because the market articulates the preferences of people and determines optimum quantities.

Subject to certain market conditions, the value at which such goods are exchanged reflects their value to the whole community, since the exchange affects nobody's wellbeing but the buyer and seller of the goods. Outputs are self-funding, since their cost of production is impounded in the price the buyer pays to obtain possession of them. The giving represented by the purchase price paid is motivated entirely by the desire to possess the good.

Unlike private goods, the rights to public goods cannot be appropriated exclusively by a person. Consumption by one person does not reduce the amount available to others. (Due and Friedlaender, 1973, p. 38). Since consumption cannot be confined to chosen users, it is not possible to provide the output only to those who pay and exclude those who do not pay. Attempts at market provision of public goods would result in those who are prepared to pay having to support "free-riders" who prefer to enjoy the good without paying. Therefore, the market mechanism underestimates the preferences of people for public goods, and non-market mechanisms must be invoked to produce an optimal output. This "non-excludability" may be accompanied by "non-rivalness in production" meaning that it can be equally enjoyed by all (Peacock, 1979, p. 127). The conclusion can be drawn from these two assumptions that if a public good is provided at all, it should be provided free, since at any level of consumption, it costs no more to supply it to one more consumer. However, "crowding" can occur at high levels of consumption, such as when traffic jams occur on a road, and "non-rivalness" no longer applies.

This distinction, as presented so far, pertains only to 'goods'—the outputs of the production processes of enterprises. Enterprises are not funded only by either the prices of goods supplied or taxation: they are funded also by inputs and the retention of equity, loan capital, labour and goods purchased. Economic theory does not confine its expectations of allocative efficiency to 'goods' but expects all

of those forms of giving which are motivated by the expectation of benefits of at least equal value in return to be allocatively optimal. Hence, since the promise of dividends, interest and ownership rights motivate capital providers and creditors, and salaries motivate the giving, via labour services, of employees, the market can be left alone to allocate this giving also.

The concepts of 'externalities' and 'quasi-public goods' acknowledge that some goods possess a combination of public and private good characteristics. Some goods, of which health, education and social services provide examples, have some 'public good' characteristics, although they are hardly pure public goods and the alleged externalities are difficult to measure (James and Rose-Ackerman, 1986, p. 27). James (1990, p. 23) uses the term "quasi-public goods" to define such goods. The theory therefore leads to a continuum ranging from "pure" public goods, through quasi-public goods and private goods which yield externalities to "pure" private goods.

The conclusion from this economic theory is that the production of private goods can be left to the market, but the production of public goods, quasi-public goods and goods which are accompanied by externalities require some form of non-market giving. Appropriate non-market giving mechanisms might be voluntary giving in return for non-economic benefits or taxation, or standards and other regulations on trade (which are effectively forms of giving as argued above).

As an explanation of why some goods are produced by the market and some are funded by non-market means, 'market failure' theory is inadequate. The problem seems to arise from its attribution of the distinction between market and non-market supply to the utility of the receiver of the output of production. Food, for example is a private good because only the recipient benefits from its consumption, yet charitable organizations redistribute food from the beneficent to

the needy, without any reciprocal exchanges of money. There would seem to be no necessary link, in this case, between the basis upon which production was funded and the nature of the good. Similarly, organizations in the health care and education industries provide largely similar products but are found to be funded both by market and by non-market means.

An explanation of the division between market funded, non-market funded and hybrid industries requires giving attention not to the utility of the receiver of the output of the production process but the motivations of those with the power to fund those processes.

The motivation behind non-market funding

The motivation to receive non-economic benefits was discussed in the last section. The employment of non-market funding mechanisms to support certain activities stems either from the belief that those activities are inadequately supplied by the market or the desire to be associated with the activity. The power to invoke such mechanisms requires the possession of either economic power in the form of rights to resources, or representative power in the form of the ability to direct other peoples' rights to resources.

The reason why some activities are funded in this way, therefore, lies in consideration of these factors: the various non-economic motivations and the distribution of economic and representative power. These influences take place over time, adding the influence of not only the dynamics of legal, political and social change, but also the inertia of legal, political and social traditions and institutions. Forms of organization represent a fundamental means established by tradition to facilitate differently motivated transactions, and formalize power structures.

Non-economic resources

It was illustrated earlier that the funding may be unmotivated, as in the case of the bird-hunters of old who hunted their prey to extinction—an unfortunate mistake, perhaps, which future generations cannot remedy. However, often, perhaps usually in scientifically enlightened times, the funding is motivated. As explained by Thomson (1991), this 'problem of the common' can occur because "anonymity ensures that there are few specific or substantial penalties against those with little social conscience" and "the individual comes to learn that personal advantage lies with the person who is first to throw off a concern for the future health of the shared resource" (p. 196).

Basis of choice of funding in the public sector

Traditionally, the public sector has involved itself in both for-profit and nonprofit activities and the public and private sectors are often found in the same industry both in respect of nonprofit and for-profit activities.

In a study of the involvement of local authorities with sporting organizations Middleton (1981) concluded that the patterns of support for sports organizations owed much to historical precedent. There was considerable inertia holding back change and a lack of coherence in sports support. Other decision factors identified by Middleton were:

- financial stability;
- location of sports club;
- need to spread support;
- an assessment of general community demand;
- subsidization of commercially nonviable activities only.

Weisbrod (1988) argues that the extent of public sector involvement varies from nation to nation according to the relative homogeneity or heterogeneity of markets: one-religion states such as Spain and Ireland have larger government provision than nations with diverse religious (including non-religious) preferences, like the United States.

Khakee (1988) presents a model in which the public sector decisionmaker makes small adjustments as he muddles through a myriad of budget data (p. 15). Current decisions are made on the basis of accepting previous decisions, considering marginal adjustments to earlier decisions and evaluating new programmes which need to be included in the public activities (p. 2). His welfare judgement is tempered by his desire to take into consideration the electoral support for his decisions. The decision-maker examines the arguments presented by the electorate through various pressure groups. The party programme which he sometimes refers to contains proposals which are trade offs between ideological premises and the demands made by pressure groups (p. 3).

In a study of the arts funding by municipalities, Khakee (1988, p. 16) concluded that institutionalized activities such as municipally owned theatres, concert halls, and museums were established and a matter of civic pride. Municipalities tended to fund such institutions and tended to ignore the funding needs of non-institutionalized and spontaneous activities. The former activities, Khakee maintains, are reproductive, not always innovative and benefit a tiny portion of the urban community. The latter are needed to counteract "the negative effects of commercial culture and provide encouragement and support to members of the community who supply cultural services.".

Conclusion:

The traditional distinctions between management and financial accounting on one hand, and public sector and private sector accounting on the other, are ways in which accounting has been 'partitioned' on the grounds that it is thereby better able to serve fundamentally different needs. It is argued that, rather than serving information needs better, this partitioning has clouded important distinctions and commonalities in accounting. A more holistic approach by accounting regulators is therefore to be applauded.

The different accounting requirements of for-profit and nonprofit entities illustrates a distinction that rides across the traditional breakdown. However, this difference is just a subset of a more general determinant of differential information needs—namely, the source of funding. As funders possess both the power and the motivation to command accounting information from fundees, funders' needs are an important if not vital consideration in targeting accounting needs.

A justification for de-emphasizing the management/financial accounting distinction lies in its tendency to cloud similarities in the uses to which accounting is put between entities who differ in the extent to which their funding chain has been integrated.

It is therefore concluded that both the management/financial and public sector/private sector distinctions represent a conceptual trap that should be avoided by accounting regulators, practitioners, educators, and researchers alike.

Chapter 4
Causes of Recent Accounting Change

> Decision is a choice that's made between
> the poles of opposites—alternatives—
> and the clean line emerging along which
> uncertain fingers fabricate dimensions,
>
> shear for truth. And any cloth at all
> is but the story that the scissors makes
> —full dress or a mere frill—or from
> remnants a coat of many colours.
>
> from "Scissors" by Louis Johnson[1]

In Chapter 2 the motivations behind the giving and receiving of resources were discussed. Information is a resource which is given and received and accounting is an activity which involves the giving and receiving of certain information about the giving and receiving of resources. In this chapter the characteristics of accounting information, as a particular type of resource, are considered.

The main purpose of this chapter is to discuss the changes that have challenged the practices and expectations of accounting in New Zealand in the last decade, and how the power groups who decide accounting have reacted to the challenges. In recent years public sector accounting regulations have been dramatically overhauled, following a trend that took place in many countries in the 1980s (Lüder, 1992). In the New Zealand context at least, the changes represent a reappraisal of accounting methods and objectives having implications that go beyond the specific public sector accounting context. This chapter provides a

---

1 In *New Worlds for Old: poems by Louis Johnson*, 1957, Wellington: Capricorn Press.

background to the changes in New Zealand and suggests the implications for all accounting that flow from them.

Information as a resource

Information is a non-physical resource contained in or on a physical resource, for example, paper coated with ink markings, a sound wave, a magnetic disk or a television broadcast. Information may be given and sought in the pursuit of aims. The question as to why the communication of information occurs is therefore a special case of the motivation for giving and receiving of resources, discussed in Chapter 2.

The transmission of information can be motivated or unmotivated. An example of unmotivated giving of information is industrial espionage, and unmotivated receiving occurs as the inevitable result of media bombardment such as advertising to which most people are subjected in everyday life. Motivated giving of information occurs either to avoid detriment or to gain a benefit. Avoidance of detriment is probably the motivation behind much financial reporting under legislative and other requirements such as the Companies Act, Stock Exchange Act etc. On the other hand financial reporters may perceive the legislative or other requirement as fair and just, and themselves as giving the information in return for the economic benefit of the funding that it enables. Advertising provides a more straightforward example of the giving of information to gain reciprocal economic benefits. The provision of information can also be viewed as a means of achieving non-economic aims.

The receipt of some resources is motivated by the direct enjoyment of the resource. Examples of information sought for such reasons are found in arts

activities such as literature and music. Another class of resources is normally sought not for their own sake but because they facilitate the giving or taking of another resource. For example, money is often sought because of its ease of exchange for other resources. Similarly, some classes of information are sought as a means to an end, and accounting provides an example of an activity dedicated to the production of such information. The end that receivers of accounting information seek is notably either economic as in the case of a shareholder seeking to maximise profits, or non-economic, as in the case of a grantor seeking to monitor welfare activities.

Conventional accounting theory assigns two roles to the communication of accounting information: accountability and decision-making. In motivational terms, these two roles align with the concepts of the motivation for giving and the motivation for receiving. The concept of accountability provides a rationale for giving information which focuses on the 'obligation' of fundees to inform funders. The concept of decision-making provides a rationale for receiving information, focusing on the 'usefulness' of information in the pursuit of aims by givers. The two motivations are discussed below.

Accountability and the motivation for giving

The notion of accountability may be seen as a reciprocal right on the part of the funder to require feedback from the fundee, and an obligation on the fundee to provide it in return for the funds. However, this 'right' and this 'obligation' both flow from the funder's power to grant or not to grant the funds. Roberts (1991) describes how accounting information is used by the funders of an organization to make the activities of their agents in the organizational hierarchy "visible" in order that their performance may be judged. Accounting information is therefore the

basis of accountability for these employees to their principals with the effect that: "To secure self one must see oneself and what one does in the terms in which one is judged. . . to stand as if outside oneself in order to anticipate the expectations of others" thereby producing "a nervous preoccupation with the image of self as an object of use which is either indifferent to others, or conceives of others only as competitors from whom one must differentiate oneself".

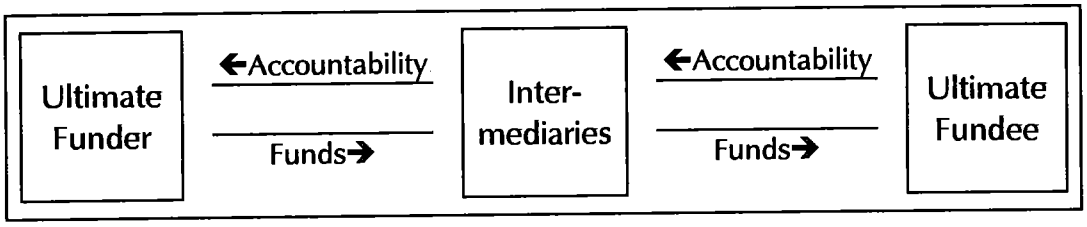
However, the contribution of labour by the agent is reciprocal power which can be used against the principal. Aims may be explicit or implicit. Explicit aims will be articulated via charters and mission statements and voiced publicly. These will be "socially acceptable" aims with which both giver and receiver can identify. Implicit aims, on the other hand, will be not be promulgated because they are personal aims of receivers (say salary-earners) which may conflict with those of givers (say, company directors) and aims of givers which may conflict with those of their receivers or because they are socially or politically unacceptable. Implicit aims, if stated at all, will be voiced orally in private meetings. Givers or receivers may employ reporting systems to assist in the implementation of implicit aims, using techniques such as concealment or "colouring" of the information reported to influence the users of those reports to make decisions which differ from those which they would otherwise make.

It was noted above that most funding is channeled through intermediaries, creating administrative distance between the ultimate funder and the ultimate fundee. External funders of the intermediaries delegate their power to the executives of those intermediaries to act as their agents, putting them "on the spot" and in control of the resources of the enterprise, while they, the funders, are away doing other things. These agents are also funders in their own right, contributing their own labour to the enterprise, and with aims of their own. External funders

employ a range of means to help to ensure that it is their own and not their agents' wishes that are carried out. The production of information for communication of external funders' requirements and monitoring of agents' actions are among those means.

A similar chain of accountability within organizations seeks to align the activities of all employees to the pursuit of the aims of external funders.

EXHIBIT 4.1: THE FUNDING/ACCOUNTABILITY CHAIN



Non-economically motivated accountability

Exhibit 4.2 reproduces a not dissimilar diagram from Kotler's *Marketing for Nonprofit Organizaions* reproduced in Gambino and Reardon, (1981):

EXHIBIT 4.2: THE NPO GIVING/RECEIVING CYCLE

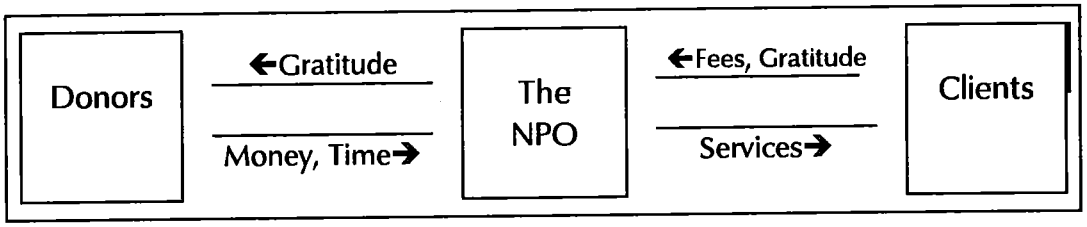


Exhibit 4.2 shows the funding/accountability chain in the specific context of a typical nonprofit organization.

Roberts (1991) argues that there are two "realms" of accountability. The discussion so far has been about what Roberts calls "hierarchical" accountability which is derived from formal organization structures and is "individualizing" in that it sets people in competition with each other in a kind of economic survival of

the fittest. The other realm of accountability is "socializing' accountability consisting of the 'mutual understanding and ties of friendship, loyalty and reciprocal obligation' which are built out of working relationships.

Underlying Roberts's distinction between hierarchical and socializing accountability is the distinction between the economic and non-economic motivations for giving. Hierarchical accountability is motivated primarily by the fear of economic disadvantage (dismissal or bankruptcy) or the promise of economic gain (promotion or profits). Socializing accountability is motivated primarily by the promise or maintenance of friendship and work satisfaction which an employee gains from association with the production process. However, the two motivations are interrelated in a complex way as Roberts points out (p. 364).

It is suggested here that Roberts's taxonomy of the realms of accountability omits a third realm—'environmental accountability'—motivated by the desire to influence the environment of the organization, or a belief in non-economic funding by the environment of the enterprise in some sense. Environmental accountability recognizes that the sense of obligation created by close working relationships has a parallel in the wider sphere of concerns about such matters as ethics, morality, the physical environment and social welfare.

Socializing and environmental accountability widen the scope of potential information giving beyond the simple model presented earlier in this section.

Decision-usefulness and the motivation for receiving information

Information is desired by both the givers and receivers of other resources to support the decisions to give and receive. Communication of the following

information between the giver and the receiver of other resources will be necessary in order that each may be able to decide whether to embark on the transaction:

- that the opportunity to give or receive exists;
- the purpose to which the gift will be put;
- the reciprocal rewards to the giver;
- the risks associated with the giving;
- information arrangements associated with the giving.

The role of accounting information

Human enterprise involves the production and dissemination of much information. The essential characteristic of accounting information, as opposed to other information, is that it is produced by particular techniques and is presented in particular formats. These techniques and presentation formats have evolved over a long period. With them has evolved a tradition of respect for the information which they yield.

Accounting information is valued over much non-accounting information for its presumed objectivity, impartiality and rigor, and the "scientific" basis upon which it is prepared (Covaleski et al, 1985). The scope of accounting in any context is carefully defined by a number of concepts such as the entity concept, the realisation concept, the definition of assets etc. Accounting systems include checks and balances to ensure completeness, arithmetical accuracy and general internal consistency.

This reputation and respect has motivated those with power over funding to require accounting to facilitate accountability and decision-making. Accounting has evolved to serve these needs and respond to the beliefs and concerns of the times as different political, economic, social, technological and environmental

conditions have unfolded. The recent developments in accounting regulation and thought are an episode in this evolution.

Location of decision-making power

The content, quality and quantity of accounting information is determined by those with the power to decide what accounting information is to be produced. This is a shared power, but is dominated by the reciprocal threats or promises pertaining to other resource flows. Accounting information is given either out of fear (e.g. fines or dismissal for non-compliance) or out of the expectation of reward (e.g. financial support or employment). Accounting information is sought to assist in decisions about giving (e.g. investment, donations or payment for goods received) by either the givers or agents of the givers. Clearly the influence of the various decisionmakers is uneven (Kelly, 1988).

The power to decide the content, quality and quantity of accounting therefore rests with three groups:

1. Legislators and other regulators, who are motivated by the desire for re-election and prestige,

2. Owners or elected or appointed directors of entities, who may be motivated by profit, or the desire for re-election or re-appointment,

3. Accounting employees, who are motivated by fear or by the expectation of financial reward or perquisites.

Accounting is a highly regulated practice, demonstrating that it has been regarded as a product which yields externalities. Apparently, the powers that funders possess to require the production of accounting information and motivations in an

unregulated market to provide it are considered to be inadequate; it has been considered necessary for the community to impose regulations to modify the quantity and quality of accounting information supplied. The regulations are the distillation, via political processes, of the wishes of many parties. Owners, directors and employees then operate on their own behalfs within the constraints of these regulations, to interpret and mould accounting information to their own requirements.

It is via the interplay of these groups that accounting activity is determined. This interplay occurs within a context of tradition and change. Traditional accounting methods are reproduced via the passing on of skills and frameworks of thinking, providing a set of default practices and expectations. However, political, social and technological change challenge those practices and expectations. Although "accounting is historically embedded," it is "always becoming what it was not" (Booth, 1991, p. 54).

The changing legislative scene

Intervention and regulation by governments have been described as principal features influencing the development of accounting theory and practice (Most, 1982; Watts and Zimmerman, 1979). The substantial changes to accounting and reporting provisions for the public sector, created by legislation introduced in 1989[2] is currently proving to be such a feature in New Zealand.

For the first time, public sector entities are required to adopt accrual accounting, record fixed asset values, and produce accrual-based statements of financial

---

2 Most notably the Public Finance Act 1989 and the Local Government Act No. 2 1989.

position, revenue and expenses and statements of cash flows, all prepared in accordance with generally accepted accounting practice.(Public Finance Act S. 27, Local Government Act, S. 223E, 223F).

These developments reflect the view that public sector entities are fundamentally similar to private sector entities from an accounting viewpoint and most concepts regarded as appropriate to the private sector should be applied in the public sector. But probably the most novel feature of the new regime was not copied from the private sector. This is the requirement to measure and report on "service performance". The provisions of these acts do not provide for any elaborate standard-setting machinery, but they do make reference to "generally accepted accounting principles", thereby tying public sector accounting to the private sector standard-setting machinery.

More recently, revisions to the private sector accounting standard-setting machinery, the Financial Reporting Bill 1991, and the New Zealand Society of Accountants' *A Proposed Framework for Financial Reporting in New Zealand* (NZSA, 1991) have been issued and are currently being debated. The main objective of the Financial Reporting Bill is to legislate more detailed accounting standards than at present. The thrust of *A Proposed Framework* is towards the articulation of a conceptual basis upon which the NZSA can build a coordinated set of accounting standards for both the public and the private sectors.

Causes of the changes

The accounting provisions of the public sector and companies legislation and professional accounting standards formed a regulatory regime that survived for decades without any major overhauls. The recent substantial revisions must therefore have been motivated by a new-found urge to change. Probably the most significant

factor contributing to the changes in accounting regulation in New Zealand has been the Government's move to the political right. Leading up to the change of government in 1984, New Zealand was approaching five decades of reasonably consistent political philosophy, which was still being espoused in 1983 by Sir Alan Low, former Governor of the Reserve Bank of New Zealand (Low, 1983, pp. 103, 122):

> Governments have extensive commitments arising from legislation, from longstanding practice, from public demand, and the need to consider employment needs. . . There is therefore in practice very little scope for any government to reduce its total spending, or even to keep its rate of increase below the rate of inflation. . . We already have a mixed economy, and with very few exceptions the people of this country do not want any fundamental change in the mix we now have of both private enterprise and state socialism.

Such statements reflected the conventional wisdom of bureaucrats and politicians of these decades. The concept of the 'mixed economy' is built on an economic model under which the optimal production of goods and services by a community is achieved through a combination of freely operating markets to allocate resources to the production of some goods and public authorities funded by taxation to allocate resources to the production of other goods. Every public sector activity could be justified by one or other of a range of "market imperfections" which meant that the private sector either would not, or could not, be allowed to undertake that activity.

Under such a political philosophy the differences between public sector and private sector accounting seemed unexceptionable. Ownership rights, measures of wealth and profits were important to private sector accounting but irrelevant to public sector accounting. Fund accounting and the external reporting of budgets were important to the public sector but not to the private sector.

The move to the right that occurred in the 1980s seems to have been the result of a convergence of causes. The seeds of change were sown in the 1970s. Milton

Friedman was popularizing alternative economic and social philosophies through lecture tours[3] and books (e.g. Friedman and Friedman, 1979). These philosophies favoured low taxes and small governments and minimal regulation of free enterprise. Such evangelizing helped to capture the imaginations of voters and politicians alike with the result that a change of government in 1984 saw the application of Friedmanite policies of commercialisation, decentralisation, deregulation and privatization. Jesson (1987, p. 120) claims that most important effect of the switch to free market theory in New Zealand was that it "conquered" the Treasury and the Reserve Bank. Echoing this argument, Boston (1991, p. 11) refers to:

> . . . the gathering together of a group of reformed-minded policy analysts in Treasury, the familiarity of this group with the theoretical literature of the new institutional economics, and their sustained efforts in applying this literature to the problems of governance . . .

Several perspectives on why the monetarist policies became so popular at this time have been proferred. Thomson (1991) attributes what he calls the "simple-minded embrace of 'the market'" to a growing disillusionment with the welfare state. Thomson suggests that to work successfully the welfare state must be able to rely on citizens' immunity from the promptings of self interest. Unfortunately, people come to learn over time that others are not holding back for the common good and "each comes to learn that gains lie in being ever more demanding towards the pool by evading taxes, claiming maximum benefits or using free services heavily" (Thomson, 1991, p. 206). Thomson regards this "problem of the commons" as an inherent flaw in the concept of the welfare state.

Shannon (1991) argues that "cracks" in Keynesian theory—simultaneous inflation and unemployment (stagflation), exploding government deficits and high interest

---

3 He made a public lecture tour of New Zealand around this time.

rates—gave rise to a loss of belief in the ability of a government imbued with the old philosophies to manage economic and social affairs efficiently.

Another factor motivating the move to the right could have been economic recession. Whilst the lingering recession of the 1970s may have been blamed on the economic policies under the old regime, it is seen by many to be no less a product of the new regime (Shannon, 1991, p. 5). However, such factors as the movements in prices in world markets and access to world markets are arguably more significant determinants of the state of the New Zealand economy than the political leanings of its governments. A country as tiny as New Zealand has little influence on the world economy but is entirely at its mercy (Jesson, 1987, p. 59). It may be the recession that has contributed to the liberal swing rather than vice-versa—as traditional private sector avenues for investment become progressively less profitable, investors have looked to the public sector for investment opportunities. "After all, while previously profitable production activities have stagnated, there has been an ongoing growth in the welfare and information sectors" (Robinson, 1990, p. 87).

Commenting that: "the common purpose . . . is the undoing of the things that were done by the first Labour Party", Jesson (1987, p. 10) adds prophetically: "And the process will continue, irrespective of the party in government" (p. 10). Jesson attributes the impetus of the moves of the eighties to the coming together of "business and politics" so that "the goals of government have become identical to those of business" and "we lose any element of conflict or diversity and become that much closer to a one-dimensional society (p. 12). "Business dominates the community much more completely than any time in history" (p. 65) and the result has been to "eradicate social goals from the functioning of the economy" (p. 176). Treasury official Mark Prebble, on the other hand, maintains that the changes in policy do not imply a drastic redefinition of the Government's social responsibilities,

but a reduction to a 'modest safety net', rather than the old 'belong and participate' goal of social policy (Prebble, 1991, p. 6).

Disillusionment with the welfare state and Keynesian economics and a reaction to recession may all have contributed to the radical change in political direction in both the Labour Party politicians and the minds of many voters that brought about the change in government in 1984. The passing on of the generation who could remember the 1930s depression, and feared a repetition of it, would also have helped to weaken opposition to the change.

Results of the changes

From the public sector reforms that were instituted important implications for accounting flow. Shannon (1991, p. 4) lists six changes which almost totally transformed a public sector which had been largely unchanged since its inception in 1912:

1) the substantial commercialization of services on the basis of full cost recovery (user pays);

2) the separation of commercial and non-commercial activities of government departments, transferring the former to new 'state-owned enterprises' (SOEs) operating on strictly commercial lines with boards of directors appointed from private enterprise;

3) new managerialist and decentralized forms of decision making providing autonomy and responsibility at lower levels;

4) major changes to terms and conditions of service for public service employees, including wage fixing;

5) stringent and ongoing cost reviews and budget cuts for all government departments;

6) the large-scale sale of publicly-owned resources to private purchasers (privatization).

These moves could be expected also to put pressure on those government activities remaining to justify, on a continuing basis, their existence outside the market driven sector—a move from an incremental to a zero-base attitude to the provision of public goods.

Since all of these changes have accounting implications, it is not surprising that the revisions involved a substantial revision of accounting requirements. Economic exchange is central to the new approach and accounting helps make this exchange process possible. To this extent, then, accounting is an essential element in the change to the market approach (Broadbent and Guthrie, 1992, p. 6). Moreover, accounting is a double-edged sword: "Accounting is seen as simultaneously serving as a means for providing an instrumental solution to technical problems and a means of political exchange by apparently de-politicizing public sector administration" (Covaleski and Dirsmith, 1991).

The new public sector accounting regime

The genesis of the new public sector accounting regime has been attributed to the strong calls for reform by the Controller and Auditor General in the 1970s (Hay, 1992) which resulted in the formation of a financial management programme for public sector managers at Victoria University of Wellington, a financial management working group within Treasury, and a public sector sub-committee of the New Zealand Society of Accountants (Hay, 1992a; Pallot, 1991c). Public

Sector Accounting Statement No. 1 (PSAS-1) and Statement of Public Sector Accounting Concepts (SPSAC), issued in July 1987, were the outcome of several years of work by the latter of these groups.

The character of the revisions which resulted from this initiative owe much to the philosophies discussed above—a general perception of failing economic and social policies. Moreover, the changes are consistent with the dual allegiances of the people involved to the accounting profession and to the public sector organizations which employed most of them (Hay, 1992a, p. 1). The revisions which the new standards envisaged would enhance the status of these accountants both within their organizations and within their profession[4]

The public sector accounting regime that evolved from the profession's initiatives had two main thrusts (Pallot, 1991c, p. 200):

- the adoption of full accrual accounting and the distinction between capital and period expenditure;
- the introduction of service performance reporting.

By 1987 when the Government started to prepare its new public sector legislation, therefore, an accounting regime largely appropriate to their needs was already designed and accepted by the accounting professional body. It remained for them to incorporate it into legislation.

---

4 A city council accountant recently described in an interview the following impressions of the effect of the changes in local authority accounting: for a long time local government accounting received very little serious attention from the accounting profession. Accountants in local government used to be regarded as lesser beings by other members of the profession. At accounting conferences other accountants would make comments to him like "It's half-past four, shouldn't you be off?". With the new legislation and the new accounting and reporting requirements, local government accountants are respected and accepted as members of the profession. They are no longer lepers.

The revisions to the public sector legislation were designed by Treasury in consultation with the Minister of Finance and others known to support free-market ideas (Mascarenhas, 1990). Both of the two main thrusts of NZSA (1987) suited the Treasury planners' needs.

They wanted public sector accounting information to provide measures of profit and net worth comparable to the private sector. This was necessary so that economic criteria could be applied across the public sector. Profit measures and balance sheets could facilitate the identification of activities for privatization, user-pays funding or decentralization and the institution of tighter direction over costs.

Service performance was also adapted to play a role in the new legislated structure. In its effort of formulate a practical concept of accountabilty, Treasury developed a unique view based on two concepts. Firstly, the distinction was made between *outputs* (the services provided) and *outcomes* (the consequences for the community of the services provided). Secondly, the relationships between the government ministers, their electorates and individual departments were viewed as a two-stage *contractual* process (Pallot, 1991b, p. 172). Government ministers are seen as accountable to their electorates for the *outcomes* of government expenditure, and Departmental heads are seen as accountable to Government ministers for the *outputs* of government expenditure. This two-stage model was not, however, adopted by local authorities.

The service performance concept

The operation of a system of accountability based on outputs and outcomes requires an information system to record and report the data. Many of the outputs and outcomes envisaged were essentially non-financial. Since traditional

accounting is limited to financial information, it was inappropriate for the task of measuring outputs and outcomes. However, the NZSA (1987) had already addressed the problem of measuring performance against non-financial objectives with the concept of service performance reporting which was to operate alongside financial reports where public sector entities conducted service oriented activities. Service performance was to be measured by reporting the level, quality and cost of goods and services provided to the community (para. 4.10). The NZSA (1987) concept was adapted to the needs of the new legislated public sector reporting regime by adding the refinement of specifying three types of service performance: inputs, outputs and outcomes.

The financial or economic characteristic has traditionally been a distinguishing feature of accounting information. However, this constraint has not necessarily been regarded as a fundamental one. For example, Ijiri (1967, p. 33) thought that "developments in management sciences as well as in information technology" may enable the field of accounting to be expanded in future "to include many different kinds of noneconomic phenomena as principals". Mattessich saw "monetary accounting" and "non-monetary accounting" as two top-level branches flowing from the "basic assumptions of accounting" (Mattessich, 1964, p. 139). Service performance reporting, represents a development along this "noneconomic" or "non-monetary" branch of accounting, anticipated by Ijiri and Mattessich in the 1960s.

Service performance reporting was also foreshadowed in the American Accounting Association's 1966 monograph *A Statement of Basic Accounting Theory,* which saw the scope of accounting developing towards "multi-dimensional reporting" along the lines of the following example (p. 65):

> For example, a sale may involve the following three measures, (1) a measure of revenues and costs in dollars—related to the profit objective; (2) a measure of employee or consumer satisfaction in its own terms—related to future productivity or market potential; and

> (3) a measure of, say, the national interest involved in the sale—the amount of which has to be maintained at some minimal level by government decree.

Hawke (1991, p. 65) suggests that there is seldom an uncontested link between outcomes and their underlying political philosophies, and that an outcome might be supported by people who have quite different motivations, even perhaps diametrically opposed ones. Service performance reporting may itself be an example of this. Service performance reporting makes visible noneconomic goals and outcomes that were hitherto hidden in reports, informal discussions, and the minutes of meetings and covert behaviour. This visibility will be seen by some as playing a facilitative role in keeping at bay the inefficiency and waste believed to be inherent in any enterprise which is not subject to regulation by market forces. On the other hand, the codification and measurement of non-economic activity can make visible the non-economic criteria which others believe should be offsetting the power of the market. Pallot (1991c, p. 212) refers to the "selective visibility" that any accounting policy lends to issues, affecting agendas and meanings. The concept of service performance widens accounting's field of vision. Reporting on service performance alongside conventional financial measures has the potential to 'balance up' the representation of enterprise performance—to provide a tool to re-enfranchise those with non-financial priorities whose influence has been temporarily submerged by the recent political swing.

Service performance reporting could redress imbalances created by the tendency of financial reporting to favour the short-term over the long-term (*The Economist,* 1992b[5]; Drucker, 1990), or to ignore things that cannot be measured (Bush, 1991).

---

5 Citing Kotter, J. and J. Heskett, 1992., Corporate Culture and Performance, Free Press.

It could also provide a means of bringing social and environmental concerns to account. These possibilities are considered further below.

Effect on the private sector

Inevitably, the changes in public sector management and reporting will affect the private sector, both creating opportunities, for example, to participate in enterprises relinquished by the state, and removing them, for example, as a result of the withdrawal of spending power of former public servants.

The expectation that the gaps in supply created by the withdrawal of the public sector from the production of many public goods will be at least partially filled by the formation of private non-profit organizations is part of the free-market philosophy (Ben-Ner, 1986). The private non-profit sector is seen as a possible remedy for the 'crisis of the welfare state' (Anheier and Seibel, 1990), by taking on functions which the state does not wish to fulfill or cannot delegate to for-profit firms (Seibel and Anheier, 1990). A study by Navarro (1988) shows that levels of charitable giving by large US industrial firms over the 1976-1982 period rose as public sector welfare expenditures fell, seemingly demonstrating the willingness of the for-profit sector to fund the substitution of private sector for public sector non-profit services.

The role of the nonprofit enterprise may therefore become more important, and the specialized aspects of accounting for nonprofits—so far largely neglected by accounting regulators in New Zealand—may come to be regarded as requiring more attention than in the past.

The accounting profession's moves

A Proposed Framework for Financial Reporting in New Zealand (NZSA, 1991) is a 39 page document presented in the form of Exposure Drafts of proposed financial reporting standards (EDs 59 to 65). It represents a reappraisal of the Society's existing set of reporting standards. The influence of the recent public service moves is apparent in the inclusion of public sector reporting and service performance measurement.

Another notable development influencing the timing and content of *A Proposed Framework* was the Financial Reporting Bill introduced to Parliament in the same month. The Financial Reporting Bill 1991 proposes to replace the financial reporting requirements for companies which used to be contained in the Companies Act 1955, and to introduce a Accounting Standards Review Board, the administrative machinery needed to bring a full set of detailed "financial reporting standards" under the force of the law. In its present form, the Financial Reporting Bill has a quite narrow application. It applies only to entities with securities on issue to the public, and to only some of them. The Crown, superannuation scheme trustees, and the Reserve Bank are exempt. So are companies with fewer than 25 members who have no debt securities on issue to the public. Whether or not the Bill's scope is widened, its influence is likely to be wider than this narrow range of entities, since the "financial reporting standards" which are mandated will represent the most authoritative standards of "generally accepted accounting practice", and likely to be held up as applicable to all types of entity.

It was argued above that the new public sector regime is a child of the political swing. The Financial Reporting Bill is probably more an outcome of economic

conditions. Recessions and especially stock-market falls tend to highlight alleged inadequacies in accounting practice. When insolvencies and bankruptcies rob funders of the reciprocal benefits which motivated their funding, they tend to blame accounting (including auditing), the activity they thought they could rely on to ensure that the enterprise would achieve their aims, or at least to indicate to them when to withdraw their funding.

There are parallels between the recent developments in accounting regulation in New Zealand and the revolutionary developments in accounting in the United States in the 1930s. The US Securities and Exchange legislation of 1933 and 1934 arose out of a concern to ensure integrity and uniformity of accounting practice. This prompted a reappraisal by the profession of its own practices, resulting in a spate of publications surrounding the question of "generally accepted accounting principles". Out of this activity came new theoretical approaches to accounting (Gibson, 1990; Watts and Zimmerman, 1979). Developments in New Zealand have been prompted by similar concerns, have also resulted in a reappraisal by the accounting profession of its own role, and, it is argued in this thesis, have revolutionary implications for accounting theory.

A Proposed Framework can therefore be seen as the outcome of two influences: a change in political philosophy, and the economic recession. But whilst recession and the Financial Reporting Bill may have provided motivation, it is the public sector legislation which has provided the novelty that makes *A Proposed Framework* an influence for fundamental change. *A Proposed Framework* gives attention to the desirability of establishing a "conceptual framework" upon which to base a set of accounting standards. Whilst denying that it has developed such a framework (NZSA, 1991, "Introduction", p. 1), ED-60 nevertheless claims that it

"sets out the concepts that underlie the preparation of general purpose financial reports for external users" ED-60, para.1.1).

Whether or not it constitutes a conceptual framework, the *Proposed Framework* does represent an articulation of the model implicit in the new public sector accounting regime. Moreover, it applies its model to all entities, generalizing the public sector model beyond its specifically public sector context. The new public sector legislation has applied private sector accounting concepts to public sector entities: *A Proposed Framework* is at least partially an attempt to do the reverse, and broaden the application of the new public sector concepts. Therein lie the two profound implications for accounting that were discussed in Chapters 2 and 3:

- a holistic approach,
- a broadening of scope.

Summary

Information is a resource subject to the same structures of power, motivation, giving and receiving as the resources upon which it reports. Accounting information is distinguished by a particular focus and tradition of production techniques and presentation formats which are valued and respected by givers and receivers of resources. Traditionally, the motivation for giving accounting information was assumed to be limited to reciprocal obligations imposed on the receivers of economic resources by the givers of those resources or their representatives. However, it is becoming recognized that the motivation for giving accounting information extends to expectations of social benefits and satisfactions to the giver and the giver's desire to influence the environment of the organization. Similarly, the receipt of accounting information is becoming recognized as being motivated not only by its expected contribution to the

achievement of economic aims, but also by expectations that it can contribute to social and environmental aims.

Accounting's potential to expand into these non-traditional areas was recognized at least as far back as the 1960s, but practical moves in this direction are much more recent. In New Zealand, changes in public sector accounting regulation have spearheaded the changes. The public sector moves could have been a result of disillusionment with the welfare state, interventionism and continuing recession. This disillusionment fueled a political shift towards freer markets, less government intervention and lower government expenditure. Accounting was called on to play a role in these political moves in two ways.

Public sector accounting had been on a cash basis and balance sheets had not been prepared. It was reasoned that accrual accounting was inappropriate when activities are funded by taxation, and asset valuations inappropriate when the assets were owned communally and not intended for sale. This reasoning did not suit the needs of a regime which believed that much of the public sector could and should be privatized, and so public sector accounting was 'reformed' by introducing accrual based accounting and the reporting of balance sheets.

Traditionally it has been reasoned that enterprises which buy and sell goods and services in free markets will maximize their efficiency by maximizing their profits. Under the new political regime it was believed that the residue of public sector enterprises which were not deemed to be able to operate on a free market basis were prone to inefficiency because of the absence of the optimizing influences of the market. Profit maximization was not available to ensure allocative efficiency, and traditional financial budgeting methods traced only money flows and not value for money. Some other mechanism was sought to ensure the levels of efficiency in resource usage that were deemed to be achieved

by profit maximisation in the market sector. Accountancy was called on for this second function. This time, it was not simply a case of transferring existing accounting theory to a new application: new accounting techniques had to be invented. These new techniques were termed "service performance reporting".

The potential of service performance reporting to meet the needs of those with power over resources is not, however, limited to the public sector. Initiatives by the New Zealand Society of Accountants promise to extend it to private nonprofit enterprises, but its potential extends to all private sector enterprises, a theme which is developed further in the next chapter.

Chapter 5.
Accounting for Service Performance

> Can it be that what is to come is already here—
> That the preparations are made, and what they point to
> By some happy conjunction
> May grow visible and seem even now to be?
>
> from "The Ruins" by Charles Brasch[1]

Service performance measurement has been adopted by public sector bodies, and *A Proposed Framework* (NZSA, 1991) foreshadows its extension to private nonprofits. It is argued above that the introduction of the concept of service performance into the field of accounting regulation represents a foot in the door for the recognition of non-economic motivations and measures in accounting.

The avowed purpose of accounting is to achieve higher levels of 'decision-usefulness', and of 'accountability' which in turn provide decision support. Miah (1991) expresses the view that public sector users' decisions are based more on non-financial factors than on accounting information. In two UK studies of charities, Hyndman (1990, 1991) found that the (traditional) published financial statements of charities did not adequately support the decision-making needs of donors, the principal users of those statements. The donors' highest priority needs included output and outcome related information and conventional financial statements were low on the donors' list of priorities. There would therefore appear to be some justification for the New Zealand reforms from a decision usefulness point of view.

---

1 *The Penguin Book of New Zealand Verse*, 1960, p.189.

Oettle (1986) describes the problem that service performance reporting seeks to address. He argues that, as far as the purposes of social tasks are outside the economic sector, financial accounting will render incomplete results. Financial accounting systems are "more or less quantitative images of the economic side of processes going on in certain entities or of structures characterizing them" (p. 241). They comprise "only part of the important attributes and of the important kinds of processes of the entities under consideration" (p. 242) and they apply only one measure of value. To show the full results of service-oriented provisions requires "non-monetary statements (above all physical and social ones) showing the degree of performance in quantity and quality". The degrees of accomplishment of these non-economic tasks "cannot be transformed into one dimension by a general denominator. They can just be stated side by side in different dimensions outside of the financial accounting system" (p. 243).

The results of the new regime can be seen in the published financial reports of public sector bodies of the last few years, and *A Proposed Framework* provides the most detailed publicly available explanation of the process. The process is considered below from the point of view of three issues:

- How do financial and non-financial reports articulate?
- The service performance measurement process; and,
- The current and potential scope of service performance reporting.

How do financial and non-financial reports articulate?

The inclusion of information from other information systems to compensate for the failings of the financial accounting system raises the question of the relationship among the systems (Dermer, 1990). A regime of separate "financial" and

"service" reporting implies some kind of complementarity between the two concepts: financial and service. The complementarity is not apparent from lay interpretations of the terms: financial means able to be expressed in terms of units of currency, and service means being useful to somebody. But service performance reporting can include financial measures and one of the aims of financial reporting is to be useful. The intended meanings are quite specialized: financial performance relates to measures of financial return or income, and service performance means the reporting of any other objectives.

The notion that the two sets of reports should 'articulate' can be inferred from a number of recent comments. Government minister William Birch calls for a balance to be struck between the two forms of reporting (Birch, 1992, p. 6). Elwood (1991) refers to "the fact that the accountability requirements in financial and nonfinancial terms have been brought together as a single overall requirement". Neu (1991) suggests that the relegation of information to footnotes in financial statements is taken by readers to mean that it is less important than the information in the main body of the statements. Wallace (1992, p. 471) refers to the ineffectiveness of equity and environmental issues which are "tucked away in vague phrases at the back of the financial statements". The Assistant Controller and Auditor General declares that performance measurement should not be an "add-on" (Provost, 1992, p. 533). The 'aura' of objectivity and neutrality of financial statements that makes their information influential does not necessarily spread beyond those artefacts which are the obvious products of the formal accounting system. Therefore, a clear relationship between non-financial statements and financial statements needs to be established if non-financial statements are to attain an equivalent status. Attention to the articulation between the financial and service reporting is important if service reporting is to acquire the respectability and influence of financial reporting.

Wallace (1992, p. 460) comments that "many relevant kinds of costs and benefits, assets and services are ignored by officialdom." In Chapter 2 it was argued that the so-called 'economic man' assumption that entities will sacrifice resources only if they receive resources of at least equivalent value in exchange is not invalidated by the observation that rational behaviour includes the giving away of economic resources in exchange for inadequate economic rewards. What is needed is a modification in the definition of resources to include the range of non-economic resources that people are motivated to give and receive. These non-economic resources are not as easy to record as the resources recorded by traditional accounting. Traditional accounting recognizes only transactions that can be expressed in monetary units and only private goods and services. The measurement of non-economic resources requires a much wider palette of measurement units and a looser approach to ownership.

It is for these reasons that non-economic resources cannot simply be added to the existing system of double-entry book-keeping. However, double-entry book-keeping does go further in acknowledging the non-economic element of transactions than is sometimes acknowledged. The role of double entry in recording non-exchange transactions is discussed in the next section.

Double-entry bookkeeping and transactional lopsidedness

Mattessich (1964) states that the process of entering transactions in double-entry bookkeeping maps the duality of benefit and sacrifice which is "inherent in many central events of economics". In Chapter 2 it was observed that two kinds of duality are inherent in the process of giving and taking:

Duality type 1 The premise that a transaction involves a giver and a taker;

<u>Duality type 2</u> The premise that transactions occur in pairs where the giver of resource A is the taker of resource B and the giver of resource B is the taker of resource A.

From the point of view of a single enterprise, an accounting double-entry reflects one or other of these forms of duality, depending on the nature of the transaction. In the case of an expense, revenue, or credit transaction the entry reflects duality type 1: one side of the entry records a gain or loss of a resource to the entity and the other records the effect of this change on the claims of others. In the case of an exchange, on the other hand, the entry reflects duality type 2: one entry records the gain of (say) resource A, and the other side, the loss of resource B. Double entry bookkeeping records a lopsided transaction as a hybrid of duality type 1 and duality type 2, with the entry 'gain (or loss) on sale (or purchase)' to reflect the duality type 1 portion of the transaction.

The assertion that double-entry bookkeeping's requirement that the debits must match the credits evinces an assumption that every transaction is an equal-value exchange—that value is conserved in the entity (e.g. in Boulding, 1973, p. 67)—is therefore unsound. Double entry book-keeping handles both grant and exchange transactions with aplomb. After all, a system which could not handle unequal exchanges would not be equal to Ijiri's (1967) "assumption of rational human behaviour": that an exchange will only be transacted when the benefit is seen to be greater than the sacrifice (p. 34). Sometimes that profitable exchange is recorded by means to two transactions. For example, a cash sale at a profit involves a debit representing the amount of money paid into the bank, and a credit of a somewhat lower value representing the goods supplied. At other times, it seems that, in the normal course of human endeavour, net benefit transactions will be preceded by a number of even transactions (e.g. purchases of assets and expenses), that set the

stage for the net benefit ones (usually sales). Then there are the transactions that force a net sacrifice on the enterprise. For the taxpayer, taxes involve a net sacrifice under threat of a larger net sacrifice. For the tax spender, taxes involve a large benefit only to be spent with no apparent net gain. Lastly, there are donations given, for which accounting is unable to show any benefit to exceed or even equal the sacrifice.

Double entry book-keeping is flexible enough to cope with the whole range of the grants-exchanges continuum, but records only the *economic* side of such unequal exchanges as:

1. When a profit or loss is made on an exchange;
2. When from time to time, the vicissitudes imposed by the economic and physical environment would force them to record unplanned transactions with imbalances that may favour the credits (losses) or debits (windfall gains);
3. Taxes and government grants, received or given;
4. Voluntary grants, received or given.

It is the income statement and not double entry book-keeping that reflects the single-minded profit-maximisation assumption sometimes attributed to accounting. Even then, accounting's culpability is more one of omission than commission. The income statement does not state that the enterprise should be maximising profits—it simply fails to report any of the other aims that the enterprise might be pursuing. Service performance reporting could be seen as the tool by which accounting might correct this error of omission.

Economic vs non-economic performance

It has been argued above that recording the giving and receiving of economic resources is the primary basis of the accounting model. In the terminology of

systems theory, resources received are inputs and resources given are outputs. Cutt (1982, p. 313) uses the terminology in this sense when he describes inputs and outputs as "commensurable" if they are both expressible in dollar terms or "incommensurable" if, say, inputs are measured in dollar terms but outputs are measured in physical or index form. However, *A Proposed Framework* has borrowed the terminology of inputs and outputs and given it a specialized meaning in the context of non-financial performance[2], as explained below.

Performance measurement in respect of a period requires differentiating the inputs and outputs which relate to the long-term resource stocks (purchases and sales of fixed assets, contributions of capital etc) from the inputs and outputs which relate to the current period's production (revenue and expenses). Accordingly, the definitions of "revenues" and "expenses", which form the basis of definitions of "financial performance", are defined in terms of the inflows and outflows of resources of a period, excluding capital movements. The non-financial performance elements of "inputs" and "outputs" defined in *A Proposed Framework*, and discussed below, are similarly restricted to exclude capital transactions.

A Proposed Framework defines "non-financial" or "service" performance in terms of three measures called "inputs", "outputs" and "outcomes". It is these three measures which form the basis of the "statement of service performance". The three measures fall naturally into two groups: (1) inputs and outputs, and (2) outcomes, on the basis of the distinction between "doing" and "achieving" (Carroll et al, 1991). Inputs and outputs are the resource flows that result from the process

---

2 The terminology of 'inputs' and 'outputs' has also been used in the context of input-output tables to mean, simply, 'debits' and 'credits' (Farag, 1967, p. 84).

of giving and taking (doing), and outcomes are the results of those resource flows expressed in terms of the non-economic targets that motivated the giving and taking in the first place (achieving). Consideration of how the "statement of financial performance" relates to the "statement of service performance" is considered below in terms of these two groups.

Inputs and outputs

Inputs are the resources used by the entity to produce goods and services and outputs are the goods and services produced by the entity (ED-60, paras.4.11-4.14). Consider the relationship between these two elements of non-financial performance—inputs and outputs—and the elements of financial performance—revenues and expenses. They may both occur as attributes of same transaction (ED-60, para.7.5), and whereas financial performance is expressed in monetary units only, service performance are to be expressed in terms of the following range of possible "dimensions" listed in ED-65 (para.12.2):

- quantity;
- quality;
- time;
- location;
- cost.

Since all transactions are two-way giving and taking (duality type 2) relationships, revenues and expenses have roles as both input and output measures. Revenue describes the goods and services produced (outputs) in terms of what the recipients paid for them. It also describes the financial contribution towards their production (inputs). Similarly expenses describe both the cost of production (outputs) and the contributions made towards production (inputs).

This duality provides a basis for conceiving how the *A Proposed Framework* concepts, of revenue and expenses on one hand and inputs and outputs on the other, might articulate. The financial perspective, represented by the statement of financial performance, is of revenue as inputs and expenses as outputs. The non-financial perspective is the mirror image of this—the goods and services produced are the outputs and the expenses of producing them are the inputs.

Arguably, the two reports also articulate with each other in a second sense: that is, in terms of the process of recording transactions in accounting. Each leg of a transaction involves an account name and an amount. Financial performance focuses on the amount, non-financial performance focuses on the account.

However, the *A Proposed Framework* approach to service performance reporting does not allow articulation in either of the above two senses and results in a service performance report which is incomplete in the two following respects.

Firstly, one of the dimensions of non-financial performance, cost, is different from the others in that it is also a financial element. This is consistent with articulation if it is interpreted as requiring cost as an output to be reported in the statement of financial performance and cost as an input to be reported in the statement of non-financial performance. However, revenues are not included as a dimension of service performance, implying that revenues as outputs are to be omitted from statements of service performance. Therefore, in the case of goods and services supplied for full consideration, the report on service performance report will not articulate with the report on financial performance.

Secondly, whilst statements of service performance are required to report outputs (ED-65, para.12.1), the reporting of inputs are only required in the circumstances described in ED-65, para.12.3:

> 12.3 Where the inputs used to produce outputs are not reflected in the cost of outputs, those inputs should be described and disclosed in the statement of service performance.

The objective of Paragraph 12.3 is to require a description in the service performance report only of factor inputs which are not recompensed by the entity. This further degrades the service performance report to a partial non-financial reflection of the report on financial performance. Full articulation would require Paragraph 12.3 to be restated along the following lines.

> 12.3 The inputs of an entity should be described and disclosed in the statement of service performance. Inputs include costs and, where applicable, contributions to production which were provided free to the entity.

Outcomes

The shortcoming of the financial and nonfinancial output measures discussed above is that they relate to the transactions and not to the motivations underlying the transactions. Accounting records giving and receiving transactions, and it is this giving and receiving which provides the context in which an entity is said to 'perform'. However, it is the motivations underlying the giving, receiving and directing of giving and receiving which determine the targets against which the entity can be said to perform.

Financial reporting can be oriented to measuring performance in terms of reciprocal economic rewards for economic giving or maximisation of economic receiving and hence the needs of those with purely economic motivations. However, as argued in Chapter 2, non-economic motivations drive much giving and receiving.

Financial reports may also indicate non-economic performance in respect of the entity's resources, how the power over those resources are shared out, who stands

to benefit financially from the entity's existence and operations and so on. Likewise, the details of the goods and services produced provided by non-financial output measures may be pertinent to non-economic motivations. However, these measures miss the essential component of non-economic giving and taking. Non-economic motivations are often of the character of a 'desire for the World to be a certain way' rather than to the physical resource flows that these data describe. They are oriented to social, political, artistic, religious, environmental and other non-economic targets. Such targets are encompassed by the term "outcomes" as defined in *A Proposed Framework.*

A Proposed Framework defines outcomes as "the impacts on, or consequences for, the community resulting from the existence and operations of the reporting entity" (ED-60, para.4.15). Entities must report outcomes only where "this is both relevant to its performance objectives and able to be reliably measured" (ED-65, para.12.1). The "dimensions" for reporting of outcomes are the same as for outputs: quantity, quality, time, location and cost (ED-65, para.12.2).

Outputs and outcomes as a basis for differential reporting

The model of service reporting applied to central government agencies insists that outcomes are the responsibility of Parliament, so that it is their perceptions, aims and expectations that should be encompassed by outcome measures. Departmental heads, on the other hand are responsible only to Parliament and only for outputs. The rationale for this "two-stage" model is that accountability for outcomes by government agencies is "not realistically possible, given the absence of clear ex ante specification of what was to be achieved" Ball (1992, p. 58). However, as reporting on outcomes by Parliament is not required, no reporting on the outcomes of central government activities is required. The Auditor General considers this "a

significant omission" (Pallot, 1991c, p. 218). Pallot (1991c, p. 219) refers to "the shortcomings of applying a much simpler private sector principal-agent model, where managers are seen to be accountable to shareholders, to the more complex relationships in government".

Cutt (1982, p. 318) argues that the contractual relationship inferred from the political process is far too general to provide sufficient information on the worthwhileness of public nonprofit services. Technically derived information is needed in addition to politically derived information, to ensure services will be provided or maintained in the quantity and quality which voters want and for which they are willing to pay (p. 319). He sees this as a need to narrow "the gap between political accountability and rationality—oriented to obtaining votes—and managerial accountability and rationality—oriented to performance in the use of scarce resources" (p. 325).

Translating this two-stage notion into other non-profit contexts would have only elected representatives: the board of directors or trustees of a private nonprofit or the elected councillors of a territorial authority determining the outcomes. This view can be criticised on several grounds:

- It fails to reflect the aspirations and fears that other funder constituents have about the direction of the enterprise, so that it will not serve their needs;
- It disenfranchises other funder constituents;
- It sanctions an autocratic approach to non-economic decisionmaking.

These objections are overcome with an approach which anticipates a participative decisionmaking environment, and seeks to reflect the aspirations and fears of all

constituents with power over funding. In other words, projected outcomes should be determined at levels both within and outside the management hierarchy[3].

Economic vs non-economic position

The dual concepts of stocks and flows are basic to accounting thought. The balance sheet records stocks and the income statement and statement of cash flows record flows. The mutual articulation of the income statement and the balance sheet is usually regarded as desirable as, for example, in Sprouse and Moonitz's "Postulate B-1" (1962, p. 6), though others favour the notion of non-articulating financial statements, for example Wolk et al (1984, p. 261). However, even those who would abandon articulation see the need for the duality of a statement of performance and a statement of position. In its exposition of the concept of service performance, *A Proposed Framework* appears to ignore the related concept of service position, and a statement of service position is conspicuous by its absence from the proposed reports. By implication, financial resources are the only resources that can be stored for future use, and it is not relevant or possible to accumulate non-financial resources to be employed in performance achievements in the future, in the same way as financial capital is accumulated and employed.

It can be argued that the NZSA is at least partly right in its failure to recognize 'service position'. Although financial performance relates exclusively to an accounting profit approach, financial position may be a broader concept, more appropriately described as 'financial *and service* position'. This is because service

---

3 Christchurch City Council decided on outcomes to measure in its first year of service performance reporting by having a brainstorming session attended by councillors and senior staff.

performance is not non-financial in the lay sense of the term—it invariably involves money and goods and services (inputs and outputs) which can be expressed in terms of units of currency. Much service performance potential is therefore expressed by the statement of financial position. After all, if the statement of financial position is not to serve also as a statement of service position, then it would not be possible to capitalize expenditures from taxation or donation receipts.

Nevertheless, there is a strong case for a statement of non-financial position. The requirement for a statement of non-financial *performance* reflects the belief that statements of financial performance cannot convey all of the essential information which give meaning to the activities of the enterprise—the information contained in the statements of financial performance must be supplemented with non-financial details about inputs, outputs and outcomes. By similar reasoning, a statement of non-financial *position* would reflect the non-financial characteristics of the service potential controlled by the entity.

A statement of non-financial position would, therefore, report the non-financial input, output and outcome potential of the economic elements shown in the statement of financial position. However, in addition to this, it would also report the potential of non-economic resources, which do not appear in the statement of financial position because it is inappropriate to express them in financial terms.

Wallace (1992, p. 467) identifies the environment as a "complex asset . . . that produces a vector of services" some of which are private goods and some of which are public goods. She also identifies as assets "such qualities as trust, friendliness and cooperation" (p. 462). She assumes throughout that recognition of all of these aspects of performance potential requires their expression in financial terms so that they can be reported in the statement of financial position. A "statement of non-

financial position", on the other hand, suggests the alternative of an authoritative medium for the expression of performance potential factors that are deemed inappropriate to express in financial terms. The quest for ways to express non-economic resources in financial terms is not necessarily inappropriate, but non-financial means of expression may be more appropriate in the case of some resources. A statement of non-financial position would provide the medium for this expression.

Both Wallace's approach and the notion of a 'statement of non-financial position' have in common the aim of averting the failure to report non-economic characteristics which colours decisionmaking against the accumulation of 'non-economic capital', in favour of economic capital and consumption. The character of the whole range of these non-economic factors would be as wide-ranging as the non-economic motivations which give rise to them. The approaches of social accounting (Wallace, 1992, p. 471) and human resource accounting (Pallot, 1991c, p. 214) may be relevant to their specification. Consistent with the approach taken elsewhere in this thesis, a detailed consideration of the whole range of non-economic considerations is left aside. The prospect of recording 'non-financial assets' in connection with the arts is considered in Chapter 6.

Community Assets?

A Proposed Framework will replace the Society's earlier pronouncements on public sector accounting. One of these, the *Statement of Public Sector Accounting Concepts* (NZSA, 1987), now withdrawn, included two asset categories: assets excluding community assets, and community assets. Community assets were distinguished by being "infrastructural assets which have no determinable useful life and provide social service rather than commercial service" (NZSA, 1987,

para.4.15). Community assets were to be omitted from the statement of financial position and "reported in non-financial terms in the Statement of Resources, and where feasible, some estimate of the value to the community shown" (para.4.19). The statement of resources was defined as a statement "describing in physical terms the major resources held by the reporting entity" (para.3.8).

A Proposed Framework specifically excludes the concept of community assets, declaring that, by defining assets, identifying their qualitative characteristics, and defining the recognition criteria to be applied, it has removed the need to separately define and recognise community assets (ED-61 Discussion Paper, p. 16). The now abandoned concept of the community asset was a non-financial asset in the sense that it was not expressed in money terms and was declared to provide a social service rather than a commercial service.

Pallot (1991a, p. 205) laments the passing of the notion of community assets, describing the concept as:

> . . . a foil to increasing 'privatization' in a world where not only are public assets, ranging from telecommunications networks to forests and water supply, being placed in the hands of private corporations, but there are also concerted attempts to establish private property rights in what were previously considered public goods such as knowledge and clean air.

She also sees the notion as "a precondition for examining issues of intergenerational equity such as the depletion of natural resources (p. 206).

Glazer and Jaenicke (1991) discuss the question of the recognition of museum collections as assets. Museum collections belong to the class of "nonbusiness resources" and the writers draw parallels with the New Zealand concept of "community assets" and the Canadian Institute of Chartered Accountants' concept of "heritage assets". In contrast with business resources, the primary purpose of holding nonbusiness resources is not to yield cash inflows (p. 32). Glazer and

Jaenicke question the relevance and cost-effectiveness of measuring such collections in financial terms, pointing to the results of their own survey which suggest that the information is not found useful (p. 42). Their survey, which appears to have been limited to financial resource providers, revealed that such factors as reputation, both in the museum world and with the general public and the "uniqueness" of the museum's collection were of primary importance to these decisionmakers (p. 37).

Whilst the concept of community assets enunciated in SPSAC was narrower than the concept of "non-financial position" envisaged here, the abandonment of the idea does seem to represent a step backwards in terms of the prospects for the development of such a concept.

The service performance measurement process

The statement of service performance is intended to provide a report on "the degree of success in achieving the service objectives of the reporting entity" (ED-60, para 4.11). The process of measurement involves determining:

- the variables to measure; and,
- the bases for assessment or comparison of performance.

The Controller and Auditor-General (1992) comments that "the theory and techniques for measuring performance are still in the developmental stage, and there is as yet no overseas experience to draw on". Blessing's (1992) account of the various non-performance measurement practices adopted by different US local government bodies seems to contradict this assertion.

The variables to measure

The non-financial variables or "elements" are defined in *A Proposed Framework* (ED-60, paras. 4.13-4.15) as follows:

> 4.13 **Inputs** are the resources used to produce the goods and services which are the outputs of the reporting entity;
>
> 4.14 **Outputs** are the goods and services produced by the reporting entity;
>
> 4.15 **Outcomes** are the impacts on, or consequences for, the community resulting from the existence and operations of the reporting entity.

In the case of inputs and outputs the variables represent resources received and given. *A Proposed Framework* does not define "resources". By implication, however, inputs are intended to include non-economic as well as economic resources. This is because the "financial elements" are defined in terms of *economic* resources and benefits, in contrast with the inputs which are defined simply in terms of resources. "Goods and services" are not defined either, and no leads can be found as to whether they are intended to include non-economic resources. however, the question is probably not important to this discussion, since non-economic resources can be viewed as being encompassed by "outcomes".

Which elements are reported will depend on the service obligations of the entity (ED-65, para.12.5). Presumably they will also depend on the assumed bases to be adopted for assessing or comparing performance which is the topic of the next section. However, the question of what to measure and what not to measure remains. The task of choosing performance measures involves identifying the aims of individual activities (Putterill, 1982, p. 18).

The process of reporting actual against forecast outcomes carries with it the danger of neglecting unexpected outcomes. Moreover, outcomes can be good or bad, sought or unsought. There is a danger of reporting only those outcomes which were sought or are considered desirable, and ignoring outcomes considered undesirable.

McCulloch and Ball (1992, p. 10) proffer the distinction between the "purchase" interests of customers and "ownership" interests of owners in order to clarify the issue of performance measurement needs. According to McCulloch and Ball, customers need information about "quantity, quality, time and place of delivery, and price", that is, the "dimensions" of service performance that output and outcome information provide (ED-65, para 12.2). Information needed by owners, on the other hand, is provided by financial reporting on the basis generally accepted in the private sector. Ownership and purchase interests both arise from motivations to receive. Ownership interests are motivated by expected rewards from the entity as a whole, and purchase interests are motivated by expected rewards from consumption of the product of the entity.

However, the McCulloch and Ball dichotomy does not provide a full description of the motivations either of politicians and departmental officials or of the voters, taxpayers and beneficiaries in whose interests they are assumed to be acting. It ignores the giving that is not motivated by the promise of a reciprocal economic benefit. To align service performance measurement with the economic interests of a purchaser is to overlook the range of altruistic, religious and other motivations which can underlie giving.

Steele (1991) argues that "Only by investigating the public's preferences and priorities will public services be able to devise measures of their performance that people see as relevant and useful". Opposition spokesman on finance, Dr Michael Cullen echoes

this sentiment in his bid "to open up to the public at large. . . the definition of the outcomes being sought" (Cullen, 1992, p. 18).

Alternatively, Provost (1992, p. 533) suggests "measures of elected representatives' satisfaction" to measure qualitative performance. Hawke (1992, p. 357) suggests that attempting to build a system of non-financial performance measurement that fails to put considerable trust the judgements of the manager and the councillor would be unacceptably expensive. He goes on to suggest (p. 360) that elected representatives can use a range of means to make their judgements of quality, including:

- consideration and analysis of reports from officers;
- listening to, and encouraging, ratepayers' views during formal consultation processes (annual plan, regional policy statement etc);
- feedback during informal contacts such as addressing clubs, mixing with ratepayers at social functions, day-to-day etc;
- monitoring of news media comment;
- constituency workshops and meetings.

The bases for assessment or comparison of performance

Blessing (1992, pp. 35-37) discusses three "dimensions" of performance measurement: efficiency, effectiveness and quality of service. The measurement of efficiency involves comparing inputs, such as materials and labour, to outputs, such as goods and services. The effectiveness and quality of service dimensions involve comparing outcomes with objectives to measure effectiveness and with a range of quality variables to measure quality of service.

With regard to how the data might be used to assess or compare performance *A Proposed Framework* largely limits itself to making the following points:

- in measuring effectiveness, causality should be attributed between outputs and outcomes only when a causal link is clearly established (ED-65, para.12.7);
- the degree of success achieved in meeting output and/or outcome objectives requires comparison between projected and actual results (ED-65, para.12.10).

One approach to the measurement of outputs and outcomes is the use of consumer surveys. The Controller and Auditor General (1992) approves of the use of consumer surveys, but warns of the need "to eliminate bias in: framing the questions, carrying out the survey, and compiling the results" and to ensure that the sampling procedures are statistically sound.

The existing and potential scope of service measurement

The techniques associated with service performance measurement have been developed primarily to address perceived problems of accountability in the public sector they could have application in addressing emerging issues in private sector accounting. Public sector accounting has adopted many new techniques from private sector accounting in recent years. The application of service performance reporting to the private sector would represent the adoption of a public sector accounting technique by the private sector.

Preliminary to a consideration of the scope of service performance measurement, the next section considers the basis for differential service performance reporting foreshadowed by ED-65.

The ED-65 basis for differential service performance reporting

A Proposed Framework requires reporting entities to produce a set of financial statements and a set of non-financial statements in order to encompass both sets of

objectives (ED-65). However, the relative scale of the two reports is expected to vary according to the nature of the entity's operations. Commercial entities have predominantly financial objectives so they should report predominantly financial information. Non commercial entities have predominantly non financial objectives so they should report predominantly non financial information (ED-61, para 3.10). All reporting entities must prepare financial statements but only some reporting entities need to prepare non-financial statements (ED-65, para.2). Non-financial statements are required only where (ED-65, para.11.2; insert in square parentheses from para.11.3):

> . . . the goods and services (outputs) produced [or purchased] by the entity are not supplied to the ultimate funder of those outputs.

The rationale behind this phrase is that when a good or service is sold to a purchaser by a profit-seeking firm in a market—or 'user pays'—transaction, then the purchaser is the ultimate funder of that good or service. In such circumstances, performance can be described solely in the financial statements. The underlying motivations on the part of the selling entity are profit-oriented and there are no non-financial motivations to report on. Non-financial reporting is not required because the operation of markets are assumed to impound everybody's values in the prices paid in exchange for resources. Where, on the other hand, the good or service is provided free, then the ultimate funder is not the receiver of the goods or services. In these circumstances the market cannot be relied upon to regulate performance and additional information is required to enable constituents to measure performance. The ultimate funder may be taxpayers in the case of a government department, ratepayers in the case of a local authority, or they may be shareholders, lenders, taxpayers via generous tax concessions to the entity, sponsors, subscribers etc.

Does the 'ultimate funder' distinction, as presented in ED-65, provide a clear indication of the circumstances requiring the preparation of non-financial statements? There may be problems. ED-65 seems to anticipate that entities either fall into one category or another, when in fact they will almost always sit astride the two categories. This will happen in two ways.

Firstly, many entities supply some outputs on a user-pays basis and others free. Where the emphasis of an entity's activity is predominantly on the give-aways, and the user-pays activity is relatively minor (e.g. charitable organizations) then obviously a statement of service performance is required in respect of the give-away activity. On the other hand, if the emphasis of an entity's activity is predominantly on the supply of user-pays outputs, and the give-aways are relatively minor (e.g. large profit-seeking companies), is a statement of service activity required in respect of their give-away activities? ED-65 is unclear on this point.

Another problem which ED-65 fails to address is the fact that many outputs of entities are neither entirely user-pays nor entirely given away. Many are funded partly by the recipient and partly by others. How is the 'ultimate funder' test to be applied in such situations? Within the framework of the standards two tests could be applied to decide whether service reporting is required:

1. A materiality test: provided the scope of the give-away activity is material (probably defined in a financial reporting standard on materiality), then a statement of service performance would be required in respect of that activity.

2. A verifiability test. Verifiability is one of the qualitative characteristics identified in ED-60. A transaction or event is verifiable if "knowledgeable and independent observers would concur that it is in agreement with the actual

underlying transaction or event with a reasonable degree of precision" (ED-60 para 5.7). This would provide a let-out for the much non-financial reporting which is by nature difficult to measure. It may prove difficult to obtain generally accepted measures of transactions involving external costs, cultural heritage and sustainability. Application of the verifiability concept would seem to indicate that these costs should not be measured.

An alternative approach would be to apply a special test such as a "predominant activity" test: if the predominant activity (as defined by some measure of relative levels of activity) is user-pays then no statement of service performance would be required.

Conclusion

The objectives of ED-65 are presumably to exempt for-profit enterprises from the requirement to report service performance, and to require non-profit enterprises to prepare them. The criteria presented would succeed in doing this in clear cases of for-profit enterprises in free markets and heavily subsidized non-profits. However, the criteria may be unclear in the case of nonprofits or for-profit enterprises whose production is partially funded by sales revenue and partially donated.

The ED-65 differential reporting criterion is not a very specific basis for exemption, and the next section presents an interpretation that would indicate the need for all enterprises to present service performance reports.

The potential scope of service performance reporting

It is argued above that inputs and outputs, as conceived in ED-60, represent mirror-images of expenses and revenues. The accounting item *Revenue* represents goods or services supplied (an output) in terms of the money received in exchange (an input). The term *Outputs* represents those outputs in terms of a range of other descriptors. The accounting item *Expenses* represents goods and services received (an input) in terms of the money paid for them (an output). The term *Inputs* represents those inputs in terms of a range of other descriptors. Therefore, Revenue and Outputs taken together describe the goods and services supplied and Expenses and Inputs taken together describe the resources employed in production.

A Proposed Framework states (ED-65) that the presentation of non-financial statements is relevant to public sector and nonprofit entities and "may also be relevant to other entities to reflect their social or service objectives which are additional to their financial objectives". This statement understates the limitations of the income statement and the potential of non-financial reporting to offset those limitations. Firstly, it assumes that non-financial reporting is not relevant to financial objectives. Secondly, it is equivocal on the applicability of non-financial reporting to for-profit enterprises. It is argued below that non-financial reporting is both:

- relevant to financial objectives; and,
- applicable to all enterprises.

Relevance to financial objectives

As mentioned in Chapter 3, Bromwich (1990) argues for the relevance of non-financial "attributes" of products to a firm's marketing strategy. Schick (1992, p. 241) argues that the techniques of performance measurement are "weak substitutes for what the market does", firstly because (unlike the market's verdicts) they are not critical to the health or survival of the organization, and secondly because they rely on managerial judgement. He conveniently ignores what the market does not do. It is more appropriate to view performance measurement as correcting for rather than substituting for what the market does.

Applicability to all enterprises

A Proposed Framework paints a picture of a black-and-white world where goods and services are either supplied to their ultimate funders or not. The view aligns with the two poles of Boulding's exchange-grants spectrum (which was discussed in Chapter 2). At one end of the spectrum lie pure 'exchanges', and at the other end pure 'grants'. A pure exchange is "a rearrangement of assets of equal values among owners, but the total net worths of the parties are not changed". A pure grant is "any two-party relationship in which an exchangeable passes one way but no exchangeable passes the other way, even though there may be nonexchangeables passing between the two parties" (Boulding, 1973, p. 2). As Boulding observed, however, funding is invariably a hybrid of grants and exchange transactions—transactions occur away from the poles of the exchange-grants continuum.

A Proposed Framework (ED-65) cites taxation funded activities to illustrate a situation where purchasers of services are not the ultimate funders. However, most taxpayers enjoy the benefits of at least some government services. Some

taxpayers (who others of an uncharitable frame of mind might refer to as 'tax bludgers') enjoy the benefits of government services in excess of the value of their contributions. The provision of some government services that are funded partly by taxes and partly by user-pays fees diffuses the situation further.

Applying Boulding's definitions as the basis for determining the need for service performance reporting, it can be seen that service performance reporting would occur in the case of all transactions which are not pure exchanges. As Boulding states, most transactions will be away from either end of the spectrum, containing a mix of exchange and grant elements. That is, they are of the nature of subsidized transactions which involve parties other than the receiver of the output.

There is also a problem with the ED-65 statement that the non-economic performance of entities is the result of "*their* social and service objectives" (italics added). The problem lies with the definition of *entities*. As argued above, the objectives of entities are diffused and distributed amongst a wide range of constituents. Some of these constituents are politicians and accounting regulators who regard accounting information as a public good and therefore impose regulations requiring the provision of information that constituents more directly associated with the enterprise might not otherwise provide. Hence, the motivation to provide accounting information involves not only benefits to the provider but also avoidance of fines, deregistration etc. Some of the social and service reporting requirements may therefore represent the motivations of accounting regulators and be compulsory requirements of those more closely associated with the entity, whose motivation to provide them is avoidance of detriment.

However, the non-reciprocality of transactions is not simply a case of subsidized output. The 'subsidization' can conceivably be in excess of the value of the output

as in the case of 'tax bludgers' mentioned above, or it may be negative as in the case of monopoly pricing and external benefits.

The above discussion is summarized in the following list of the range of non-reciprocal exchanges.

Product supplied for less than cost of funding

- Output purchased jointly. The recipient partly funds the output via taxes, rates or membership fees, sharing the funding with others. For example, when a ratepayer uses a public toilet, or members of a club have a free Christmas party, there is no necessary relationship between payments made by the recipient and value of the service consumed;

- Output incurring external costs. Unwilling cost-bearers partly fund the output. For example when a tavern supplies alcoholic liquor to patrons who cause damage to neighbouring residential properties, the cost of the hospitality provided by the tavern includes the cost of the damage borne by the tavern's neighbours;

- Cultural property. An ethnic group from whom their heritage has been appropriated partly funds the output. For example, when a person buys an ancient Maori artefact at an auction, the Maori people partly fund the purchase via the partial appropriation of their heritage;

- Unsustainable output. Society at large whose heritage has been appropriated or put at risk partly funds the output. For example, when a person buys a wooden toy manufactured from rare Asian hardwood, or an ozone-depleting spray-can the purchase is partly funded by the loss of non-renewable resources to future generations.

Product supplied for more than cost of funding:

- Goods are supplied at an inflated (monopoly) price. Oettle (1986, p. 247) lists three ways that "the chance to get the proper information" from business accounting by monopolies "is impaired". First is the undervaluing of assets and overstatement of liabilities, the second is to be lavish with inputs and the third is the offering of lower quality service than would be consistent with the task. Therefore, Oettle concludes, "business accounting is very much in need of supplementation when monopolies are operated";

- Goods which confer external benefits are supplied.

The consistent application of the principle that service performance reporting is required whenever non-reciprocal transactions occur would mean that all of the above situations give rise to a need for service performance reporting. Baumol (1975, p. 46) expressed the view that "Society has every reason to ask business to be much more careful in its use of the environment, to do much more to protect the interests of consumers etc. But we neither should nor can rely on 'voluntarism' for the purpose." Weisbrod (1988, p. 14) refers to the need to "curb the reaping of profits by socially inefficient behaviour". Views such as these may eventually bring about the compulsory reporting of a range of non-economic giving and taking pertaining to external costs, cultural property and unsustainable output. If such a change takes place, then the reporting could be incorporated within the broader context of the service reporting concepts being developed.

Conclusion

Conventional accounting attempts only to record net economic benefits. However, many activities of human enterprises are economically neutral—their raison d'etre is the non-economic benefits that arise out of the financial exchanges entered into. The concept of service performance can be seen as an approach to the recording of these non-economic benefits.

The new accounting techniques emerging out of the legislative initiatives taken in New Zealand may have a wider application than currently envisaged, with potential to address some of the problems identified in the social and environmental accounting literature. Pallot (1992, p. 52) sees the possibility of the concept of community assets flowing from a specific public sector context into "the wider body of accounting theory". It was argued in this chapter that service performance measurement and reporting could also have application in the wider body of accounting theory.

Further contemplation of the question of the nature of specific outcomes, however, reveals that non-economic objectives are diverse and unable to be expressed in the form of a common denominator, as can the economic objectives, virtually by definition. It is, therefore, too much to expect that a global basis for the determination of outcomes—a common denominator of outcomes—can be achieved. It may be necessary to create a typology of non-economic motivations, and seek bases for the determination of outcomes for each type of motivation. The exercise of developing a model for outcome determination in one specific context—the arts—is taken up in Chapter 7.

Chapter 6
The Arts

> But the Devil whoops, as he whooped of old: "It's clever, but is it Art?"
>
> from "The Conundrum of the Workshops" by Rudyard Kipling.[1]

The relatively short history of non-economic measurement for accounting purposes was canvassed in Chapters 4 and 5. So far, this development contains only very broad concepts and evidence from local authority reports shows that entities are somewhat diverse in their reporting of activities that are motivated by welfare and artistic objectives. The religious, political and altruistic objectives of private sector entities will pose a similar problem when NZSA (1991) is implemented.

The problem is seen here as a lack of a theoretical basis for viewing the range of non-economic objectives of enterprises, and its solution is sought in the motivations for giving and receiving which underlie transactions.

This chapter examines the motivations underlying arts enterprise with a view to the explication of the non-economic objectives associated with the arts.

The range of meanings of the term 'art'

Several meanings of 'art' can be found in everyday language. In one sense, 'art' means any human skill that requires study, practice or knowledge, such as when

---

1 In *Barrack-Room Ballads*, 1892, (quoted in *The Oxford Dictionary of Modern Quotations*, 1991, Oxford: Oxford University Press).

the term is used in the contexts such as 'the art of beekeeping'. In another sense the term is used in the plural to mean the range of academic disciplines that are not regarded as science or applied science, such as when it is used in the context of 'the Faculty of Arts' or 'the degree of Bachelor of Arts'. In a relatively specific sense 'art' refers to the range of activities and artefacts associated with visual 'works of art', such as paintings and sculpture, and excluding activities such as music, drama, and dance.

The sense sought here lies somewhere between the general and specific meanings above—the sense intended by terms such as 'performing arts', 'visual arts', 'works of art' and 'the Arts Council'. This is the sense of Sparshott's (1982, p. 1) definition:

> All that part of life which consists of the production, enjoyment, study, and other activity in relation to such objects we refer to in a loose and vague way as 'art'; the practices of producing different sorts of them are the arts, and the people who produce them are artists.

This is the sense which groups together the activities and knowledge relating to the production, promotion, distribution, ownership and consumption of paintings, sculptures, films, dances, photographs, novels, poems, concerts, recitals, compositions, plays, operas, carvings, pots, etc. It is probably also the sense intended by the politicians who established and continue to sanction the funding of the Queen Elizabeth II Arts Council of New Zealand, though the purported definition provided by the Act of Parliament under which it operates states only that "arts include crafts, and other forms of cultural expression"[2].

---

2 Queen Elizabeth II Arts Council Act 1974, Section 2.

Sparshott goes on to observe that "Whilst the notion that such a diversity of skills and products and services have something in common can be accepted intuitively, the identification of that commonality which they possess can be regarded as problematic" (p. 1). The definition of art can be approached by looking for commonalities in the characteristics of those products and services which are regarded as art. It is easily appreciated, however, that apart from very general statements about 'order', it is not possible to proceed far without turning to the thoughts and social processes of people—that what counts as a work of art "must depend on features of our culture, and not on the excellence of our skills or on the properties of the objects that they are used to produce", (Novitz, 1990, p. 309), and it is "more illuminating to define art not in terms of objects but in terms of the groups of people who cooperate to produce the things that they call art" (Becker, 1976).

Art as a use and as a motivation

Of all the activities, products and services of a society some, and not others, are said to have the characteristic of being art. Art cannot be differentiated from non-art by its physical content as can, say, mining from agriculture, or education from architecture. Art appears to be a non-physical characteristic which can be "attached" like a label to any form of production: a "badge" (Taylor, 1978, p. 57) that is pinned to some activities and not to others, a sort of seal of approval like the standards certificate or the Royal Warrant.

The judgement that something is art assigns a value to it (Taylor, 1978, p. 47) over and above any value it might have as an artefact. A work of art is (1) an

artefact, and (2) a set of the aspects which has had conferred upon it the status of candidate for appreciation by some person or persons (Hanfling, 1992, p. 20).

A good or service has a purpose which determines the form which the good or service takes. Those goods and services which are classified as art retain in greater or lesser degree this non-art form and "the artefact will always be a determining factor in shaping the art"[3]. A good or service provides a vehicle for conveying the art contained in it. An oil painting contains canvas which might have been used to make a tent. A tent is not usually regarded as a work of art, but an oil painting usually is. A non-art form is converted into art by the badge of approval. Exhibit 6.1 shows examples that show how a particular form of product or service can be either non-art or art.

---

3 Jonathon Morrish of Sony Music, talking about the effect of playing time limits of the LP and the CD on the quality of their contents (Gill, 1993).

EXHIBIT 6.1: FORMS THAT SERVE AS VEHICLES FOR ART

Form	Examples	
	Non-art	Art
Entertainment	Quiz show	Drama
Recreation	Football match	Dance
Religion	Sunday sermon	Religious music
Property	Signpost	Oil painting
Text	Instruction booklet	Novel
Consumer good	Dinnerware	Pottery

According to Sparshott (1982), when people identify a good or activity as art they are identifying an essential combination of two specific qualities which that good or activity possesses. These qualities can be called "uselessness" and "importance" Art is "useless" in the sense that it does not perform a practical purpose—works of art are expected to provide worthwhile experiences merely in being listened to, looked at or read, so that art is, in a sense, "an activity eminent in its uselessness" (p. 11). An oil painting may be useful for blocking a hole in a wall. Its status as a work of art, however, justifies its value for its own sake, without there having to be a hole to block.

Despite its apparent lack of function, however, art is "important" to somebody, and so is therefore not useless after all. This paradox may be resolved by recognizing two scales of value. By one scale of value, which could be called

"practical value" art is "useless". By a second scale of value which could be called "aesthetic value", art is use*ful*[4].

The appreciation of aesthetic value is cerebral and has two sources: a personal source and a social source. At a personal level, art is an attribute which causes pleasure or enlightenment. When the attribute is recognized—by just seeing or hearing something—it causes a feeling in the beholder analogous to the 'high' of drug-taking or meditation. It is an abstract pleasure created by a sight or sound (usually), or an idea indicated by sight or sound. It is something that people find engrossing and enjoyable in all its aspects (Sparshott, 1982, p. 1). This pleasure gives the perceiver a sense of the work's importance over and above any functional or pleasure-giving quality.

The attribute 'art' can be experienced not only by the consumer but also by the producer of the product: Cebik (1990, p. 245) describes the arts industry as one "populated by a vast array of people who earn a livelihood from their efforts" many of whom "are committed to one or more of the arts in ways far more like religious faith than is normally required to retain a position or job".

This combination of uselessness and importance differentiates art from other forms of activity and product. Other important activities have a functionality such as physical comfort or fitness or survival. Other 'useless' activities such as leisure games are somehow not important enough to qualify as art. The universe of goods and services can therefore be divided into 'art' and 'non-art' upon the criterion of uselessness and importance.

---

4 The duality of aesthetic value versus practical value is analogous to questions of financial value in accounting such as the distinction between "value in use" or "value in exchange".

Appreciation of art also occurs at a social level. Recognition of others' appreciation of particular sights and sounds influences and educates the artistic 'palate' via the social need for group identity and reference groups. When two people discover that they like the same work of art then they have not only discovered something in themselves, they have each discovered a link with each other—they have broken the isolation of their minds. In terms of the intellectual stimulus that they derive from the work of art they share it. It is the fact that they share something intellectual as opposed to material which defines the 'art' in the product. Art objects "express a shared human sensibility and purpose, communicate across time and distance, dispel the feeling that one is lost and alone" (Merryman, p. 349).

Similarly, for the producers of art, the interaction of the involved parties produces a shared sense of the worth of what they collectively produce. Their mutual appreciation of the conventions they share and the support they mutually afford one another convinces them that what they are doing is worth doing, that the products of their effort are valid works (Becker, 1976, p. 42)

Art does have a *use:* a special kind of enjoyment or enlightenment—and art is also a *motivation*: the promise of that enjoyment or enlightenment.

The variety and dynamics of artistic appreciation

The last section suggested that there are characteristics common to all art. It put to one side the question of differences in perception—not all people perceive the importance, which identifies a work of art for them, from the same activities or artefacts. It appears that art, like beauty, is in the eye of the beholder. Sometimes the variations are perceived as a distinction between 'art' and 'non-art'; in others

as a distinction between 'good' art and 'bad' art. The question of defining art therefore poses two problems: one of defining art *per se* and one of placing a value on art *as art*. This parallels other problems in accounting such as the distinction between what is 'an asset' and what is 'the value of an asset'. In conventional accounting the value issue is confined to financial value. In the consideration of art as a *non-economic* motivator, value is a question of the value of art, as art.

The categories shown in Exhibit 6.1 can be used to illustrate the disagreements over what is and is not art and good and bad art. Perceptions not only differ at any particular time, but they change over time. For example, on seeing Exhibit 6.1, some would argue that sports matches can be art, and some would argue that abstract painting and atonal music are not good art. Secondly, art changes over time—'rules' for defining the boundaries or value of art in one era are likely to be inappropriate to an earlier era and to be broken in a subsequent era. New art forms are created as the result of advancing technology (for example film) and changing social values (for example women's art and ethnic art). Old artforms such as music hall have fallen from favour.

It has already been noted that the nature of the art that a person appreciates depends on a person's background and social position. At the personal level, the appreciation of something as art will be a function of personality, background and circumstances (Gans, 1974, p. 70). The same factors lead to common identification of works as art amongst groups in society. Commonalities in age cohorts, ethnicity, gender, education and wealth lead to common sets of social mores as to what constitutes art.

A person becomes sensible of the conventions, as they have developed to date, of a certain selection of artforms—those artforms to which he or she has been

exposed. Exposure to artforms will be influenced by a person's formal and informal social ties, access to the media, religion and education. Each person, therefore, can be thought of as possessing a 'portfolio' of artforms with which he or she is *au fait*.

Understanding art involves knowing the conventions of the genre[5], so that "regard-as-a-work-of-art" means "regard in any *way pre-existing art works are or were correctly regarded*".(Levinson, quoted in Stecker, 1990, p. 266). In this sense, therefore, every art genre "carries with it a built-in educational requirement" (Gans, 1974, p. 70).

However, the *deep* appreciation of a work of art involves recognition and approval of the subtle variations to those conventions that occur in particular works so that (Becker, 1976, p. 42):

> A canonical art work would be one done exactly as the conventions current in that world dictate—quick to do but relatively dull—nothing that would violate expectations . . . Those artists who are seen by members of the art world as more creative, those who produce the marginal variations and innovations which do not violate convention sufficiently to disrupt coordinated actions. . . We might think of them as contemporary stars.

The aim of the artist is therefore to "constantly invent the distinguishing strategies on which their artistic survival depends" by introducing "deviations which only the initiated can perceive, with respect to forms and formulae that are known to all" (Bourdieu, 1986, P. 162). This is how the artist "determines in what way he can go too far"[6].

---

5 "Sets of artworks classified together on the basis of perceived similarities" (DiMaggio, 1987, p.441).

6 Gotfried Bomans quoted in Aegon Insurance Group Annual Report, 1990, The Hague, Holland.

The character and value of art is constantly being redefined as intellectual, political and economic perceptions and preferences change. Each generation redefines previous generations' art, elevating the status of some, demoting the status of others, and creating art out of products which were not hitherto regarded as art. For example, the cultural outputs of ethnic minorities that would once have been regarded as of only anthropological interest are now accepted as art.

As a result of the heterogeneity of the population with respect to art appreciation and the changing character of art over time, the term is used at two levels. First, is the 'I know what I like' level, at which art refers to a person's experience of the aesthetic motivation. At the second level, people understand art in a communal sense, to include not only what they like but also 'other peoples' art'. Merryman (1989, p. 343) refers to an object's "human component" which may be valued by people in a different culture from the one in which it was created, even though they are not drawn to its specific cultural value. This recognition of the art of other cultures extends across time as well as space: art "links group members to their ancestors and heirs" (Moustakas, 1989, p. 1195). People acknowledge that the artefacts that were appreciated as art in former times belong to the realm of art.

The communal definition of art is of course the joint result of all the judgements made at a personal level by those with the power and inclination to influence society. Conversely, these influences and the communal definition shape personal perceptions of art by determining the character of the art to which individuals are exposed. The next section considers the processes by which the personal level judgements are 'added up' to determine the character of a community's art.

The power-groups influencing art production

DiMaggio (1987) provides a taxonomy of the "processes" by which societies "classify" art. "Ritual classification" arises from the process by which "tastes are produced as part of the sense-making and boundary defining activities of social groups" (p. 441). However, in addition to these largely informal social influences and the personal backgrounds which determine predilections for particular genres and the course of development of those genres, there are more formal institutional influences upon the course of development of art. In his scheme of classification, DiMaggio describes three processes of classification (p. 449):

1. Commercial classification, which "is driven by efforts of cultural producers in market systems to sell art for a profit"

2. Professional classification, which "results from artists' attempts to develop reputations"

3. Administrative classification, which "stems from governmental regulatory activities".

DiMaggio describes some fundamental relationships between the ritual classification process on one hand and the other three processes on the other (p. 450):

> First, ritual classification responds to social-structurally generated consumer demand, whereas the other processes reflect factors that influence production. Second ritual processes operate on the societal level, whereas the other processes vary in importance across art worlds and culture-producing industries. . . Thus, commercial, professional and administrative classifications are subordinate to ritual processes and mediate the latter at the culture-industry level".

Hence, classifications are shared and interpreted (P. 450):

> "Ballet. . . is at once a ritual classification for balletomanes, a commercial classification for performing-arts promoters, and an administrative classification for public agencies that fund the arts".

It was argued in Chapter 2 that there are three sources of power over the giving and taking of resources:

- ownership of resources (economic power)
- representative or political power
- social power.

These are the sources of power possessed by consumers, commercial producers, artists and administrators that determine DiMaggio's artistic classifications. These people derived their influence from their power over the giving and taking of resources, and their decisions determine the quantity, quality, sound, colour, shape, and so on, of the art that is produced. Activities which achieve support from at least some of these people will flourish and activities which are unable to attract sufficient resources will languish.

Commercial classifications and economic power

The exercise of power derived from ownership of resources (economic power) gives effect to commercial classifications, via the interaction of buyers and sellers in exchange transactions, as well as via commercial sponsorship. Ownership of economic resources assists producers to produce works of art and consumers and investors to buy them. Exchange transactions occur in the supply of resources for the production of works of art and in the sale of the completed works of art. These market decisions affect the character of art via producers' and buyers' choices.

Economic power is wielded by the possessors of private wealth, who purchase and invest, sponsor and patronize and contribute services. These contributions are

motivated by the wish to receive works of art in exchange, or via donations of wealth or labour motivated by the satisfaction from involvement in the arts production process.

Administrative classification and representative power

The exercise of representative power gives effect to administrative classifications, via public funding of activities at both central and local government level and via other government regulatory practices. However, representative power is not restricted to the public sector, and officials in private sector corporations may contribute an element to administrative classification processes via sponsorship that cannot be justified on commercial grounds. The trustees of charitable trusts also exercise representative power.

A component of the fiscal process of public sector entities are decisions to grant resources to the arts. The granting decisions of politicians and officials affect the character of art as they choose who to favour with grants, subsidies and tax concessions and who to reject. Politicians and public officials also determine and administer regulations such as tax concessions, copyright laws, cultural property laws and pornography laws.

Representative power can be used for a range of political, social and economic purposes. The role of art in the ambitions of political and other representatives can be seen in a sinister or in a beneficent light.

Novitz (1992, p. 217) comments that "it is the capacity of art to seduce and deceive that makes it a potentially powerful political weapon". Cheyne (1986) refers to the way state involvement in the arts "serves to reproduce social divisions and inequality" and describes the QEII Arts Council as "a somewhat less-than-

autonomous governmental organisation" which is "part of the state's ideological apparatus". Attali (1985, p. 19) suggests that there are three strategic uses of music by power: to make people forget the fear of violence, that is, a scapegoat; to make people believe that there is order in exchange and legitimacy in commercial power; and to silence the opposition by mass-producing a deafening syncretic kind of music, and censoring other human noises. The motivations underlying such strategic purposes are the maintenance and enhancement of positions of wealth and power. Representative power can also be employed for the rather less grandiose purpose of channelling funds to satisfy the personal aesthetic tastes of the powerful.

In its beneficent light, representative power can be seen as employed in the pursuit of a range of motives oriented to the economic, social and cultural welfare of the community. This is the public face of representative power.

Ritual and professional classifications and social power

Social power underlies two of DiMaggio's (1987) "classifications". Ritual classification results from the knowledge and preferences acquired as a result of background and circumstances. This knowledge plays a role in the construction of social relations (P. 443):

> Persons entering into conversation seek to 'establish co-membership' by identifying groups to which they both belong. . . Shared cultural interests are common contents of sociable talk. . . If there is a common cultural currency, the arts (supplemented by fashion, cuisine, and sport) constitute it.

Social power also underlies professional classification. In contrast with the demand-side emphasis of ritual classification, it is the artists who determine professional classifications. Professional classification is therefore derived from the power to give and take resources associated with being on the job, doing the

work and making on-the-spot decisions. But to limit the process, as DiMaggio does, to "struggles among artists for status and material success" (p. 451) seems unreasonable. Firstly, survival may be more a matter of collaboration than of competition: "collective collusion" (Bourdieu, 1986, p. 136) or even "a collective conspiracy" (Taylor, 1978, p. 55). Secondly, it seems likely that at least some aesthetic judgements may be motivated quite independently of both status and material success.

But the social power underlying arts production and consumption is not limited to background and circumstances (the basis of ritual classifications) and being on the job (the basis of professional classifications): a third source of social power is 'guru power' or 'cultural capital' as explained below.

Cultural capital

'Cultural capital' is possessed firstly by 'gatekeepers' or 'cultural entrepreneurs' such as art gallery directors, theatre managers, publishers, critics, disk jockeys, reviewers and editors, who help to determine what audiences see and hear, and secondly by educators who teach 'what art is' both to artists and to audiences (Bourdieu, 1984, 1986). It is the business of this group to pin 'badges' of approval onto some artforms, artists and works of art, and withhold badges from others.

Cultural capital is the accumulated prestige that such people must possess in order that the badges that they award and withhold are to be believed and acted upon in economic and political and aesthetic decisions. Cultural capital is "a capital of consecration implying a power to consecrate objects (with a trademark or signature) or persons (through publication, exhibition etc) and therefore to give value, and to appropriate the profits from this operation" (Bourdieu 1986, p. 131).

The "cultural businessman" is therefore "not just an agent who gives a work of art a commercial value by bringing it to the market". He is the person who "consecrates" a work "which would otherwise be a mere resource" (p. 153) and "proclaims its value" (p. 131). He is able to do this because he "'invests his prestige' in the author's cause, acting as a 'symbolic banker' who offers as security all the symbolic capital he has accumulated (which he is likely to forfeit if he backs a loser)" and "the more consecrated he personally is, the more strongly he consecrates the work" (p. 153). People pursue scarce goods and maximise their profits not only in economic 'fields' of contest but also in cultural fields. As in economic struggles, people in cultural contests employ "capital" resources that they have acquired or inherited in their efforts to maximise their "profits".

But in the cultural fields of struggle these resources are "cultural capital"—symbolic abilities, tastes, and goods—and the returns are "symbolic profit", dividends of social honour or prestige (Bourdieu, quoted in Gartman, 1991).

Watson (1988, p. 93) relates the concept of cultural capital to New Zealand films:

> As far as producers are concerned there are those who are prolific and whose films receive popular, if not always critical acclaim (like Larry Parr) and conversely those whose works take longer to find finance and then receive critical but not always popular acclaim (like Vincent Ward). Each obtains a form of capital from their endeavours. Ward gains (and bestows) prestige and status (cultural capital) whilst Parr makes money (economic capital).

High culture and popular culture

The distinction between high culture and popular culture is a commonly used classification scheme both in academic and in lay circles. The distinction has been with us since the 17th century (Bourdieu, 1984, p. 2; Shrum, 1991). DiMaggio (1987, p. 445) sees the distinction as "a familiar and powerful ritual classification".

Two views prevail as to the significance and importance of the distinction. The older of these views focuses on the content of the artform. High art requires more education and specific knowledge or experience of the genre to be understood, and by virtue of its greater complexity and originality and the greater commitment and training required of the artist, yields a higher level of more lasting satisfaction, than popular art. Popular art, on the other hand, is ephemeral; it "merely dishes up the commonplace", and "the feelings it excites in us are familiar ones, and are conjured up merely because we enjoy their old familiar warmth" (Novitz, 1989).

Upon the basis of such views, high art is asserted as more virtuous than popular art (Peterson, 1976, p. 13), and the distinction between high and popular art might be a fitting basis for granting or denying public patronage (Biggs, 1970). Moreover, it might require public subsidy to remain creatively pure (Rodgers, 1989). Peterson (1976, p. 13) notes that the assertion that high culture is more virtuous than low (or vice versa) occurs in science and religion, as well as in art, and that the range of work contexts in which culture is produced can be viewed as a continuum from the pure, basic, theoretical, esoteric, or fine, (the "academic") to applied, practical, mundane, or popular (the "commercial").

The second, more recent, view focuses on the positive correlation between class position and preference for and participation in the high arts (Gartmann, 1991) and reflects the view that the "labels of value" fixed upon high art cannot be justified, though the affixing of the labels can be explained (Taylor, 1978, p. 49). The traditional formal distinctions—such as distinctions based on relative simplicity, or the involvement of individuals as opposed to teams—upon which the ideal of pure artistic value were based, do not bear scrutiny (Novitz, 1989). The grounds for the distinction are, rather, "to be found in certain social relations, and not in the physical features, origins or causal properties of the works" (p. 219). Bourdieu

(1984, pp. 1-44) interprets consistent correlations between educational status, social origins (father's occupation), and various indices of taste as reflections of divergent underlying aesthetics produced by socialization and educational experience. The implication is that class interests promote the continuing differentiation of "legitimate" and "popular" taste.(Shrum, 1991) and the distinction itself is "a functional distinction . . . which helps mark class boundaries within a society" (p. 227).

The distinction between high art and popular art emerges out of this analysis as "a facade of individual cultural worthiness or giftedness" behind which economic power is hidden (Gartman, 1991), or a means by which "academic practitioners. . . elevate their own activity" (Peterson, 1976, p. 14). The distinction is seen as a tool for the maintenance or appropriation of economic and political power, including the power of the "cultural entrepreneurs" and the power of the artists themselves. These culturati are motivated by the desire to distinguish themselves as an elite with essentially different sensibilities and appreciation from the rest of society. They therefore tend to define art to include only objects which do not have mass appeal.

However, some argue, there is an overlap and a cross-fertilization between high arts and mass culture, both financially and creatively (Rodgers, 1989), and that the trend may be towards "cultural convergence" (Shrum, 1991). Gammond (1991, p. 459) discerns a change in general understanding of the term 'popular music': "A few decades ago it would have been simple enough to define popular music as the kind that would not normally be dealt with in reference books on classical music". Now, "the use of the word 'popular' is unsatisfactory as it suggests that what we would now deem serious or . . . 'classical' music, is not popular; but ignores the fact that much of what we would deal with under the heading of

popular music is both serious and exclusive". Joy (1984, p. 715) comments that Australian Federal and state government cultural funding bodies are spreading their grants over an increased number of groups. This is also symptomatic of a widening of official perceptions of art.

The notion that the forms of art traditionally regarded as 'high' are appreciated only by the rich and educated is often disputed by administrators of those art forms. For example, Joy (1984, p. 716) Director of Finance of the Australian Ballet Foundation maintains that "a survey of our subscribers has indicated that patrons come from all socio-economic groups." The Director of the Christchurch Symphony Orchestra, Tony Kunowski, makes similar claims[7], though this may be the result of his declared policy of choosing concert programmes that appeal to large audiences (Topp, 1991).

Conclusion

In the context of a particular artistic enterprise, all of the above power sources can be expected exert their influence in some degree. The process can be viewed either at an operational level or at a motivational level.

At an operational level, those who make the production, investment and consumption decisions, the funders, including investors, buyers, sellers, artists, employees and patrons, decide what art is produced and consumed. These possessors of economic and representative power will control inputs and outputs, and market and political processes will mediate to bring about the outcomes.

---

7 In an interview with the writer.

At a motivational level, the range of motivations is divided into three classes. Firstly, all may be motivated to some degree by the promise of reciprocal economic reward. Secondly, all may be motivated to some degree by their own aesthetic tastes: that is, the "ritual classifications" resulting from personal background and social circumstances, the "professional classifications" resulting from the social milieu of artists, and the influence of the "cultural entrepreneurs". Thirdly, some may be motivated by the desire to employ art to influence the world. these three motivators—economic, aesthetic, and influence—are discussed further in the next section.

The two levels are illustrated in the classification schemes of two writers. At an operational level, Kruskowski (1990, p. 143) classifies art into three "parts": artist, work (of art), and audience. Attali's (1985, p. 9) three "dimensions"—joy for the creator, exchange value for the seller, and use-value for the listener[8]—imply motivations in respect of each of Kruskowski's parts. In including the work of art in their classifications, Kruskowski and Attali are acknowledging the centre of attention of the whole process of production, storage and consumption which make up the arts industry.

It is suggested that, in the light of the foregoing analysis of the power behind the arts, a fourth "part" with its concomitant "dimension" is needed; that is, the patron, who funds artistic enterprise for social, economic or other purposes. The next section unravels the range of motivations that underlie Attali's "dimensions" (augmented by the use value of patronage).

---

8 Attali's "dimensions" are only dimensions of music. They are adopted here as dimensions of art in general.

The motivations behind artistic enterprise

The focus of the last section was on the sources of power to decide the art that is produced, stored and consumed. This section focuses on the motivations which guide the decisionmaking, investigating the uses of art which motivate the giving and taking of resources by people in their various operational capacities as creators, audiences, employees, investors and patrons. In the last section it was concluded that the motivations behind artistic enterprise fall into three groups:

- Economic
- Influence
- Aesthetic

The notion of art being useless was refuted above on the grounds that the pleasure, satisfaction or inspiration which it may give to both the creator and the perceiver is a use. It is these feelings that are argued here to be the essence of *art* as a motivator for giving or taking: the aesthetic motivation. However, the activity and objects of art are perceived to have a number of other uses—economic and non-economic motivations that spur people to participate in one way or another in the arts industry.

For example, an artist's 'joy' may be a combination of aesthetic and economic. An artist may expect the exchange value of his or her input to the artistic process, or the output of that process to provide a comfortable living, at the same time expecting to gain aesthetic appreciation from the experience, from association with the activity. Artists may perceive these two expectations as a tug-of-war between the aesthetic and the commercial, or they may be totally committed to one or the other mode of rationality.

Similarly, the audience's use-value lies in the appreciation of the art in it, as well as any functional utility, entertainment, sport, religious or other information content in the good or service which provides the vehicle for the art. However, as for the creators of works of art, art may also yield exchangeable economic benefits.

The motivations are discussed below under the headings: economic, influence and aesthetic.

The economic uses of art

There are four classes of economic reward from art:

1. As possessor of exchange value
2. As an input to the creation of derivative works of art
3. As cloning potential
4. As a durable, or store of economic value.

These four classes are discussed below.

Art as a possessor of exchange value

Notwithstanding any non-economic motivations, arts activities do provide the means by which many people, in many capacities, derive commercial gains. Financial performance is therefore relevant in arts activities, but it may be relatively more or less important, depending on the overall context of the economic and non-economic motivations underlying its funding. Relationships between this exchange motivation and other motivations are discussed in the next section.

A complete subjection of aesthetic to financial considerations can be seen in the advice given to investors in the film industry in Weiniger and Rabinowicz (1984). Sacks's (1985) advice to prospective investors in live theatrical productions is similarly hard-headed, stressing the "enormous" risks involved, and making no mention of any aesthetic satisfactions investors may derive from their association with the creative process, except for the quip that "if their play closes after one night" they "can take it with a wince and be glad that they saw the one and only live performance!" (p. 74).

The creation of derivative works of art

Works of art may also have economic importance as inputs to the processes of creating other works of art. This can happen several ways and depends on whether the works are goods (durable art), or services (performing art). First, owners of durable works of art (having acquired the work second, third or *n*th hand) not only have access to the art to enjoy as art, but ownership also affords the option of transferring that property right. Second, the receivers of either durable or performance works of art can often clone, reproduce or perform the works. Exhibit 6.2 illustrates how this occurs, in the context of three artforms: music, drama and fine art.

EXHIBIT 6.2: THREE EXAMPLES OF THE DURABLE/PERFORMANCE CYCLE

eg ↓	artist ⇨	Durable work	artist ⇨	Perform-ance	artist(?) ⇨	Durable work	artist(??) ⇨	Perform-ance
1:	composer	compos-ition	musician	concert	recording engineer	record	disk jockey	broadcast
2:	play-wright	script	actor	play	cinemat-ographer	film	cinema manager	screening
3:	painter	painting					gallery director	exhibition

Exhibit 6.2 also shows how art evolves in a reproduction cycle, alternating between performance and durable forms of art, and how 'artists' as conventionally understood only occupy the upper reaches of the reproduction cycle; the lower reaches are occupied by 'cultural entrepreneurs' or technicians.

Advertising can be a vehicle for art, sometimes occurring in the cycle of derivation of works of art. The use of Millais's *Bubbles* in an advertisement for Pear's Soap is a famous early case of advertising derived from art, and the numerous television commercials which employ famous songs in their messages provide more recent examples. The derivation of art from advertising has occurred in the case of Warhol's painting of Campbell's soup cans and the Cook and Greenaway song, "I'd Like to Teach the World to Sing", which began as a Coca Cola commercial.

Creators and owners of works of art may therefore keep their art (as a durable good) and give it away as well (as a performance), and the motivation for both the owning and the giving may involve a mixture of expectations of economic exchange and aesthetic appreciation. Copyright laws enable owners of durable artforms to charge others for performing them. For example music publishers

collect performance royalties on performances and broadcasts of songs, and synchronization income from the use of songs in film soundtracks and commercials[9]. The New Zealand Authors' Fund, monitored by a ministerial advisory committee, compensates authors for royalties lost through having their books lent by libraries. The Cultural Conservation Advisory Council, also a ministerial advisory committee, supports the conservation of movable cultural property.

The cloning potential of art

Durable art may also have economic value as a master for the cloning of copies. Merryman (1989, p. 346) refers to the "truth, the certainty, the authenticity" that seems to inhere in an original artefact, which we are cheated out of when we receive a copy. Uniqueness is a factor contributing to the value of some art and the possibility of cloning is precluded by the definition of the genre. Hence live theatre is not live theatre if it is filmed and original paintings are not originals if they are reproduced.

However, the presumption that there will be multiple copies is fundamental to many genres of durable art, from screen prints to compact discs. The cloning fulfils dual needs for sharing and personal ownership of the cultural experience. The multiple production can also reduce the unit price, making the works more accessible.

---

9 Thorn EMI plc Annual Report, 1992.

Art as a store of economic value

Thompson's (1979) "rubbish theory" is concerned with the dynamics of economic value. He classifies objects into three classes: transient, rubbish and durable according to whether they decrease in value, remain stable at a low value, or appreciate in value over time. Art occupies the latter two categories, being either virtually worthless (rubbish art) or an appreciating asset (good art, a durable). An artist producing an art object will find that, regardless of his intention, it is assigned to one or other of these two categories (p. 120).

By Thompson's reckoning, "good art" provides the ultimate store of economic value. Moreover, "good art" will continue to rise in value, because once art has entered the category of "durable", its owners and their advisers are unlikely to change their minds and relegate it to the category of "rubbish".

In maintaining that durable art continues to increase in value, Thompson seems to ignore market swings such as that which occurred in 1987, causing average prices in the New Zealand fine arts market to halve (Daly-Peoples, 1991). He also ignores risk. To reap any capital gains the investor must be able to distinguish good art from rubbish art, which means either being well attuned to the moods and swings of the culturati or possessing sufficient cultural capital personally to influence the market. The costs of being informed—"reading up and training the eye through gallery visits" and "maintaining an up-to-date library" (Ingram, 1985, p. 40)—are high. The risk involved is considerable, but, as fine arts investment advisers always point out, the overall yield from owning a work of art can be seen as the sum of the personal aesthetic pleasure derived as well as the capital gain. If you misjudge the capital gain potential, you can fall back on the aesthetic pleasure,

provided you have chosen the work with this in mind (Dedman, 1985, p. 24, Taylor, 1991, p. 13).

Works perceived to be of exceptional aesthetic value end up in the permanent collections of galleries and museums. Effectively, these works are withdrawn from circulation. They become community property. As such their exchange value is no longer relevant. Thompson (1979, p. 104) sees the transfer of classes of items that are "so durable they are priceless" to museums as placing an upper ceiling on the upward spiralling of the value of works of art.

Art as a means of influence

The desire to influence the world can be manifested in the themes and messages that artists incorporate in their works of art. Such messages seem often to be an integral part of the vehicle for the aesthetic experience. Hence many works of art proclaim religious, social and political messages.

The desire to influence the world is also the motivation for patronage of the arts. Patrons may be politicians, public sector officials, corporation executives, trustees, executive members of nonprofit organizations, or individuals acting for themselves. They are distinguished from creators/artists and audiences/listeners by the fact that they do not seek to create, to consume or to own the art. Their giving or directing of funds to the arts is motivated by the desire for the world to be a certain way, and they see the encouragement of artistic enterprise as instrumental in achieving their goals.

Patronage contributes its own range of motivations to the motivational mix: it may be at least partly economically or aesthetically motivated, but it must also be motivated by other non-economic motivations. That people with power over

economic resources (corporations, local authorities, governments, wealthy individuals) patronize the arts testifies to its perception as a public good. As such, the arts belongs to a class of activities which includes health, welfare, recreation, education, research, conservation, political parties and human rights promotion. The non-economic motivations behind patronage fall broadly into three categories:

- Social policy
- Economic policy
- Personal prestige

These categories are discussed below.

Social policy motivation

Dworkin (1985) presents what he calls a "lofty argument" in favour of public subsidization of the arts. He argues that people cannot miss what they have no conception of: the economic concept of the public good is of no avail as an argument for or against public subsidy, because it is based on people's perceptions of what they want. He cites the example of language to illustrate this point (p. 154):

> We know languages can diminish, that some are richer and better than others. It barely makes sense . . . to say that people in later generations would prefer not to have had their language diminished in some particular way, by losing some particular structural opportunity. They would lack the vocabulary in which to express that regret. Nor does it make sense to say they would prefer to have a language richer in opportunities than they have. No one can want opportunities who has no idea what these are opportunities *of*. Nevertheless it is perfectly sensible to say that they would be worse off were their language to lack opportunities ours offers.

The "structural frame" (as opposed to the specific works) of our artistic culture, he argues, is nothing more than a language. The possibilities of art, of finding aesthetic value in a particular kind of representation or isolation of objects, depend, that is, on a shared vocabulary of tradition and convention (p. 155). We

are trustees for protecting the richness of our culture for those who will live their lives in it after us. We cannot say that we will give them more pleasure. We can, however, insist that it is better for people to have complexity and depth in the forms of life open to them. Art and culture must reach a certain degree of sophistication, richness and excellence in order for human nature to flourish, and that the state must provide this excellence even if the people will not or cannot provide it for themselves (p. 143).

Joy (1984, p. 715) presumes that diversity is a desirable aim both nationally and internationally: "Official support for the arts is required throughout the world as a necessary channelling of public funds to foster and continue the diversity of cultural activities which communities require but cannot generate through their own efforts".

The preservation or survival of existing art traditions is a related theme. Haynes (1986, p. 24) argues that Canadians should be concerned about the survival and enrichment of Canadian culture and that "business people must acknowledge the legitimate concerns of the cultural and artistic communities, one of which is that many Canadian cultural groups simply cannot compete with larger U.S. groups on a dollar-for-dollar basis". A similar argument is found in Anthony (1986). Morris (1990, p. 40) argues that cultural property reflects a specific culture's unique understanding of natural forces as well as supernatural forces. Such objects are often central to an understanding of a particular culture and uniquely represent the identity of a culture in terms of people's concept of themselves, these forces and their relationships. The Arts Council of Great Britain was established in 1946 in recognition of the important role the arts were claimed to have played in maintaining morale during the Second World War (Cheyne, 1986, p. 114). A 1976 New Zealand government commissioned report argued that "a lack of

concentration upon the cultural sector has reduced the avenues for release of social tensions and is therefore linked to growing problems in the sphere of law and order. . . " (Task Force On Economic and Social Planning, 1976, p. 91).

The arts are also believed to contribute to health and welfare. For example, occupational therapy and music therapy are devoted to the healing properties of art. The arts can stimulate industry via creativity in industrial design, consumer products, the entertainment and tourist industries.

Economic policy motivation

It is often argued that the arts stimulate trade in other sectors of the economy. The arts generate growth in parallel consumer spending on food, drink, shopping, accommodation and souvenirs (Rodgers, 1989, p. 29). The injection of spending power creates opportunities for employment. Arts enterprises in central city areas can stimulate urban renewal (Hart, 1984; Appleyard, 1985). Arts centres, festivals etc bring tourists to a region or country (Hart, 1984).

Dahl (1984) cites keeping up with the neighbours—the next town or the next country—as a justification for the public funding of arts institutions. This may involve subsidizing an activity which is able to survive without subsidy in more densely populated regions. Matching a neighbouring region's cultural facilities may also be seen as necessary for economic growth: the cultural facilities of a community affect the willingness of executives and staff to reside in that community.

A Palmerston North City Council commissioned report on arts and culture cites attracting business, encouraging conference and visitor trade, improving retail

viability and creating jobs as the economic advantages of arts and culture (*New Zealand Local Government*, 1991a, p. 11)

Personal prestige

The desire to influence others by directing funds towards the arts may be oriented towards reciprocal personal rewards: essentially a reciprocal economic benefit resulting from a lopsided exchange. Ambitious public and private sector officials seek the promotional value of being at openings and first nights socializing with the rich and the socially and politically powerful. Wolf (1991) argues that "Our theatres were not built for profit-making. They were built by local governments for prestige purposes".

The (non-market) means of influencing art

Private entities are confined to making grants to encourage the art of their choice. The decision-makers in public entities have two main tools with which to encourage the production of art: the power to redistribute incomes via taxation and subsidies, and the power to make laws. In New Zealand, state-run lotteries are a major source of arts funding. The usual means by which public authorities subsidize the arts are:

- State- or local authority-run enterprises producing art
- Grants to private sector arts enterprises
- Tax concessions to producers e.g. tax-free status of nonprofits;
- Tax concessions to donors on the donations they make to arts enterprises.

The government's power to make laws can be employed to encourage the production of art:

- Via the specification of forms of organization suited to sponsored activities, e.g. trusts, incorporated societies;
- Via the specification of copyright laws and performing rights laws;

Much art is intellectual property which is not 'used up' in consumption but can be shared by or passed on to other consumers. As a result, potential rewards to the producer can be decimated by 'free-loading' and 'boot-legging'. Copyright laws seek to channel some of these gains back to the producer, thereby boosting the supply of such art above unregulated free-market determined supply.

The aesthetic uses of art

The definition of art presented here allows the aesthetic experience of either the artist or the audience to determine its presence in an activity or a product. This definition is consistent with Dickie's view that "many works of art are seen by only one person—the one who creates them" (Hanfling, 1992, p. 25), as well as accepting commercial products as art, provided they are acclaimed as such by audiences. A three-way classification can be envisaged, based on the relative aesthetic motivations of artist and audience. Works of art may be aesthetically:

- more important to the creators than to any audience;
- more important to audiences than to their creators;
- important to both audience and creator.

Amateur art is often relatively more important to the artist than to audiences. The Ministry of Cultural Affairs (1991) refers to "recreational" art "where the pleasures of participation in the arts, at various levels of skill and commitment, are valued for their own sake" (p. 10). This is essentially art that is deemed important to the artist and not to any audience. "Professional" art, on the other hand, is

essentially art which is valued by an audience. The Ministry of Cultural Affairs adds (p. 11):

> . . . professional and recreational arts are mutually reinforcing. The professional arts are nourished in a society that values the arts as a form of recreation. Professional artists and organisations are often involved in recreational arts projects. . . it may not always be possible to make a neat distinction between 'professional' and 'recreational'.

Nevertheless, a "use value to audience" continuum (adopting Attali's terminology) can be envisaged. At one end lies recreational art which is unimportant to any audience. At the other end of the continuum lies professional art which is important to some audience. Between the two polls lie 'amateur' and 'semi-professional' art to which audiences attach some importance. The patronage of amateur theatrical productions and art exhibitions measures the importance of amateur art to audiences. The attendance of art, music, dance and creative writing classes by people who do not aspire to present their work to the public measures the importance of purely recreational art.

A second continuum, indicating 'joy to creator' (again adopting Attali's terminology), could be envisaged. Where a work of art lies on this continuum would depend on the extent to which production contributed to the psychic satisfaction of the producers. The degree of aesthetic commitment of artists to their work can vary both amongst artists and amongst the works of a particular artist[10]. Moreover, artistic enterprise is often the result of team-work, and the sum of motivations of a production team will include a combination of art, financial reward and other motivations such as altruism. Where the artistic

---

10 The Wellington GIlbert and Sullivan Society operated successfully throughout the 1970s by presenting commercially successful operas like *The Mikado, The Pirates of Penzance* and *H.M.S Pinafore* every alternate year, and loss-making but artistically interesting operas like *Patience, Ruddigore* and *The Sorceror* every other year.

motivation dominates, the work of art will rank high on the 'joy to creator' continuum; where, say, the economic motivations ranks high, then the work will rank low on the continuum. For example, an orchestra which, for good commercial reasons, plays only hackneyed popular music which the musicians find unchallenging, creates art which ranks lower on the 'joy to creator' continuum than the artistic output of an orchestra which plays music which challenges and interests its musicians[11]. On the other hand, the same popular music played by musicians who identify with the style will rank high on the 'joy to creator' continuum.

Works of art whose artistic importance is perceived more acutely by audiences than by the creators could be termed 'commercial art'. Works that are artistically important to both the creator and the audience, rank high on both the 'joy to creator' and 'use value to audience' continua defined above. An appropriate term for such art, is perhaps 'genuine art' following Bourdieu (1986), who contrasts commercial art and non-commercial or 'genuine' art; the former involving ordinary entrepreneurs seeking economic profit and the latter, cultural entrepreneurs seeking to accumulate cultural capital (p. 138).

The continua and the three classes of art are represented in Exhibit 6.3 below.

---

11 Conversely, a number of Christchurch professional classical musicians, who make a living teaching and playing in the Christchurch Symphony Orchestra, are prepared to donate their services to the Choir and Orchestra of the Cathedral of the Blessed Sacrament in Christchurch, because of the appeal of its repertoire.

EXHIBIT 6.3: AN AESTHETIC CLASSIFICATION SCHEME

Use value to audience ⇨ Joy to creator(s) ⇩	Low	High
High	*Recreational art*	*Genuine art*
Low	*Non-art*	*Commercial art*

The above terminology is not ideal. The term 'recreational art' for art without an appreciative audience overlooks the sincere intentions of some artists[12], or the delay in the appreciation of some art (e.g. Van Gogh's paintings). Likewise, the term 'commercial art' may misrepresent the high esteem in which the audience may come to hold the output of some non-artistically motivated producers (e.g. some architecture and ethnic artefacts).

It can be argued that size of audience tends to have an inverse relationship with joy to creator. The larger the audience the more likely derivation and cloning of works will be involved and the more important are the process of marketing, promotion and general administration. The role of the artist and the aesthetic thereby becomes a smaller proportion of the production mix, and economic considerations a correspondingly larger proportion. On this argument the distinction between 'genuine art' and 'commercial art' aligns with the distinction between small-scale production and mass production. Briggs (1960, p. 29) describes this distinction as "the fascinating but formidable frontier between problems of commerce and problems of taste", warning the commercial world that

---

12 For example, poet and comedian Gary McCormick in a radio interview said that he has never been able to understand why his poetry is not taken seriously by the cognoscenti.

"we must remember that minority audiences as well as mass audiences have grown in the twentieth century."

Conclusion

The three main sources of power tend to mark out their own territories, so that economic motivations dominate 'popular art', political motivations dominate 'recreational art' and the motivations of the artworld dominate 'genuine art'. However, there is a considerable amount of cross-fertilization: popular art and high art draw heavily on each other for inspiration and ideas, the art world has a heavy influence on politically sourced funding. Political funding of popular art is not uncommon. This is understandable when it is appreciated that the constituents of most enterprises in the arts comprise members of all three groups. Moreover, all three groups are drawing their conceptions of art from overlapping pools of informal social backgrounds and 'portfolios' of genres.

The conflicts between motivations

The character of art is the combined result of the giving and taking decisions of the three sources of power discussed above. The inevitable sharing of the power can result in conflicts of interests between the three sources, and the three pairwise conflicts are considered below.

Economic vs aesthetic

Baker and Faulkner (1991) describe the role conflicts that accompany the "intrinsic dilemma of commercial versus artistic interests" in the film industry. The producer's interest in getting a film made on time and within budget are in conflict

with the director's interest in creating a work of art. Wolf (1991) reports the need felt by artists to pursue an artistic project even though it may make a loss, the need to have "room to fail". Hooper (1993) expresses the artist's frustration with commercial considerations:

> . . . in an increasingly Darwinian world where the merit of what is done runs a very poor second to the profitability of what is done, the arts —and the performing arts in particular—have it hard. . . Management defines the shape where it should support the imagination. . . the very purposes of the arts —joy and enlightenment—have been lost.

Inkson (1987) refers to the "craft ideal" which motivates potters and other self-employed craft workers to sacrifice some economic security: In a study of the work attitudes of self-employed potters, Inkson concluded that the potters saw their work *primarily* as a means of self-expression. By working at it on a full-time basis, craftspeople can extend the joy of their craft both over time and in scope. However, for the majority of craftspeople, immersion in the full expression of the ideal must be incomplete, and sometimes they are forced to sacrifice the ideal which is so precious to them (p. 174):

> There are exceptional cases where, through supreme expertise or through luck, the potter's means of self-expression coincide exactly with market demand. But it seems that, for the majority of crafts-people, immersion in the full expression of the ideal must be incomplete.

In high arts circles: "to suggest that the best art is that which fetches the highest price in the saleroom is blasphemy indeed and, of course, art works are also assigned to . . . categories on the basis of another aesthetic derived entirely from the art context" (Thompson, 1979). Bourdieu (1986, p. 131) argues that producers and vendors of cultural goods who "go commercial" condemn themselves not only from an aesthetic point of view but also because they deprive themselves of opportunities for profit available only to those who conceal their economic interests under a cloak of disinterestedness.

On being described by a critic as a "commercial dramatist" as opposed to an "original artist", playwright Joe Orton retorted (Lahr, 1976, p. 17):

> *Hamlet* was written by a commercial dramatist. So were *Volpone* and *The School for Scandal* and *The Importance of Being Ernest* and *The Cherry Orchard* and *Our Betters*. Two ex-commercial plays are about to be revived by our non-commercial theatre: *A Cuckoo in the Nest* and *Hay Fever*, but if my plays go on in the West End, I don't expect this to be used as a sneer by people who judge artistic success by commercial failure. There is no intrinsic merit in a flop.

But, Thompson suggests, the alleged separation between the commercial and the art aesthetics is paradoxical since "the commercial aesthetic contains the art aesthetic because the art object is contained within the entire range of communicable things", and, "In a system which demands that its art shall come in the form of objects. . . the commercial aesthetic and the art aesthetic can never be separate, yet they can only exist if we insist that they are". "Whether we like it or not, the artist, simply by producing art objects, is both accepting the commercial aesthetic and reinforcing the power structure" (p. 121). The judgement of the market seems undeniable (Novitz, 1989, p. 226):

> . . . by knowing that a painting is worth a lot of money . . . I find myself impressed, and willing to treat the painting as a yardstick in terms of which to assess the merit of other paintings.

This paradox gives the artist a certain advantage as Thompson (1979, p. 124) explains:

> A detestation of the gallery system and its commercial aesthetic allows the artist to reconcile himself to his rubbish products. Should he find that his products are assigned to the good art category he does a sudden *volte face* and adopts the gallery owner's line that the two aesthetics, that from the art context and that from the commercial context, are simply different aspects of the same whole and that the best art works, judged by the art aesthetic, will inevitably command the highest prices.

Thompson sees the durability of art as fundamental to the distinction between art and commerce: "vulgar commerce" is concerned essentially with the production and consumption of useful things, that is, transient objects; art, on the other hand,

is concerned "entirely and specifically" with the creation of symbols that are durable. Therefore, "economics is concerned with transience and art with durability".

Economic vs influence

"The private sector has to support what it will: the public sector has to support what it must. What that 'must' is can be defined only through the political process." (Joyce, 1984). Any subsidization of the arts conflicts with free-market ideals. Nozick (1985, p. 166) suggests that the arts have a harder case to make for public subsidy than other areas of subsidy, although 66% of the respondents to a US survey of the public believed that the government has a role to play in fostering the arts (Keller, 1984). In a political climate that aims to minimize 'interference' by governments, state subsidization of the arts is an inevitable target for criticism. "In a democracy the arts run into pressures against public moneys being used to subsidize what is viewed as an elite activity" (Hackney, 1984). Elcock (1986, p. 153) refers to the considerable political task of defending a "luxury" service. Haynes (1986, p. 24) sees "no reason why unsuccessful cultural groups should expect to survive if they fail to satisfy their audiences". Montgomery-Massingberd (1990), Humphries (1981) and *Management* (1992) are colourful examples of the arts opposition press.

Examples of the rhetoric of the pro-arts funding lobby can be found in the proceedings of the Arts Conference 1970 (Queen Elizabeth II Arts Council, 1971) and in "Community Arts Workers: a Handbook" (Queen Elizabeth II Arts Council, 1986b). The arguments for arts patronage were discussed earlier in this chapter.

Quite a different example of the conflict between the economic and influence is provided by the example of the music group who donated the payment they received from the cigarette company who sponsored their concert to the anti-smoking lobby group ASH. The sponsorship was motivated by the expectation of greater sales. The forwarding on of the donation was motivated by the desire to influence the consumer against buying the sponsor's product.

Carty (1991, p. 74) comments on the tendency for individual partners in public accountancy firms to push through sponsorship of particular art forms in which they have a personal interest, not as part of an overall marketing strategy. Such actions could give rise to conflict with clients "unhappy about their accountants' largesse at a time when there is more than enough downward pressure on fees". At the same time, it provides an example of a harmonious relationship between the desire of partners to influence and their own aesthetic gratification.

Influence vs aesthetic

Influence is seen to have conflicted with the aesthetic in Hitler's Germany and in communist countries when political directives proscribed the range and content of art. Adam (1992, pp. 121-127) describes how, under Hitler's leadership, the works of such artists as Cézanne, Gauguin, Munch, Picasso and Van Gogh were classified as "degenerate" and purged from art museums and private collections to be either destroyed or sold overseas. A 1943 article quoted by Adam sums up the political domination of art in Germany under Hitler: "The modern State has taken on itself a cultural mission. It also insists on ruling over the arts. This means a commitment for the painter, sculptor, poet, and musician" (p. 9).

Dworkin (1985, p. 156) uses the term 'degenerate' in a quite different sense when he argues that "The state of art in tyrannies is a depressing reminder of what is possible by way of degeneration". The degeneration of art into "what is merely familiar or only pretty or, worse still, what is useful for some non-aesthetic goal" is prevented by a tradition of innovation and continuity "so that people can see what is new as nevertheless sufficiently connected to what they already regard as a mode of art".

Aesthetic perceptions also come into conflict with social influence motives where laws are imposed to censor works of art which are deemed to offend standards of decency.

A different kind of conflict between the aesthetic and influence can arise from differing political perceptions of what is, and what is not art. For example, perceptions of art as exclusively "professional" or exclusively "amateur" can cause conflicting points of view about the desirability of making grants to art, so that a politician who believes in the economic or social benefits of art, but acknowledges only the "use value to audience" aesthetic dimension, may be opposed to the subsidization of recreational art and vice versa.

In another example, Appleyard (1985) contrasts the "silken glove" of the British Arts Council with its preoccupation with "artistic quality" with "money from the ruddy fist" of a local authority, who see art as playing a "populist community role". Appleyard portrays the emergence of local authorities as arts funders in the United Kingdom as marking the coming of "an age marked by a greater plurality of product and the absence of any consensus as to what art does or is for".

Haynes (1986, p. 24) reports the "standard criteria for contributions" of Imperial Oil Limited, the largest corporate contributor to artistic and cultural groups in Canada. Amongst these criteria are the following:

- provide its services or activities equally, without regard to race, religion, creed, sex or sexual orientation;
- reflect a documented community need;
- provide opportunities, where appropriate, for Imperial employees to be involved in the project, either in an advisory or a volunteer capacity;
- meet generally accepted community standards of taste.

Summary

'Art' is some quality which people identify in activities or objects that 'stirs the soul', making what would otherwise be a mundane activity or object important to either the creator or perceiver of the art, or to both. The arts are attached to the leisure, recreation, consumer and other industries, identifying a common characteristic of some of the products of those industries that is at the same time both useless (in terms of any other criteria) and important. It does not seem to be possible to define what is, and what is not, art in terms of qualities discernible in the art itself. Rather, art must be defined in terms of social structures. Art is a 'badge' which is attached to these objects and activities by the possessors of decision-making power in respect of the allocation of resources.

'Art' can be identified as both a unique *use* to which some goods and services are put, and as the *motivation* for the possession and consumption of those goods and services. The appreciation of art as art is neither universal nor immutable. Different people find different goods useful as art, and the character of art is a constantly changing one.

The production of works of art is the combined result of the decisions of those with power to determine the giving and taking of resources—namely, those with economic, representative and social power. The role of social power perhaps needs the most explanation. Social power exerts itself in the arts domain in three ways: by its 'ritual classifications', its 'professional classifications' and via the activities of 'cultural entrepreneurs'. The distinction between high art and popular art is a scheme of ritual classification customarily used to explain the character and mix of arts activity. The distinction provides a basis for the argument that those who command resources use art to assert and maintain their power, and the argument that those power relationships are changing.

Art is useful to economic power as a medium for exchange with economically useful commodities, as a store of economic value and as a factor in the production of other art. Art is useful in the pursuit of political and other community objectives because of its perceived influence on a range of social and economic policy objectives. The aesthetic uses of art fall into the two classes: 'joy to the creator' and 'aesthetic use-value to the audience'. This classification can be used to identify three types of art: 'recreational art', 'genuine art' and 'commercial art' depending on the presence or absence of the different classes of motivation.

Arts enterprise outcomes are the result of the sharing of power. Conflicting perspectives are the inevitable result of this sharing. For example, there can be a kind of tug-of-war between the aesthetic (art as art) motivation and other motivations underlying production and the giving and receiving of works of art. At one end of the tug-of-war, art *as art* can motivate either the production and giving, or the receiving of art. A conflict also occurs between those who see the public subsidization of art as a means to promote social and economic wellbeing and those who believe in the untrammeled power of the market to overcome all

social and economic ills. Thirdly, a conflict can occur when censorship of one sort or another constrains the perceived need for art to develop in the directions determined by the creative urges of its practitioners and the aesthetic perceptions of its audiences.

Chapter 7
Arts Funding and Accounting

Dr Belville was regarded as the Crichton of his age:
His tragedies were reckoned much too thoughtful for
the stage;
His poems held a noble rank, although it's very true
That, being very proper, they were read by very few.
He was a famous Painter, too, and shone upon the
"line,"
And even Mr. Ruskin came and worshipped at his
shrine;
But, alas, the school he followed was heroically high—
The kind of Art men rave about, but very seldom buy;
And everybody said
"How can he be repaid—
This very great—this very good—this very gifted
man?"
But nobody could hit upon a practicable plan!

from "The Reward of Merit" by W.S. Gilbert[1]

Chapter 6 applied ideas from Chapter 2 to discuss arts enterprises at the level of the sources of the decisionmaking power and motivations behind decisions taken. This chapter draws on Chapters 3 and 4 to discuss the characteristics both of arts enterprises and of arts funding intermediaries. The role of accounting in each to these two contexts is discussed.

Identifying the boundaries between arts enterprises and their funding intermediaries yields a definitional problem. How far up the chain of funding does 'art' progress? Under a very restrictive definition an orchestra or a theatre company would not be arts enterprises but funding intermediaries, funding the true arts enterprises—musicians, conductors, directors and actors—who perform the

---

1 *The Bab Ballards* 1930, London: MacMillan and Co, Limited.

real 'art'. Under a very broad definition, radio broadcasters and art galleries are arts enterprises, creating derivative art—programmes and exhibitions—out of recordings and paintings. Consistent with the discussion of Chapter 6, a reasonably broad approach is taken here.

The arts industry

The arts industry is multidisciplinary. For example, the music industry embraces publishers, composers and performers, producers, retailers and distributors of records and tapes, and manufacturers and retailers of musical instruments (Brandenberg, 1988a, p. 89). Enterprises that create works of art range widely in size. They can be classed as sole, medium-sized or large. Sole arts enterprises are one-person operations: writers, composers and performers creating works of art and selling them either:

- directly to the public, probably with the aid of cultural entrepreneurs such as gallery directors and critics.
- to the medium-sized arts organizations
- or to the large arts organizations.

Enterprises such as cooperative arts organizations, theatre groups, bands and orchestras could be classed together as medium-sized. Theatre groups and orchestras create derivative performance art from the durable art of sole playwrights and composers, and they hire the artistic services of actors, musicians, dancers and designers.

Large organizations reproduce or clone the work of sole or medium-sized enterprises. For example, book publishers clone the work of writers, and record companies create derivative durable art in the form of a master tape of a

performance by a group of musicians, and clone it onto compact disks. There may be limits to the effective size of arts enterprises: *The Economist* (1992a) argues that when arts organizations are not effective when they attempt to embrace too many art forms, because "in the areas where most of the value in the media business is added—on soundstages and film sets or in newsrooms—bigness inhibits rather than inspires."

The effects of technological developments have been shaping arts enterprise in recent decades and will probably continue to do so. Firstly, advances in technology are creating opportunities for the production and dissemination of art products to wider audiences and in new forms. The incremental costs of distributing cultural production are reducing, making it both technologically and economically more viable to distribute cultural products that cater for specialized tastes over wide geographical areas. For example pay-TV is seen as a lever to segment the mass market (Globerman and Vining, 1986, p. 21). The advances in technology are also reducing the information loss and noise on reproduction and cloning of cultural products, thereby reducing the 'quality gap' between derivative and original products. Thirdly, computer-based tools for artistic production are becoming cheaper and more sophisticated. Word processing and sound and video recording technology are becoming increasingly user-friendly and within the grasp of those of only modest means, enabling them to realise literary, visual or aural aspirations in marketable or quasi-marketable form.

The creation of art can nevertheless be labour-intensive. Turnovsky (1990, p. 146) quips: "When opera came into this world the concept of economies of scale had not yet been invented". Whilst advances in technology have contributed to greatly increased productivity and improving products, improvements in productivity can be more difficult to achieve in the case of some artforms without

sacrificing quality. This is true especially where the very definition of the art-form precludes automation (*live* theatre, *hand-made* pottery, *original* paintings). The trend of the whole economy towards higher productivity and the inability of some of these art-forms to keep pace with that trend has led, in recent decades, to an increasing dependence on subsidies. This has been especially felt in the live performing arts industries (Hansmann, 1981; West, 1987).

The capacity of the international mass media industry to deliver popular cultural products has eroded audiences for smaller, more labour-intensive artistic enterprises. This has been seen at the level of individual communities or nations as a threat to local cultural traditions or to high aesthetic ideals. Subsidization of the arts therefore arises out of the perceived need to adjust for the failure of the market to recognize the importance of these traditions and ideals.

Therefore, the march of technology has given rise to two trends. The first rides the wave of technology, bringing more and cheaper product to wider audiences and providing new opportunities to embark on artistic production. The second stands as a reef, resisting the mass media's erosion of audiences by subsidizing small-scale arts production in the name of cultural traditions and aesthetic ideals. However, even in these organizations, aesthetic ideals may be threatened. Yeo (1987) observes that donations are a function of fundraising effort. Increasing dependence on grants funding may result in a shift of attention away from aesthetic ideals towards fund-raising effort and the satisfaction, for example, of sponsors' promotional needs.

In common with education and health, the arts industry is funded via more diverse and complicated channels than other industries (Peacock and Godfrey, 1973, p. 61). The arts is "like a lake fed by many streams" (Hart, 1984) supported from a variety of sources, including private patrons and other concerned individuals, central and

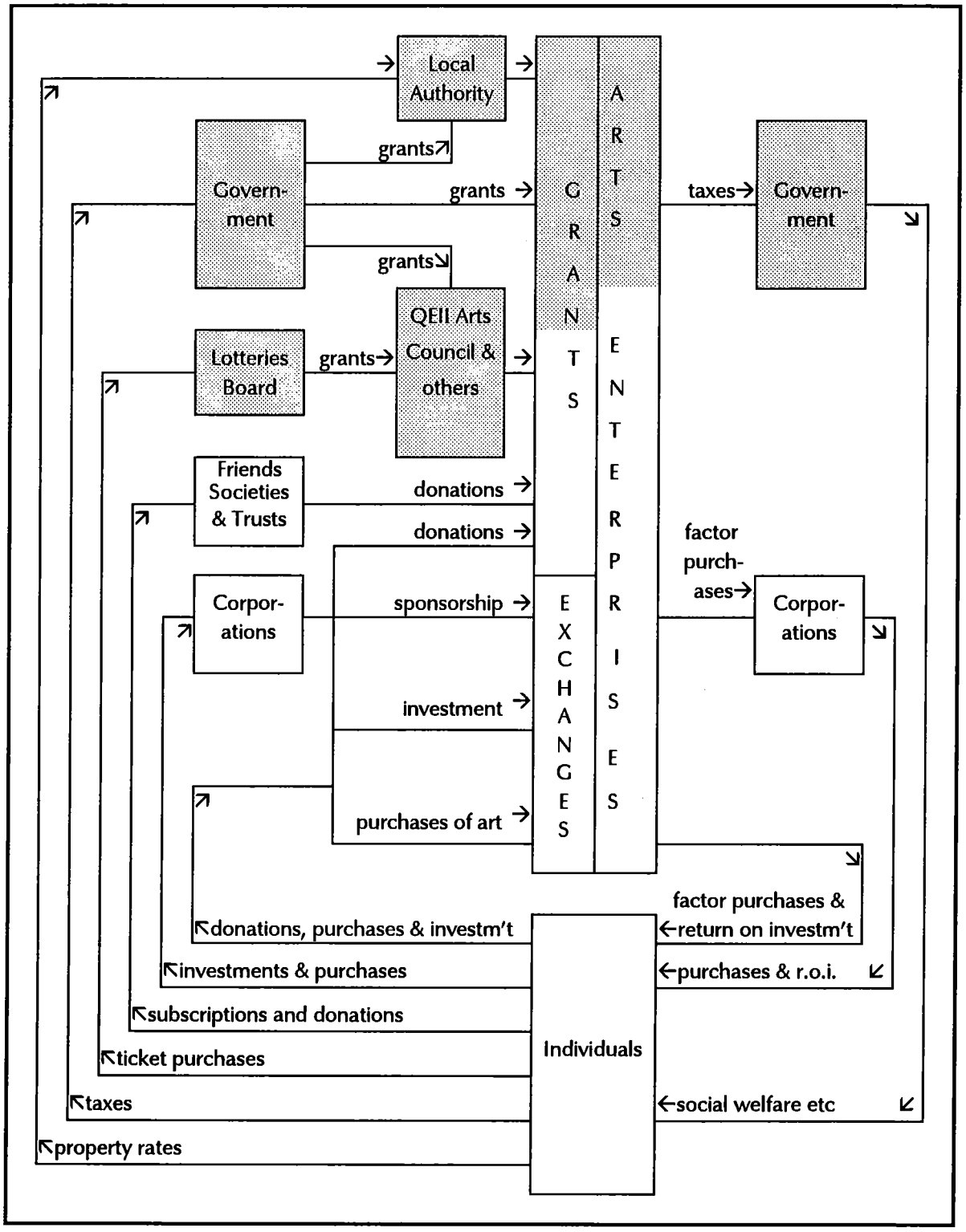
local governments, foundations, corporations and businesses. Arts organizations are operated both in the private sector and within the public sector by both central government and local government. The private producers may be heavily subsidised whilst ostensibly operating on commercial lines. Both private and public producers may receive support from non-profit making private institutions, gifts from individuals and subsidies from for-profit firms. Some support for the arts takes the form of 'hidden' subsidies, such as reduced rental on local government owned concert halls (Peacock and Godfrey, 1973, p. 63) and some support takes the form of donated labour and materials.

As discussed in Chapter 4, arts organizations may receive funding from individuals, but most funding is channeled via intermediaries. Exhibit 7.1 expands Exhibit 4.1 to show how funding flows to and from individuals, intermediaries and arts organizations[2].

---

2 This table is partly similar to Peacock and Godfrey's (1973, p.62) "Sources and uses of orchestral finance" table describing a proposed framework for a set of "national cultural accounts" for the United Kingdom.

EXHIBIT 7.1 CIRCULAR FLOW OF FUNDING



The shading on Exhibit 7.1 indicates public funding sources and destinations. Arts enterprises are involved in this public funds cycle as private sector recipients of

grants, or as public sector enterprises such as the New Zealand Symphony Orchestra, and the National and city art galleries. The arts enterprises box is partially shaded to indicate that some of them are publicly owned.

The 'Arts Enterprises' box on Exhibit 7.1 is also divided to differentiate between funding by grants and funding by exchange transactions. Funds provided in exchange transactions include ownership capital, borrowing at market rates, and prices paid for goods or services. Arts enterprises may obtain funds by all or some of these means. Sponsorship is a form of exchange transaction in which the sponsor grants funds in exchange for advertising of some sort. The most sizeable portion of grants funding is from the public sector. Private patronage of the arts operates at three levels. Firstly, wealthy individuals and families form trusts or foundations which make grants to arts enterprises. Secondly, at a rather less grand level, societies are formed of like-minded individuals to provide financial and other support to arts enterprises. At a third level the labour and time of individuals is devoted to assist in arts production.

The three classes of motivation discussed in Chapter 6 may correlate to some degree with the classes of funding intermediary discussed above. The intermediaries can be expected inherit to their predominant decision-making criteria from the way that *they* are funded. Hence, economic motivations can be expected to prevail in the sponsorship decisions of for-profit corporations, representative motivations in the decisions of public sector granting bodies, and aesthetic motivations in the decisions of the private nonprofits. However, the relationships are not likely to be entirely one-to-one, and all three motivations can be expected to contribute to decision-making in all types of intermediary to some degree. Fieldhouse (1987, p. XIII) notes the recent emergence of "hybrid" trusts—for example, the Norman Kirk Memorial

Trust—which were established and are supported by the joint efforts of the State and the private sector.

Exhibit 7.1 provides a convenient framework for profiling the arts industry and how its operational characteristics have been trending, and this is the approach taken below.

The funding intermediaries

The political changes of the 1980s and the accompanying economic recession described in Chapter 4 have affected both government and private sector approaches to funding. In the UK Wolf (1991) notes that "the British theatre is in a state of financial crisis as the Arts Council winds down its funding". In Canada, Haynes (1986, p. 24) notes: "cultural and artistic groups hoping for more corporate funding must realize that other deserving groups and causes—including universities, hospitals, health and welfare agencies and community service organizations—are facing similar funding crises. Often, the needs are greater and more urgent than those of the cultural community". An independent NZ film producer complains that "there has not been any private investment in films now for about 12-18 months. These days the only corporations left are not interested in any sponsorship sort of arrangement. They see it as an investment. It has to pay" (Smith, 1991).

The funding bodies fall into four groups:

- Central government
- Local government
- For-profit organizations, including both private and stated owned enterprises

- Private non-profit organizations, including trusts and a range of art societies, music societies and 'friends' societies.

There is, of course, a fifth funding group: individuals in capacities of direct funders rather than indirectly through funding intermediaries. They fund arts enterprises mainly by giving labour, either with or without recompense, and by paying for works of art. The donation of labour is often motivated by regard for the aesthetic content of the work. Where the artistic content of a project is held in particularly high regard, amateur arts organizations can receive free services not only from amateur but also from professional artists[3]. There is also evidence to suggest that artistic motivations impose a voluntary constraint on the financial aspirations of arts administrators. DiMaggio surveyed job satisfactions of senior administrators of nonprofit theatres, symphony orchestras and art museums. He found contacts with works of art were rated highest by survey participants. Salary was amongst the lowest ratings (Horowitz, 1988).

The operations of the four classes of funding intermediary are discussed below.

Central Government

This category lumps together the Department of Internal Affairs, the Ministry of Culture, the Queen Elizabeth II Arts Council of New Zealand, the Lotteries Board and a number of smaller funding agencies such as the New Zealand Film Commission, the New Zealand Authors' Fund, the Cultural Conservation Advisory Council and the New Zealand Historic Places Trust. Central

---

3 Most of the orchestral musicians who play with the Orchestra and Choir of the Cathedral of the Blessed Sacrament, Christchurch are professional and unpaid, and play with the orchestra because of its repertoire (Don Whelan, Director).

government funds are also channeled into the arts via educational institutions. For example, universities host composers and writers 'in residence'.

Central government taxation concessions for nonprofit arts organizations and their private sector patrons are another form of government patronage. The concessions for nonprofits in general were discussed in Chapter 3, with the comment that New Zealand taxation concessions pale in comparison with the UK and the US. It was noted that indirect aid—mainly tax concessions for donations to the arts and property tax exemptions to nonprofits—represented 70% of total government aid to the arts in the US in 1983 (O'Hare and Feld, 1984). The UK has a "business sponsorship incentive scheme" under which sponsors can not only claim tax relief on all the money they donate but the Government will match this money pound for pound up to £25,000 (Brandenberg, 1988b). David Puttnam, a British director argues that even in America tax-breaks and favourable regulation have helped the film industry to thrive (*The Economist*, 1991).

The Queen Elizabeth II Arts Council is the hub of central government arts funding. It receives most of the Government funding and sits at the head of a network of regional and community arts councils, including a separate Council for Maori and South Pacific Arts. The Arts Council assists the arts via grants to aspiring artists, artists and arts organizations ($21 million in 1992), via information, advice and research and via its assistance to local authorities and the Departments of Health, Justice and Social Welfare (Queen Elizabeth II Arts Council, 1992, p. 7).

The Economist (1991) notes: "no word is avoided more assiduously in the European film industry than subsidy. 'Support systems', 'kickstart mechanisms' and 'incentive schemes' are the euphemisms of choice". The Queen Elizabeth II Arts Council of New Zealand indulges in a euphemism of its own, calling its

grants "investments" on the grounds that they "are designed to ensure a return for all New Zealanders" (Queen Elizabeth II Arts Council, 1992, p. 7). These returns are in the form of enhancements to the "spiritual, intellectual and economic welfare of the nation" (p. 3)

The term 'investment' is a misnomer in this context for the following reason. An investment is a motivated exchange transaction under which the investor receives promises of economic returns. The Queen Elizabeth II Arts Council grants are not investments because the expected returns do not provide rights to the investor that are excludable and competitive in consumption. The expected returns for the decision-makers in the Queen Elizabeth II Arts Council take the form of satisfactions of their desires to influence the nation in certain ways. Expectations of personal economic or non-economic rewards arising from the grants should not enter directly into the decisionmaking. The principals on whose behalf the Council were acting were mainly buyers of state lottery tickets in 1992—they funded 75% of the total income of the Council (p. 34). Buyers of state lottery tickets are motivated by the expectation of economic reward in the form of lottery prizes, but in most cases, arguably, they are unmotivated givers to the arts, and not expecting an economic or any other kind of return from that source on their ticket purchases.

The New Zealand Symphony Orchestra is funded from the Public Broadcasting Fee and from the Department of Cultural Affairs (Department of Statistics, 1992). The funding of this public sector arts organization has including private sector sponsorship since 1982 (Tonks, 1986, p. 264).

Local authorities

Local authorities fall into three categories: regional authorities, territorial authorities and special purpose authorities (Dept of Statistics, 1992, p. 33). Of these authorities all may conduct arts funding activities, but it is the territorial authorities which are most prominent in this field[4]. The operation of local authorities is governed by the Local Government Act 1974, which establishes territorial authorities as bodies corporate with perpetual succession and common seals[5]. The Act delineates a range of purposes broadly relating to recognition of community interests and delivery of appropriate services and facilities[6] and gives authorities rights, including the right to raise funds by levying taxes on the owners of properties located within a specified territory, by charging for services provided, and by borrowing. From these funds authorities are obligated to provide a range of services to the residents of the territory, including the provision of infra-structural assets, the regulation of a range of activities, and the provision of certain social services[7].

Territorial authorities, that is, city and district councils, typically allocate funds to the following arts activities:

---

4 The Aotea Centre Board of Management is a special purpose authority which supports the arts. The Canterbury Regional Authority has performed research into the arts of the region—see Donnelly (1992) discussed below.

5 Local Government Act 1974, Subsection 37L(4).

6 op. cit., Section 37K.

7 ibid

- Art galleries, who buy works of art and foster an interest in the works of artists. Some art galleries host 'artists in residence';
- Subsidization of operating costs of civic performance venues and property tax concessions for arts organizations;
- Direct payments to performers at outdoor concerts at civic venues;
- Support of community arts councils;
- Support of craftspeople by providing subsidized venues for work and sale of works;
- Libraries, who promote writing by fostering an interest in reading. They also promote visual arts by hiring out reproductions of paintings and music, poetry and drama by hiring out recordings.

Corporations

Larger private and public sector for-profit corporations provide support for the arts for two reasons: to promote the company or company products. and to provide aesthetic enjoyment for executives of the company (see Hoek, et al, 1990, p. 88 and Whitfield, 1990, p. 22). Professional firms such as legal and public accountancy firms are also active in this field. Claims are sometimes made that such expenditure is for altruistic reasons, for example Cohen's (1991, p. 70) comments on the "buy British" art acquisition policies of several UK advertising and public accountancy firms. However, a U.S. study using data on giving by 249 large industrial firms, found the most supportable hypotheses to be that corporate contributions represent a form of advertising and a quasi-fringe benefit to employees (Navarro, 1988). Whitfield (1990, p. 20) maintains that "CAs who do offer donations, time and financial expertise to culture almost always feel deeply for the art form."

The two principal vehicles by which corporations give to the arts are sponsorship and the purchase of works of art by the company. These two vehicles are discussed below.

Sponsorship

Commercial sponsorship is typically defined as "an investment, in cash or in kind, in an activity, in return for access to the exploitable commercial potential associated with that activity" (Meenaghan, 1991, p. 36). It may be distinguished from other forms of corporate giving such as patronage or charity where the motives are altruistic, with the returns expected to be to society and not to the company itself (p. 36). Under the terms of a sponsorship agreement a company gains rights to associate the recipient of the funds with the company product or name, and also gains access by its executives, their friends and associates to see or hear the artistic work or to have a stake in the production process of that work.

Sponsorship's role as a mutually beneficial business arrangement is a development of the last two decades. Formerly it was often treated as philanthropy or patronage of "worthy" social organizations (Hoek et al, 1990, p. 87). Commercial sponsorship has also grown substantially since the beginning of the 1980s (Witcher, et al, 1991; Meenaghan, 1991, p. 37). Turnovsky (1990, p. 146) describes New Zealand Breweries sponsorship of the New Zealand Opera Company in the 1960s as breaking new ground and opening doors to many other firms who became opera sponsors. Meenaghan (1991) lists the following probable causes of the dramatic growth in commercial sponsorship (p. 37):

1. Government policies restricting advertising of tobacco and alcohol. Sponsorship is a convenient way of appearing not to advertise which is also employed by oil companies (Yarwood, 1987, p. 35);

2. The escalating cost of traditional advertising methods;

3. The proven ability of sponsorship to achieve marketing objectives. This claim would be disputed by Hoek et al (1990) and Witcher et al (1991) who argue that knowledge about the effects of sponsorship is inadequate;

4. New opportunities due to increased leisure activity;

5. Greater media coverage of sponsored events. The advantages of sponsorship coverage in the media tend to be more subtle than is possible with direct advertising. One of these is integrity of context—mention in an editorial being better than direct advertising because it is perceived as being given by a disinterested third party[8] (Yarwood, 1987, p. 41);

6. Inefficiencies in traditional markets such as 'zapping' and 'clutter' in television advertising[9]. In the case of television in New Zealand, these problems both increased in the 1980s, as more families obtained television sets with remote control devices and the proportion of advertising to programme content was raised.

Corporate sponsors now employ commercial criteria, seeing sponsorship as a part of their marketing or public relations programmes. They are interested in audience groups reached by association of their product or company name with the sponsored product, and the cost of reaching such groups in terms of the amount of exposure gained. The arts rank alongside community and sport as one of the three most sponsored activities. Research by Hoek et al (1990) concluded that unlike sports

---

8 Jock O'Connor of the public relations firm Bretts DCA.

9 "Zapping" means changing channels whilst watching television commercials, and "clutter" refers to the reduction of the impact of advertising when it is transmitted along with advertising for a number of other products.

and community sponsors, sponsors of cultural events concentrate more on image enhancement than on profitability (p. 94). A survey of UK corporations by Witcher et al (1991) also revealed image as the main reason for arts sponsorship, followed by enhancement of community relations, and entertainment of opinion formers (p. 17). Carty (1991, p. 75) cites research which concluded that respondents unprompted perceptions of the sponsoring company included "public spirited", "supportive" and "committed to the community". Arts sponsorship was seen by most corporations as a public relations and not a marketing function (Witcher, et al, 1991, p. 17).

As a public relations function arts sponsorship is used to try to influence important key groups and narrowly targeted audiences such as opinion formers. They can involve important and socially prestigious occasions, which public relations people believe to be very useful in forging image associations of exclusiveness (p. 20). Sponsorship of the high arts is seen as a means by which a company's image can be targeted at senior government administrators and client company executives, who loom large in the audiences. In the words of a sponsoring company spokesman[10]: "Now if we were ever required to explain our actions to government we would not have to go in cold. The contacts are there and the people would already have formed an opinion of us" (Yarwood, 1987, p. 29).

Arts sponsorship can involve minority entertainments associated with social status and leadership. Such events can be unsuitable for communicating with the kinds of mass audience which, say, spectator sports attract. Arts events can actually be disliked by the majority of an organization's consumers, but the wider corporate image associations which these minority activities create can work to help sell

---

10 Des Fitzgerald, Group Public Affairs Manager for Lion Corporation.

products if the association of exclusiveness spills over and enhances consumers' feelings about product quality.

Sponsorship is not restricted to cash. Young (1992, p.48) records how a Mercury Theatre production of "Porgy and Bess" received donations by Southward Engineering of the steel to build the set, by Focus Travel of air fares to transport the overseas principals to Auckland, and by TVNZ of advertising air time. Partners in public accountancy firms often spend valuable time on the boards of arts organizations, providing their professional expertise (Carty, 1991,p. 74).

Brierley Investments Limited maintains that its sponsorship is largely an attempt to satisfy the expectations of its shareholders[11] (Yarwood, 1987, p. 35). But when a shareholder enquired at an annual general meeting of Mair Astley Holdings Ltd, as to whether the company was going to continue to support the arts in Christchurch, the chairman dismissed the question with the answer that Mair Astley was not a charitable institution and that "I'm trying, actually, to pay dividends." (Birss, 1991).

Purchases and ownership of art by corporations

Corporations buy works of art to create a pleasant working or leisure environment for their executive staff, their friends and associates. The presence of the artistic objects in an office or executive staff at a function will also affect business by distinguishing the company as a patron of the arts. Cohen (1991, p. 70) argues that:

> . . . art in offices earns its keep, enhancing the work environment and impressing clients. . . Art justifies its presence by stimulating the workforce and demonstrating an openness to new ideas. It is a

---

11 Paul Collins, Chief Executive

> staff benefit like the swimming pool or the roof terrace, a way of personalizing an otherwise bland, uniform office and thus binding the employee to the firm

He warns, however, that "Accountants are cautious, as it is the client's fee he will be admiring on the walls!" and comments that "More often than not, a firm's foray into collecting boils down to the whim and determination of one director and his passion for fine art".

The Dutch Aegon Insurance Group provides the following justification for its art collection (Aegon Insurance Group, 1992):

> In a working environment one does not experience the presence of art as an objective in itself. But neither is art something that is easily ignored. Apart from its artistic meaning, art sets things in motion and keeps the mind vivid. Art is of vital importance as part of a corporate culture, and it has a charisma which is motivational and stimulating. This is reflected in the way we work and how we interact at Aegon.

Taylor (1991) quotes Electricorp's plans: "to render support to the visual arts in NZ by building up a collection—to museum standard—of 20th century NZ art. . . until an educationally-useful range of art material has been assembled as an adjunct to the collections of public galleries, universities, the teaching resources of colleges". The several motivations mentioned above that could possibly underlie the intention of an electricity supply authority to amass such a large art collection are:

- As a staff fringe benefit;
- As a means of stimulating and provoking innovation from the staff;
- As an attempt to demonstrate community awareness to influential politicians;
- The indulgence of a personal interest by an influential executive.

Like the buyers of tickets in State lotteries, most of Electricorp's ultimate funders—the older taxpayers who contributed Electricorp's capital and the current

electricity users who now provide revenues via the electricity supply authorities—will be unaware of their contribution to the arts.

Friends societies and trusts

Individual patronage is a source of support to artists dating back to royal or noble patronage prior to the eighteenth century. Today, the voluntary patronage of individuals is commonly channeled through organizations of interested people such as music societies, art societies, film societies and 'friends' societies. These organizations fund concerts, exhibitions and purchases from member subscriptions and donations as well as donating labour to promotions and functions. They are 'clubs' in the sense defined by Falk (1992) and Beechy and Zimmerman (1992). That is, their members are essentially consumers of the art product who pool financial resources in order to share the price of access or encouragement to a particular art form. They are interested in the maintenance or promotion of 'art for art's sake' in their community or region, often in order that it be available for their own enjoyment.

A foundation is (Fieldhouse, 1987, p. VII):

> A non-governmental, nonprofit organization having a principal fund of its own managed by its own trustees or directors, and established to maintain or aid social, educational, charitable, religious or other activities serving the common welfare.[12]

In the United States of America 'foundations' which carry the names of their very wealthy benefactors (e.g. Ford, Carnegie, Rockefeller, Mellon) are major sources of arts patronage. In New Zealand, foundations, often called philanthropic trusts,

---

[12] Quoting F. Emerson Andrews, first director of the Foundation Library Centre in New York, in the Foreword by R. A. McKenzie.

play a lesser role in arts funding than in the US. Fieldhouse (1987) lists the 179 New Zealand philanthropic trusts who responded to his survey, declaring that they represent only a fraction of the trusts known to exist. The majority of these trusts pursue social, charitable and religious ends. However, Fieldhouse lists seventeen which are devoted entirely to arts causes, including theatre, fine arts, music, literature and dance. A further ten include "arts" or "culture" amongst a range of charitable or other "purposes and activities". Philanthropic trusts disburse their funds in a variety of ways, for example:

- By giving grants to artists or arts enterprises (New Zealand Opera Trust, Betty Vercoe Trust, Alex Lindsay Memorial Award);
- By purchasing art to donate to institutions (Riddet Memorial Trust, P. A. Edmiston Trust Board, the Willi Fels Memorial Trust);
- By providing accommodation for artists (Arts Centre of Christchurch Charitable Trust);
- By running an arts enterprise (Otago Theatre Trust);
- By mounting art exhibitions (Trusteebank Southland Art Foundation).

Goody (1984, p. 155) attributed a decline in giving to the arts by foundations in the United States to a perceived greater need in social service, education and health areas. It seems likely that the reductions in Government spending in these areas in New Zealand, would have a similar outcome.

The arts in Canterbury

The 1991 census of population revealed that Canterbury had a population of 442,000 and a labour force of 202,000. It was not intended in this thesis to tackle the question of the size of the arts sector and its significance in the economy. However, a survey on the economic contribution of the arts in the Canterbury

region (Donnelly, 1992) was completed recently, and is reviewed in this section. The survey adopted the following definition of the arts (p. 5):

> Art is defined as any creative activity undertaken by an individual or individuals resident in the Canterbury United Council region principally for the perfection and/or purpose of the art as distinct from the functional purpose of the end product produced. The right to observe the act of creation and/or the end product may or may not be purchased or subscribed to by consumers of art

The arts industry was defined to include both artists and "facilitating groups" (e.g. arts administrators and retail art dealers). The definition was broad enough to include such enterprises as advertising agencies, educational institutions, gift shops, booksellers, hairdressers and broadcasters. A questionnaire was mailed to around 3000 arts or arts facilitating groups, "over 800" of whom replied. Of these, 482 respondents earned some income from arts-related activity. Based on the proportion of respondents who earned income, Donnelly (p. 8) believes that the total arts sector in terms of both numbers and dollar amounts is three to four times the size of the sample analysed. However, his sample is not random and Donnelly provides no evidence to support his presumption that the non-respondents are statistically similar to the respondents to the survey.

A second potential source of error in the survey lies in the difficulty that respondents must have encountered answering some of the questions, bearing in mind that the majority of them were reporting as individuals (see Exhibit 7.2). For example, Question 14 asks the respondent to "state the expenses incurred in earning the arts related income figure stated in Question 11" broken down into "Salary and wages paid to employees", depreciation, interest, GST and "Other (e.g. electricity, accountancy fees, rent, materials)", and Question 16 asks the respondent to "state the approximate total capital invested in your arts related activities (e.g. buildings, equipment, stocks of raw materials and finished goods) (p. 38).

Exhibits 7.2 and 7.3 show some of the results.

EXHIBIT 7.2: LEGAL STATUS OF RESPONDENTS

Legal status	favoured by . . .	%
Single individual	crafts, music, visual arts production	56
Partnership	crafts, handcraft retailing, music	10
Co-operative	music, art education, handcraft retailing	10
Employee		9
Trusts and incorporated societies	administration, education, music	8
Company	education, management of ventures and venues	6

EXHIBIT 7.3: PERCENTAGE BREAKDOWN OF RESPONSES BY TYPE OF ACTIVITY

	No. of respondents %	Gross Income %	Grants income %	Contrib. to GDP %
Crafts	26.5	13.4	5.4	12.0
Music (including private teaching)	14.1	5.2	31.5	3.3
Visual arts production (painting, photography, sculpture etc)	13.1	4.8	3.0	4.4
Drama/performance production	7.3	4.3	3.4	4.1
Writing and/or criticism	5.2	0.7	5.7	0.8
Dance and/or choreography (including private teaching)	3.1	0.8	0.0	0.7
Film and/or video	1.2	10.9	0.0	8.5
Education (arts activities)	10.0	16.3	9.5	20.4
Management/administration	9.2	30.2	39.7	35.5
Retailing of art and hand crafts	6.3	11.1	1.8	7.8
Design and commercial arts	3.7	2.2	0.0	2.6
Other	0.2			
Total % (subject to rounding)	100	100	100	100
Total numbers/amounts	482	$16.5M	$0.9M	$10.9M

Prior to completion of the study the intention was to make comparisons with the population census results which were collected in the same year. However, this intention was abandoned because of "the cost of purchasing the required census

data from the Department of Statistics, combined with census data processing and timing problems" (p. 7).

Donnelly argues that art induces activity elsewhere in the economy which may otherwise not have occurred. An analysis of survey data and published studies of the NZ economy suggest a multiplier range of between 1.4 and 1.6 may be applicable to Canterbury art, so that after allowing for survey under-coverage the economic impact of Canterbury art could well be in the range of $70 million to $100 million (p. 8). Respondents earned $1.1 million or 7% of their income from overseas exports.

The aim of the Donnelly survey was to study the scale and economic impact of the arts and cultural activity in the Canterbury Region (p. 3). The effectiveness of the study was severely limited by the lack of statistical rigour and absence of comparisons with broader macroeconomic variables for the region.

The content of accounting for arts enterprises

The arts does not mark out a unique territory with respect to appropriate accounting processes (see Joy, 1984; MacKenzie-Forbes, 1984). The enormous range in size, organizational form and objective functions of arts enterprises means that the whole range of accounting techniques and special cases apply to arts enterprises in one context or another. Enterprises range in size from one person arts enterprises which require no accounting at all to corporations like Thorn EMI plc which requires sophisticated accounting techniques in a multi-national setting.

Accounting by arts-funding intermediaries involves recording and reporting the grants made or purchases of art. Grants appear in the financial statements of for-

profit organizations as operating expenses, usually aggregated with public relations or advertising expenditures. The implication of this treatment is that provided a respectable profit has been earned no more questions need to be asked. Grants appear in the financial statements of nonprofits as items of expenditure, either itemized or in aggregate. The implication of this non-profit treatment is that no questions need to be asked provided it was in accordance with budget approvals and the surplus or deficit is minimal. Traditionally, external reporting responsibilities end here, though internal reporting responsibilities may be concerned with the contribution which sponsorship has made to profit or the contribution a donation has made to other aims of the enterprise. As already noted, service performance reporting has extended the external reporting responsibilities for public sector enterprises, and promises to do the same for some private nonprofits.

In their external reporting role, for-profit enterprises do sometimes expand on their sponsorship activities. Company annual reports often devote a paragraph or two to the year's sponsorship and charitable activities. The reports are descriptive, stress the benefits to the recipients and give little attention to the reciprocal benefits received by the donor. Financial information is rarely given, and in terms of the materiality conventions of financial reporting is not normally required. Company annual reports rarely mention art purchasing activities, or details of their art collections.

The roles of accounting for arts enterprise

The relevant dominance of economic or non-economic objectives will determine the roles of financial and service reporting. What is unique about the arts industry, however, is that there is no other industry in which aesthetics may be

regarded as a key non-economic objective—in all other industries aesthetics are subordinate to other objectives. A failure to report the aesthetic dimension in other industries is a minor oversight; in the arts industry it can be a major shortcoming. The question of how the aesthetic performance and position can be reported is the topic of the next chapter. This section reviews current perceptions of the role of accounting in the arts.

Various roles are attributed to accounting in the context of the arts. Accounting is seen variously as:

- a legitimizing tool;
- irrelevant;
- a de-legitimizing tool;
- a facilitator;
- an information-distortion tool;
- an excuse to become involved.

Accounting as a legitimizing tool

Accounting's role has been characterised as that of 'legitimizer', overcoming prejudices of potential funders to artistic enterprise as an avenue for their funds. A conventional image of the artist is of a person with a cavalier disregard for financial measurements and constraints. Financial reward is not the primary motivator of the artist in his or her work as artist. The theatrical doctrine of "the show must go on" conflicts with financial prudence (Breckman, p. 1988). The artist may be less concerned with productivity than other workers, either in terms of recompense per hour of her own labour, or in terms of output per dollar's worth of input. As a consequence artistic enterprises may have a reputation as somewhat risky by productivity oriented funders of artistic enterprises.

Accounting can be seen as a tool which artists can employ to overcome such prejudices—to legitimate artistic enterprises. Accountants lend their "cloak of respectability" to artists to assist them to obtain loans (Tanner, 1985, p. 17).

Accounting as irrelevant or as a de-legitimizing tool

Writers have suggested that the role of accounting varies from organization to organization. Meyer (1986, p. 350) suggests that the extent of accounting undertaken varies as an inverse function of the extent to which the organization "spells out its rationalized structure in formal rules". Booth (1988; 1991) suggests that the role of accounting depends on the dominant "mode of rationality" amongst the powerbrokers within the organization. Dent (1991) suggests that in some organizations, accounting is "centrally involved in work rituals" whereas in others accounting is incidental, and the dominant culture of the organization centres around other concerns. It follows that in an organization which does not spell out its rationalized structure in formal rules, or where operational disciplines are pre-eminent, or where the dominant culture centres round non-accounting concerns, accounting is irrelevant. Another factor is cost. O'Grady (1986, p. 13) suggests that for every successful painter or pop star there are thousands who can barely afford the materials to pursue their art. These people just cannot afford to employ the services of an accountant.

It may be more appropriate to view accounting in this context not as a tool adopted or not adopted, depending on who dominates, but as a tool adopted by one group in order to usurp or dismantle the power of other groups. By elevating the status of the bottom line of the income statement and de-emphasizing 'artistic merit', an accounting-oriented management can turn the fortunes of an artistic enterprise around, or pull it out of the financial mire. A manifestation of this phenomenon is

the 'user-pays' doctrine which is motivating local governments to apply pressure on activities such as libraries and art galleries to charge for their services. For example, Hutt City Councillor Margaret Cousins complains (*New Zealand Local Government*, 1991b, p. 15):

> Politicians and senior local government managers are clearly being influenced by people in business who have a cost accountant's perspective of local government functions and who in general are not comfortable with, nor are used to, the provision of good library services.

Accounting as facilitator

A partner in a Californian accounting firm claims: "Artists don't like to deal with money. . . What we do for them is not any big deal. But to them its magic" (Tanner, 1985, p. 16). In similar vein a Canadian chartered accountant declares: "Keeping records and cheque stubs is, to many of them, just 'gobbledygook'. . . The box office report is just not their focus—and why should it be?" (Andrew, 1990, p. 40). Haynes (1986, p. 24) maintains that "There is a strong need for more professionalism and a more business-like approach from most artistic and cultural groups".

Accountants and accounting are sometimes described as a necessary component of the arts production mix, injecting cool economic objectivity into the enterprise. Obtaining funds is seen as the primary purpose of financial reporting by nonprofit arts organizations (Fleming, 1985; Tanner, 1985). Accounting expertise is needed for long-run planning (Fleming, 1985), for taxation advice (O'Grady, 1986; Tanner, 1985) and, in the case of large nonprofit organizations, to cope with the volume and complexity of their funding activities (Tanner, 1985, p. 20). The Queen Elizabeth II Arts Council (1986a) recommends annual audits of arts to

ensure long-term sponsorships are working satisfactorily for both the sponsor and the arts organization.

Many arts bodies who do not have full-time arts administrators experience great difficulties in the management of their funds and resources which subsequently affect their ability to meet their commitments. These problems could often be alleviated by effective forward planning and realistic budget estimates. In recognizing the need for expert advice and assistance, many bodies are realising just how valuable the input of accountants can be. Accountants are by far the best placed people to effect an objective economic appraisal of a programme (*The Australian Accountant*, 1984[13]).

Using accounting to distort information

The main sources of oversight for nonprofits are donors, through boards of directors, or the direct observation of volunteers and federated fundraising organizations (James and Rose-Ackerman, 1986). The hands-on approach taken by large corporate sponsors to their sponsorship activities also tends to preclude the use of accounting to distort information that these sponsors receive. Typically these sponsors: (1) initiate many of their sponsorships, (2) require references from a lawyer or banker, (3) aim to become involved in any sponsored project at an early stage to assist in shaping the whole project to the mutual satisfaction of both parties, and (4) expect to attend project team meetings throughout the term of the operation [14].

---

[13] Quoting Clive Turner, Director of Marketing for the Australian Film Commission.

[14] Interview with Corporate Affairs Manager, Caltex Oil New Zealand Ltd.

Two other factors may limit the scope for creative accounting in some arts enterprises. Firstly, the predominance of small-scale closely managed arts enterprises reduces the likelihood of managers massaging accounts to entice promotions out of owners. Secondly, arts enterprises are not usually high earners. Therefore, financial constraints on arts enterprises restrict the scope for income enhancement and substantial perquisites.

Nevertheless, circumstances occur when there are incentives to massage accounts presented by arts enterprises to their patrons. Breckman (1988, p. 149) reports that British theatre companies use creative accounting to avoid reporting surpluses because a surplus could reduce the subsequent year's arts council grant.

Accounting as an excuse to become involved

The 'call of the arts' motivates not only artists to seek the psychic rewards of artistic creation: it also motivates non-artists to donate their services to the arts—notably commercially trained and experienced people who serve as directors or provide financial and accounting services to arts organizations.

The arts and artistic endeavours provide perhaps the most striking examples of the motivation to be associated with production for its own sake. Professional arts organizations receive free accounting and financial services from professional accountants who enjoy being associated with arts productions (Whitfield, 1990). Whitfield refers to the "curious mixture of altruism and self-interest" that characterises commercial sponsorship. She believes that the financial strain and stress associated with volunteer services provided by Canadian chartered accountants outweigh the advantages afforded by tax deductions and she calls the balancing factor "psychic income" to the donor (p. 25).

A Californian public accountant quoted by Tanner (1985, p. 20) says: "It's also fun to read about them in the paper. 'That's my client! I'm involved with his success!' Clearly not in the sense of the work he does, but I like to think that by virtue of our freeing him from those [financial] concerns he can be more creative". In a similar vein a Canadian public accountant says "You're not on stage—you'd be so frightened you couldn't play a tree—but you realize that somewhere, somehow, you contributed. That's what turns you on." and "I'll never be an artist or a ballerina, but I can express my appreciation and interest" (Whitfield, 1990, p. 25). Goodson (1990, p. 30) even goes as far as to suggest that the arts have more to give accountants than accountants' skills can give to the arts, namely broadening their understanding of the world and their appreciation of things beyond the realm of accounting.

Summary

The advance of technology has produced a bifurcated arts industry in which artforms drawing on new technologies are created for mass audiences and traditional artforms are supported by a network of localised providers. Funding is diverse, including both state and private grants and market forms of funding. The importance of corporate sponsorship in the funding mix has grown in recent decades.

Accounting is seen variously as playing a number of roles. Its enabling roles include its ability to legitimize otherwise rather nebulous proposals in the eyes of hard-nosed funders, and its usefulness as a tool with which to muster and create order out of a mass of information. Negative roles attributed to accounting are its preoccupation with the financial and the economic at the expense of the non-financial, the cultural and the aesthetic, and its potential for use as a means of

distorting or concealing information. Lastly, the possession of accounting knowledge and skills enables accountants to become involved in arts activities for the pleasure of the involvement.

Chapter 8
Accounting for Art

Gentle breath of yours my sails
Must fill, or else my project fails,
Which was to please.

from The Tempest, by William Shakespeare.[1]

In Chapter 6 it was argued that the motivations underlying artistic enterprise outcomes fall into three categories: economic, influence and aesthetic. The role of non-financial reporting in the accomplishment of artistic enterprise objectives embraces the last two of these categories: influence (for example, on employment, tourism, civil obedience, attracting business to the area, or public health) and the aesthetic (joy to the creator and use-value to the audience). Non-financial reporting can contribute to the management function of reporting against managerial aims, to reporting by arts enterprises to funding intermediaries and to reporting by funding intermediaries to their funders.

In relation to the roles attributed to accounting in the context of the arts (listed in Chapter 7), the recording and reporting of service performance and position would have the following four effects.

- In respect of accounting's role <u>as a legitimizer or de-legitimizer</u>, conventional accountancy legitimizes economic considerations and de-legitimizes non-economic considerations—the addition of service reporting could be employed to 'balance up' economic and other objectives.

---

[1] Act 5, Scene 1, Epilogue.

- In respect of accounting's role as facilitator in the pursuit of enterprise objectives, service measurement could subject more aspects of the operation of arts enterprises to objective scrutiny.

- In respect of accounting's role as a distorter of information, service reporting could be used to offset the short-term emphasis of financial reporting that is often exploited to provide short-term advantages at the expense of longer term considerations, as well as providing an even more creative tool for representation of the enterprise in a light that attracts funds.

- In respect of accounting's role as an excuse to become involved in artistic enterprises, service reporting could be used to identify and codify the hitherto unreported joys that motivate the involvement of accountants in artistic enterprise.

This chapter discusses public art galleries as an illustration of service performance reporting of arts enterprises in practice.

Service reporting by arts enterprises in New Zealand

Under the current accounting regime in New Zealand, subsidized arts enterprises are not required to prepare service performance reports unless they are owned by the central government (e.g. NZ Symphony Orchestra and National Art Gallery) or by local governments (e.g. city council art galleries, performance venues and free entertainment programmes). Provincial orchestras, opera companies, theatres, art societies etc, established as companies, trusts or incorporated societies, are not required to prepare service performance reports. NZSA (1991) proposes the extension of service performance reporting to such organizations if

they draw significantly on grants funding, but the outcome of these proposals is as yet uncertain.

Central government service reporting has been limited to measures of output. This is because responsibility for outcomes is designated as belonging to the Parliamentary arm of government which has so far not reported to constituents. Local authorities, on the other hand, have taken on the task of reporting both outputs and outcomes. Therefore, only local authorities are attempting to apply the concept of service performance fully: that is, including recording and reporting on outcomes as well as on outputs. The reporting of the arts activities of local authorities is therefore unique, which is why it is given special consideration in this chapter.

Local authorities

Authorities are required to be responsive to the wishes of the residents of the territory. The key administrative mechanisms to achieve this responsiveness are the three-yearly election of councillors by residents and requirements for the council to conduct its business openly and report to residents annually on its plans and performance[2].

Pro forma mandates for, and post hoc endorsements of authorities' actions are obtained from:

- the electoral process;
- the draft budget and submissions and hearings thereon;

---

2 Local Government Act, 1974, Sections 223B to 223G.

- the financial statements;
- the public accessibility of councillors to residents.

The decision-making powers within authorities are divided between elected councillors and salaried council employees. Decisions by both elected and salaried members are expected to be motivated by:

- the desire to respond to the perceived views of constituents;
- the desire to win promotion or retain position in the council;
- the desire to promote beliefs about social equity or 'the good life' derived from political, philosophical and religious beliefs, socio-economic status and education;
- the desire to promote own, family's or friends' economic status.

In the case of elected members decisions may also be motivated by the desire to retain one's seat in the next election.

The resulting actions of councils are the combined outcome of decisions made at both levels. Accounting may play a role in the context of either or both of these decisionmaking contexts, so that a study of the role of accounting needs to focus on both of the organizational levels identified.

Territorial authority involvement in arts funding was discussed briefly in Chapter 7. Typically, arts are grouped with recreation, culture or community in the divisional structure of territorial authorities. Most of the activities, for example halls and libraries, involve a mix of recreational, entertainment or community service dimensions. One of the traditional cultural activities of local authorities is the operation of art galleries (see Neave, 1978). Art galleries are arguably uniquely suited to examination in the context of accounting for art because:

- they have the smallest component of non-arts objectives and activities;
- they are operated by a number of councils;
- they are reported as separate activities in plans and reports on performance.

For the above reasons public art galleries operated by territorial authorities were chosen for a content analysis of service performance indicators. The findings of this study are presented below.

A content analysis of service performance reporting by public art galleries

The analysis presented below is based on the 1991/92 annual reports or 1992/93 annual plans (where the 1991/92 annual report was not available) of most of the cities or districts which operate art galleries. Performance indicators were extracted, classified and compared. These were not compared to the stated objectives of the galleries, which were generally ill-defined, but to presumptions based on some of the arguments in Chapter 6. The reports consulted are listed in the Appendix.

The galleries in the analysis

There are 73 cities and districts in New Zealand. Thirteen of them operate art galleries (Thomson K.W., 1991). The eleven largest of these cities and districts were chosen for this analysis and these are listed in Exhibit 8.1.

EXHIBIT 8.1: PUBLIC ART GALLERIES OPERATED BY TERRITORIAL AUTHORITIES

City	Population '000[3]	Name of Gallery	Controlling department
Auckland	316	Auckland City Art Gallery	Recreational and Cultural Services
Christchurch	293	Robert McDougall Art Gallery	Metropolitan Services
Wellington	150	Wellington Art Gallery	Culture and Recreation
Dunedin	117	Dunedin Public Art Gallery	(no organization structure indicated)
Hamilton	101	Waikato Museum of Art and History	Recreation and Community
The Hutt	95	Dowse Art Museum	Cultural and Educational Facilities
Palmerston North	70	Manawatu Art Gallery	Cultural Facilities and Services
New Plymouth	68	Govett-Brewster Art Gallery	Community Services
Rotorua	65	Bath House	Recreation and Community Services
Wanganui	45	Sarjeant Gallery	Recreation and Leisure
Timaru	43	Aigantighe Art Gallery	Arts and Culture

The council-operated galleries omitted from the analysis are the Forrester Gallery in Waitaki (population 23,000) and the Eastern Southland Gallery in Gore (14,000). Of the forty-nine authorities serving populations of under 40,000, only these two operate galleries. However, three of the six largest cities in New Zealand do not operate art galleries—Manukau (population 226,000), North Shore (152,000), Waitakere (136,000)—and there are ten other cities or districts with populations of over 40,000—Tauranga, Hastings, Whangarei, Rodney, Invercargill, Napier, Far North, Porirua, Gisborne and Franklin—which do not operate art galleries.

---

3 1991, from Department of Statistics (1992).

K. W. Thomson (1991) lists four nonprofit galleries which are not operated by local authorities:

- Anderson Park Art Gallery in Invercargill;
- Bishop Suter Art Gallery in Nelson;
- Upper Hutt Community Gallery;
- Wairarapa Arts Centre.

Some of these do receive assistance from their local councils. For example, Invercargill City Council maintains the Anderson Park Art Gallery building and makes an annual grant to the Gallery Society, and the Nelson City Council makes an annual grant to support the Bishop Suter Art Gallery. On the other hand, the Upper Hutt Community Gallery does not appear to receive any council support. These four nonprofit galleries are omitted from the study because they report as trusts or incorporated societies and are therefore not required to report service performance.

Content selected for analysis

As discussed in Chapter 5, the task of reporting on non-financial performance involves:

- identifying the non-financial goals of the enterprise
- deciding the variables that can be used to indicate performance against these goals
- deciding how to use these variables to measure and compare performance

The findings in respect of each of these three components are presented below.

The objectives of the art galleries

City and district reports were consulted to ascertain broad objectives, goals or roles of the galleries or their controlling divisions. Policy statements of this nature were expressed in various ways but no statements of broad objectives could be discerned in the Dunedin, New Plymouth or Wanganui reports. The stated objectives that were most pertinent to gallery activities can be classified under the following headings:

Cultural well-being: enhance the cultural wellbeing of the community (Christchurch), enrich the cultural life of the city (Hamilton), enhance the cultural life of the city (Hutt); promote the cultural wellbeing of the community (Timaru).

Efficiency: provide optimum benefit to citizens and visitors (Auckland); cost effective provision and development (Christchurch); an acceptable service to users within the overall budget while ensuring basic standards maintained (Timaru)

Heritage: promote public appreciation of the region's art heritage (Christchurch); maintain heritage (Wellington); maintain cultural heritage (Hamilton).

Enjoyment: an enjoyable city for its citizens and visitors (Auckland) to maximize enjoyment (Christchurch)

Education and Recreation: educational and recreational benefit of the whole community (Palmerston North); educational, informative and recreational

needs and aspirations of the community at large including visitors to the district (Rotorua)

Growth and development: stimulate future development of the city (Wellington); growth and development of the city and region (Hamilton).

Tourism and image: make the city known throughout the world as a vital and rewarding city to visit, live in and work in (Wellington); attract tourists and promote national and international image (Hamilton).

Response to needs: to identify and act on needs (Auckland); to identify the current and future needs (Timaru).

These objectives are consistent with the motivations behind the funding of art by those who see art as a means of influence, as discussed in Chapter 6. Curiously, each authority only identifies with a few of the range of objectives.

A classification scheme for performance indicators

Specific objectives expressed for the planning or review year are subject to performance measurement. ED-60 defines three 'elements' of non-financial performance—inputs, outputs and outcomes (NZSA, 1991). This framework is used for the classification of performance indicators employed by the galleries.

The principal activities of public art galleries[4] include:

- The promotion, mounting and curation of exhibitions;
- Educational and advisory functions and curatorial research;

---

[4] Inferred from annual reports, personal experience and a discussion with the Director of the Robert McDougall Gallery.

- The maintenance and development of exhibition venues, facilities, permanent collections and reputations.

Inputs to these activities include funding, maintenance and development. Outputs include the services provided by the running of exhibitions, education and advice. Outcomes include the effects on people who see the exhibitions, receive advice and education, or hear or read about the gallery.

It was found convenient to class the measures into five groups:

- Input measures: financial,
- : non-financial—maintenance and development of facilities,
- Output measures,
- Outcome measures: visitor based,
- : community based.

The performance indicators used by galleries

The measures used are displayed in Exhibit 8.2.

EXHIBIT 8.2: PERFORMANCE INDICATORS OF GALLERIES

	Auck	Chch	Wgtn	Dune	Hami	Hutt	Palm	NewP	Roto	Wang	Tima	Count
Inputs: financial												
net cost/$100 rates	✓											1
% funded by user charge		✓										1
gallery shop profit		✓									✓	2
profit on poster sales		✓										1
business sponsorship			✓							✓		2
develop income strategy								✓				1
report commercial options									✓			1
achieve funding			✓									1
Inputs: non-financial												
maintenance done				✓			✓				✓	3
improve facilities				✓					✓		✓	3
develop library and info							✓					1
develop conserv. strategy								✓				1
alter basis of managem't										✓		1
collect artworks							✓				✓	2
Outputs												
exhibitions		✓		✓	✓	✓	✓		✓	✓	✓	8
posters published		✓				✓						2
poster sales volume						✓						1
cultural events		✓									✓	2
lecture/forum/workshop		✓				✓	✓					3
corporate functions		✓										1
education component				✓			✓					2
Outcomes: visitors												
number of visits '000	135	200	70				26		80		21	6
% of residents		✓										1
visit more than once		✓										1
target groups-numbers	✓					✓	✓				✓	4
new groups						✓	✓					2
satisfaction levels	✓	✓			✓				✓			4
visits/staff member		✓										1
Outcomes: community												
satisf with spending		✓										1
awareness		✓				✓						2
Counts:	4	15	3	4	2	7	9	2	5	3	8	62

Comments on the performance measures used

Inputs: financial

Three galleries operate financial measures of performance. Financial measures relate to the balance of economic and non-economic funding, setting limits to the pursuit of non-economic objectives. However, a limit is already placed by the overall budgeted allocation of funding to the activity itself, which identifies the amount of non-market funding that the activity has to work with. This basic limit seems to make such measures as net cost/$100 rates and % funded by user charge unnecessary as performance measures.

Setting minimum profit levels on ancillary activities removes these activities from inclusion with aesthetic or influence objectives. For example, posters might be considered to fulfil non-financial objectives such as that of bringing art to the people.

Setting business sponsorship objectives may conflict with other objectives. The conditions of the sponsorships or the sponsor's image or product may conflict with the aims of the activity. Nevertheless it seems pertinent to set performance measures which delineate those portions of the operation which are subject to economic objectives and those which are subject to non-economic objectives, provided that any offsetting non-financial measures are defined and accounted for.

Maintenance and development of facilities

Only Dunedin deemed it necessary to identify regular maintenance of air conditioning, lighting, fire protection and buildings as a performance objective, although this activity is included in costs of other galleries.

Again, only Dunedin included development—of security systems, of visitor response recording mechanisms, of computer registration system, of cataloguing systems, of archiving, of foyer refurbishment, and of fire protection, and of buildings—although similar activities were presumably taking place in other galleries.

It seems to be important to specify output goals for all maintenance and development objectives. The implication of not doing so is that these outputs can be passed over in favour of, say, visitor numbers or number of exhibitions—the short term being favoured over the long-term.

Wanganui has established a committee to operate and manage the Gallery on a three-year contract basis.

Only New Plymouth and Palmerston North had performance objectives relevant to maintenance of the permanent collection. Palmerston North aimed "to acquire, store and accession art works". Curiously, no other galleries mention acquisitions and collection management. New Plymouth aimed to "develop a conservation programme".

Outputs

Eight galleries employ output measures. Outputs can be measured with greater or lesser specificity. For example Dunedin identifies as separate performance objectives the presentation of exhibitions from the permanent collection and international exhibitions.

The objectives stated by councils are generally merely restatements of the performance indicators, rather than underlying objectives. The underlying objective implied by an output indicator is usually either ambiguous or multi-

faceted. For example, the holding of corporate functions may be seen either as a measure of widening of influence, or of effort in generating financial resources. Similarly, the measures relating to posters produced may be seen variously as a measure of the effectiveness of advertising exhibitions, as a measure of effort in generating financial resources or as a measure of artistic enterprise.

Outcomes: visitors

Five galleries measure visitor numbers and three measure visitor satisfaction levels.

Numbers of visits is a hybrid output/outcome measure. By analogy with sales volume it is an output measure, but since the exhibitions are presented regardless of visitor numbers, the numbers can be seen as the outcome of interest generated in the community by the presence of the gallery and the particular exhibitions attended.

Visits by target groups (Auckland targeted "school/university/college visits") and "new groups" (Hutt) injects an influence dimension into the target, the implication being that patronage by certain groups or a wider spread of groups in society is desirable.

Visitor satisfaction levels, measured by surveying a sample of exhibitions, is an outcome measure. The nature of the questioning of the surveys is not discussed. Conflicts between art and entertainment may occur where the aims of the operators of the gallery and the expectations of the visitors conflict. Visitor satisfaction levels may measure the latter and not the former.

Visits per (equivalent full-time) staff member (Christchurch) is an efficiency measure which excludes consideration of the quality or the character of the staff expertise necessary to mount an exhibition.

Outcomes: community

One gallery measures community satisfaction and two galleries measure community awareness. Satisfaction with spending is a very broad measure of mass popularity mixing up the popularity of gallery policy with the notion of having an art gallery. Community awareness of the existence and location of the gallery might measure the effectiveness of one aspect of advertising by the gallery (another aspect is the image the gallery projects). But it also might measure the survey subject's interest in public art gallery art (independent of any advertising by the gallery).

Mass popularity may be an inappropriate measure of performance of a gallery. Arguably, art should not aim to please everybody. The democratic process is not an appropriate indicator for every activity in the range of activities which a city or district council undertakes. Different activities are aimed at different target groups in the community. The target group of art galleries does not have to be the whole community.

The relationship between inputs, outputs and outcomes

As argued in Chapter 5, outputs and inputs relate to transactions, and outcomes relate to the motivations underlying transactions. Motivations and not transactions determine the targets against which an entity can be said to perform. Outputs and inputs should therefore be subordinate to outcomes in a scheme of service performance planning and measurement.

General comments on the performance measures adopted

The survey reveals two main surprises:

- The disparity of performance measures adopted by the different galleries whose general objectives could be expected to overlap considerably.
- The weakness of the links between performance measures and general objectives.

Most galleries appear to consider only certain aspects of their operations to be pertinent to service performance reporting. This could be because the measurement process was approached by asking 'what can be measured?' as opposed to 'what do we aim to achieve?' Each gallery thought of performance measures relating to issues most prominent in their minds at the time of the planning.[5] This has led to statements of performance measures which appear to be incomplete and do not link well with stated broad aims

The pursuit of 'art' as an enterprise objective may occur at different levels—as a principal aim or as a subsidiary aim. According to the classification scheme developed in Chapter 6, art is either 'genuine', 'recreational' or 'commercial'. Recreational art gives much joy to the creator and little use-value to the audience. The appropriate performance measure must gauge the joy to the creator, perhaps by measuring the extent of the voluntary contribution to production of the art, that is, the number of participants. Commercial art gives little joy to the creator but has much use-value for the audience. The appropriate performance measure must

---

[5] For example, it was suggested that Dunedin's inclusion of maintenance as a performance indicator was motivated by the desire to stress the cost of maintaining the old facilities in the face of projected expenditure on new facilities (John Coley, Director, McDougall Art Gallery).

gauge audience appreciation, perhaps by measuring audience numbers or sales volume. For example, consumers use 'box office success', the 'top forty' and 'top ten' singles, albums, books etc. as indicators of what to buy. Genuine art gives both joy to both creator and use-value to the audience. Performance measurement must balance the two points of view. This is achieved by consulting the views of the cultural entrepreneurs—by measuring critical acclaim.

The public art galleries reflect a 'genuine' art emphasis. Recreational art is pursued separately through art societies and educational institutions, some of which are supported by councils. For the public art galleries, therefore, visitor numbers and even visitor satisfaction levels are inappropriate performance measures. It has been argued that successful accounting measures will reflect the wishes of voluntary funders and those who represent non-voluntary funders. If high or genuine art is what is wanted, then it will usually be unsound to base performance on size of audience, or mass opinion surveys, since much high art appeals only to a small proportion of the population. It may be necessary to acknowledge that performance in artistic enterprises must be judged by the cognoscenti of the art form, and not by mass appeal.

Smyth's (1973, p. 73) advice on Queen Elizabeth II Arts Council policy is along similar lines:

> The criteria of likely success and failure, in terms of public response, can never be the only guides used by the council in determining policy, for these would be quite inappropriate if brought to bear on the cases of creative artists who need council support in forms which will ensure freedom from undue material and intellectual restraint.

Enterprises funded principally from taxes are accountable to the taxpayers to employ those funds in accordance with their wishes. However, such enterprises invariably engage in a variety of activities, only some of which are of service to

any particular taxpayer. Only some taxpayers value the expenditure of a government or local authority on a particular arts activity. In terms of their utility functions, they pay a proportion of their tax dollar towards that activity. Those who do not value the arts activity, may benefit from, say, the social welfare programme, or sporting facilities. Whereas the former taxpayer's tax dollar is buying art (amongst other facilities), the latter's is buying social welfare and sport (amongst other facilities).

If mass surveys and audience numbers are to be used to measure performance, then the taxpayers, or contributors to a voluntary organization, who value the art will be unsatisfied. Moreover, those who do not value the art may well be left unsatisfied also: the effect of such performance measures is to make the activity attempt to become more popular. An audience which actually wants sport will be only partially satisfied with an entertaining but artistically shallow art exhibition as a substitute.

Performance might be judged in terms of the reputation of the gallery amongst gallery directors, fine arts academics, or artists. Performance criteria could be based on the quality of handling of the works, expertise in restoration and storage and the quality of restoration and storage facilities, judgement in acquisition choice, ability at lighting and ancillary artwork associated with exhibitions.

The discussion of art gallery performance measures has parallels in respect of other art forms. A symphony orchestra which courts audiences by playing pop will disappoint both the devotees of esoteric classical music amongst its constituents as well as those who would prefer sport. It may therefore be appropriate to acknowledge, in the case of a symphony orchestra, that it should not aim to please everybody who contributes to the fund from which the orchestra is subsidized. Performance might need to be judged by orchestral conductors and

musicians on criteria such as quality of musicianship and choice of works for performance. Audiences who value genuine art expect to be at least a little 'challenged' by the art that they see, and to this end they look to the cultural entrepreneurs to define the art which they see.

The measurement of outcomes using survey instruments is practiced by a number of galleries. The design and operation of these instruments raises several issues. First is the question of which outcomes are regarded as desirable and which undesirable. The following list includes some possible reactions to art.

> hysteria, outrage, shock, agitation, aggression, confusion, sadness, displeasure, indifference;
>
> neighbourliness, amusement, contentment, calmness, relaxation, understanding, enlightenment, inspiration, happiness, pleasure.

It is not a foregone conclusion that whether or not the visitor 'liked' an exhibition is an appropriate measure of performance.

Second is the question of whose aims should determine the desirable and undesirable outcomes. Four possible parties to the exhibition whose aims could be consulted are the artist, the exhibitor, the visitor or the funder. Consulting the artist, for example, might reveal that he or she intended a particular work to be outrageous[6]. A survey instrument could therefore measure visitors' outrage on seeing the work. Alternatively the visitor could be asked what benefits he or she expected from the exhibition and how it rated against those expectations. The options are endless.

---

[6] Georges Braque said that art is meant to disturb (Tripp, 1976, p. 53).

Third is the question of whose opinions matter. Possible survey subjects are artists, art gallery directors, art critics, visitors and the general public. It has already been argued that if genuine art is the aim, then the gallery must play an educative role and challenge the perceptions of visitors. This requires narrowing the opinion base to the aficionados of the artistic genre.

Fourth is the question of timing and the time frame. The challenge of an exhibition may be met after the passage of time or the popularity of an exhibition may fade. Perhaps exhibitions should be surveyed in retrospect, in a post-audit.

The remarkable weakness of the links between objectives and indicators is illustrated by considering the claim both in the reports and elsewhere (Hart, 1984) that the arts promotes tourism. However, no performance indicators in the survey are tourism oriented. For a gallery to promote tourism in a region requires that the prospect of coming to the gallery serves as an motivator for people from outside the region to visit. Tourism promotion requires a maintenance and development of reputation measure. The promotion of tourists from within New Zealand requires the gallery to have a national reputation amongst art appreciators. The promotion of overseas tourists requires an international reputation. No galleries showed performance measures targeting reputation outside the region either nationally or internationally.

Some other objectives claimed in the literature do not appear in the objectives of the galleries reviewed. For example, keeping up with neighbouring authorities is claimed as a motivation for arts activities (Dahl, 1984). Galleries appear to have made little attempt to produce performance indicators which would enable a prospective citizen of New Zealand to select the centre with the best art gallery. Comparative reporting is not done, and would be difficult with the wide range of

performance indicators employed. The arts are also claimed to promote urban renewal, employment and civil obedience (Appleyard, 1985). Perhaps the targeting of groups within the community addresses such issues. Where councils have targeted groups, however, reasons are not given and must be inferred by the reader.

Recent surveys

Two recent Arts Council surveys have attempted to gather information about New Zealand public art galleries. The great majority of the art galleries in both the surveys were the same galleries as those in the above content analysis.

One of these is an ongoing survey which has been conducted for the last three years by the Australia Council for the Arts, in association with the Queen Elizabeth II Arts Council (Spring, 1991; Spring, 1992). The New Zealand section of these surveys involved a questionnaire which was sent to the National Art Gallery, and a number of local public art galleries. In 1992 eighteen local public galleries were surveyed, of which thirteen responded, making a total sample of 14 galleries, including the National Art Gallery. Unfortunately, the survey promises confidentiality to individual participants, so that only aggregate figures are provided.

The sources of income reported by the galleries included:

	$,000	%
New Zealand Government	830	7
Local government	9,244	81
Private sector support	378	3
Admissions	226	2
Merchandising (net)	127	1
Other earned income	691	6
	11,496	100

The purposes of operating expenditure included:

	$,000	%
Personnel expenses	4,615	41
Art acquisitions	413	4
Research/collections management/conservation	816	7
Public programmes	2,195	20
Administration and support	3,080	27
Other	135	1
	11,254	100

The range of donated services and in-kind donations reported by the galleries included donations of art works (10 galleries), regular volunteers (12 galleries), occasional professional and technical advice (9 galleries), promotion, advertising, printing or design (4 galleries), building and restoration materials (3 galleries) and maintenance and cleaning (2 galleries).

The second survey (Stafford, 1991) was commissioned by the Queen Elizabeth II Arts Council, and surveyed visitors to public art galleries and museums. The aims were to help the Arts Council to develop audience and market development

programmes for the visual arts and to help galleries and museums with audience analysis and the development of services to their visitors.

The survey was conducted at 22 galleries and museums by setting up a "survey table" in each gallery over a nine-day period with signage inviting visitors to complete a questionnaire. The sample size achieved was approximately 12% to 15% of the total visitors over that period. The survey technique and the response rate leave room for considerable sampling bias, so that there can be no confidence that the answers to the questions are indicative of the views of visitors to the galleries.

Of the respondents to the survey, 62.4% were female, 55% were weekend visitors, 34.7% were first time visitors, 13.1% were from overseas, 16.4% were from outside the region, 51.6% spent nothing during their visit, 50.7% had purchased a work by a New Zealand artist in the last two years, 77.5% summed up the atmosphere as warm or inviting, 6.9% as cold or unfriendly, 43.6% called the visit "interesting", and 35.7% rated the visit overall as "very good".

Not all of the results have been canvassed in the description above, but enough are shown to give the flavour of these surveys. By showing the results only in aggregate the surveys are of little use in the provision of bench-marks for comparing gallery performance or position. For example, the financial statistics need to be related to the size of the region served by the gallery, the percentages yielded from the visitor survey need to be related to other economic characteristics of the regions involved. Moreover, the observance of confidentiality in respect of individual galleries seems to be inconsistent with commitments to transparency arising from the new public sector legislation. In the case of the joint Australian and New Zealand study, a knowledge of the identities of the galleries which did and did not respond to the survey could have assisted the reader to make a

subjective assessment of the likely response bias. The questions asked in the visitor survey reflect the same biases and omissions as were revealed in the analysis of performance indicators.

The relevance of non-financial position

There is no provision in the local authority accounting regime to report on the stored up non-financial wealth of art galleries. As argued in Chapter 5, it seems unreasonable to assume that non-financial performance potential cannot be built up and stored for later use. The reputations and integrity of its permanent collection, other facilities and personnel are cultural capital from which a gallery can aim to yield service performance returns. The disclosure of the physical and qualitative resources that make up this cultural capital would fill a gap in the representation of the enterprise.

Conclusions

A content analysis of service performance reporting by city and district art galleries reveals the following:

1. A wide disparity of objectives and performance measures. It is argued that this disparity does not reflect widely varying aims, but rather, a failure of councils to fully address the reasons why they operate galleries and what they should measure.

2. Somewhat weak linkings between objectives and performance measures. It is argued that this is caused by the tendency of councils to address the question of what they can measure first, rather than the more fundamental question of what

the objectives of the operation are. An examination of the reasons for operating public art galleries reveal that some of the functions considered to be most important—for example cultural well-being and heritage—are scarcely addressed by the performance measures used.

Performance indicators directed to the objectives of promoting cultural well-being, artistic heritage, tourism and economic growth need to focus more on the quality of the art and how it is cared for, and on the reputation of the gallery as a promoter of artistic ideals. This requires consulting the judgements not of visitors or of the general public but of aficionados of artistic forms.

It may be conceptually difficult to design service performance measures without acknowledging that some of the work of a gallery goes into building and maintaining stored up service performance potential or cultural capital. Moreover, cultural capital can be eroded by the wrong decisions but there is no chance of this being reflected in non-financial reports if the existence of the cultural capital is not acknowledged in the first place.

Chapter 9
Conclusions and Research Directions

> . . . I should be real gone when
> I reach there — the place where
> I am not — except for my end-words
> and that, surely, is a beginning.
>
> from "Shadow" by Hone Tuwhare[1].

This thesis argues that underlying both traditional accounting and the new concepts of non-financial accounting are the notion of giving and receiving of resources, and the reciprocality of benefits or detriments to giver and receiver. The strength of the accounting world-view lies in the way it represents the duality and reciprocality of giving and receiving, resources given and resources received, and givers and receivers.

Two trends in accounting thought and regulation are discernible. Firstly, the scope of resources and resource attributes recognized by accounting is being broadened. From a preoccupation with the financial characteristics of economic resources, accounting is broadening its purview to give attention also to non-financial characteristics and non-economic resources.

Secondly, some of the bases by which accounting has traditionally been compartmentalized are becoming less divisive. Concepts, techniques and rules are crossing the traditional boundaries between these main branches of accounting and the practice of focusing attention on one branch to the exclusion of the others is giving way to more holistic approaches to accounting.

---

1 in Tuwhare, H., 1992. *Short Back and Sideways*, Auckland: Godwit Press Limited.

Causes of these changes in accounting thought can be found in political, social and economic trends of recent decades. Disillusionment with the welfare state, interventionism and continuing recession fueled a political shift towards freer markets, less government intervention and lower government expenditure. Accounting was called on to play a role in these political moves in two ways.

Firstly, public sector accounting had been on a cash basis and balance sheets had not been prepared. It had been reasoned that accrual accounting is inappropriate when activities are funded by taxation, and asset valuations are unnecessary when the assets are owned communally and not intended for sale. This reasoning did not suit the needs of a regime which believed that much of the public sector could and should be privatized, and so public sector accounting was 'reformed' by introducing accrual based accounting and the reporting of balance sheets.

Traditionally it has been reasoned that enterprises which buy and sell goods and services in free markets will maximize their efficiency by maximizing their profits. Under the new political regime it was believed that the residue of public sector enterprises which were not deemed to be able to operate on a free market basis were prone to inefficiency because of the absence of the optimizing influences of the market. Profit maximization was not available to ensure allocative efficiency, and traditional financial budgeting methods traced only money flows and not value for money. Some other mechanism was sought to ensure the levels of efficiency in resource usage that were deemed to be achieved by profit maximisation in the market sector. Accountancy was called on for this second function. This time, it was not simply a case of transferring existing accounting theory to a new application: new accounting techniques had to be invented. These new techniques were termed 'service performance reporting'.

In common with a long line of management and accounting techniques which includes financial budgeting, management by objectives and total quality management, service performance reporting involves recording targets in advance and reporting on their achievement, or non-achievement. Service performance reporting differs from the management techniques from which it derives by being:

1. designated an accounting technique yet not restricted to financial objectives;
2. codified into legislation and proposed professional accounting standards;
3. an external as well as an internal reporting technique.

However, service performance reporting as proposed in the legislation and exposure drafts of accounting standards is conceptually incomplete as an accounting technique. Firstly, service performance is the non-financial adjunct to financial performance. Just as financial performance potential can be stored up and owed, so can service performance potential. Yet the drafters have omitted this non-financial adjunct to the statement of financial position: i.e. a statement of service position.

Secondly, the drafters have limited service performance reporting to those situations where the outputs are not supplied to the 'ultimate funders' of those outputs. The problem is that enterprises do not split into two camps in this way: most outputs are supplied to people who are partial funders of the outputs they receive. Products may be supplied at more or less than the price paid by the customer as the result of public good properties, externalities, the monopoly position of the supplier, the violation of cultural heritage, unsustainable output or intergenerational inequity. Conceptually more justifiable is a regime which requires service reporting by all reporting entities.

Lastly, a plausible theoretical basis for viewing the range of non-economic objectives of enterprises which underlie service performance reporting has not been developed. The aims of any enterprise are an amalgam of stated and unstated, formal and informal, recognized and unrecognized objectives pursued by a range of people associated with the enterprise in a variety of ways. To frame a meaningful set of performance objectives and measures requires an understanding of the political, economic and social processes by which these people exert their power over the enterprise and formulate their desires and preferences. Moreover, the operation of these processes is likely to be somewhat diverse across the wide range of activities of enterprises.

Arts enterprises provide one example from this wide range of activities. The objectives of arts enterprises evolve from a complex interplay of political, social and economic power groups, and are motivated by the desires for economic reward, to influence the world and for aesthetic gratification. This mix of motivations is reflected in the diversity of the funding sources of arts enterprises.

Accounting has traditionally had various roles to play in arts enterprises and their funding intermediaries as a means by which the activities of apparently frivolous projects can be imbued with legitimacy in the eyes of funders, as a means by which aesthetic objectives can be submerged, to satisfy the aims of economically or politically motivated funders, as a means of achieving artistic activities by coordinating and facilitating planning and control, as a means of distorting or concealing achievements in order to deceive funders and as an excuse for accountants to become involved in artistic enterprises. Service performance reporting could modify these roles. If used to give aesthetic and other non-economic objectives an equal billing with economic objectives, service performance reporting might legitimize the non-economic, altering the balance of

power in favour of those with social and economic policy objectives or with personal aesthetic objectives.

The identification of objectives and performance measures for an enterprise is, however, not an easy task. A content analysis of service performance reporting by local authority art galleries revealed insufficiently researched statements of objectives and performance indicators that fail to relate to the objectives. There is a need for a more fully formulated theoretical understanding of why city and district councils operate art galleries and what they should be aiming to do with their collections, buildings and specialist gallery staff. The omission of service position from the theoretical framework on which the galleries are required to base their measurements can be seen as a cause of the insufficient attention which galleries gave to the measurement of cultural well-being, artistic heritage, tourism and economic growth, all objectives which require some concept of the building and maintenance of service potential for their expression.

Research directions

Oettle (1986, p. 249) probably overstates the case when he concludes that (emphasis added):

> . . . since the financial accounting systems both in the business and non-business sector may nearly be considered *perfect*, the scholars engaged in accounting for the not-for-profit sector ought to focus on methods which provide those supplements which mostly concern non-monetary dimensions of the performance of tasks.

Nevertheless, it may be fair to assert that non-financial measurement is the most *vital* topic for future accounting research. It has been suggested in this thesis that non-financial measurement and reporting has the potential to address the social and environmental ills that traditional accounting has helped to maintain. However, to

do this, a much deeper understanding of non-financial motivations and power structures is required. The New Zealand service performance reporting experience serves to illustrate this point. Service performance reporting by public art galleries was shown in Chapter 8 to be inadequate in terms of relevance to and coverage of objectives. Public art galleries represent a small part of the arts industry, which in turn represents a small part of all the industries in which non-economic motivations play a significant part. But there is no reason to assume public art galleries to be unique in the inadequacies of their service performance reporting, and evidence points to the likelihood that other activities are experiencing similar problems. For example, an Audit Office report on the accountability of state schools praises the sincere efforts of most schools to meet their responsibilities, but reports that many had made only general statements about their activities (*The Christchurch Press*, 1992).

The New Zealand public sector accounting changes seem to illustrate the point made by Broadbent and Guthrie (1992, p. 26) that "unevaluated reforms are being implemented with impunity and using the name of accounting as legitimated". It is suggested that the exercise of formulating sets of performance objectives and indicators for any class of activities is not an easy one that can be left entirely to school boards or city councils. It requires research specifically directed to each class of activity.

Khakee (1988, p. 16) argues that there is a need for further theoretical and empirical research about the rationale for municipal and governmental support of the arts. Topics for research include the examination of the relationship between arts output in terms of quality and quantity and the input of financial resources, the impact of municipal action upon public participation in cultural activities and the role of the municipality in (and its relationship with) public sector arts provision.

Hoek et al (1990) bemourn the absence of an integrated and coherent body of research into corporate sponsorship (p. 88) and their own findings reveal inconsistencies between the declared objectives of sponsors, the criteria used when choosing sponsorship options and methods used to evaluate outcomes (p. 94). Witcher et al (1991) also complain that there is a paucity of research about large organizational sponsorship, particularly into the reasons for the different categories of sponsored activity, and about which organizational function takes responsibility for them (p. 13). The inadequacy of sponsorship evaluation behaviour revealed in a UK survey, exposes sponsorship as a management accounting problem (p. 19).

Concluding comment

When artists create works of art and when people enjoy the art of others there is often a strong element of doing it for its own sake—the art is an end in itself and no other justification is required. On the other hand accountants create accounting reports not for their own sake but for the economic rewards which they receive in return, and people obtain the reports not for their direct enjoyment but because they perceive them as assisting in the achievement of other aims. The justification for accounting is never as an end in itself but must always be as a means to an end.

This thesis set out to discover whether accounting has a role to play, if any, as a means to the end of art. It discovered a somewhat ambiguous role—as both a help and a hindrance to the ends of art. Accounting lends to art its respectability in funding circles and its effectiveness as a planning and organizing tool. But accounting views the activity of enterprises it reports on in the same terms as the creators and users of accounting information view accounting—as a means and not

as an end. Accounting fails to record sufficient information to reflect the policy and aesthetic motivations that may underlie artistic enterprise. Accounting can, therefore, be a hindrance to the ends of art—when the 'accounting rationale' rules, all other concerns are pushed aside in the pursuit of profit and the balanced budget.

However, the thesis also discovered a social and political milieu in which the role of accounting is trending towards a much more balanced recognition of underlying motivations. Service performance reporting legitimizes the recording and reporting of non-financial and even non-economic variables, opening up a whole new territory for accounting to conquer. The theoretical issues and practical observations discussed in this thesis indicate that a considerable amount of work is required to achieve a non-financial recording and reporting regime that is capable of addressing and informing about the objectives underlying enterprise activities. If the challenge of developing a meaningful non-financial reporting regime is taken too lightly, service performance will lapse into a senseless ritual, to be abandoned sooner or later as cost-ineffective, and accounting will revert to the direction of former times: compartmentalized into disconnected branches and restricted to financial measurement. After all, such conventions seem to have served accountants and the buyers and sellers of accounting information well in the past.

Alternatively, if sufficient attention (resources and research) is devoted to the formulation of conceptual and practical approaches to non-financial recording and reporting, then accounting could be transformed from a tool which reinforces existing wealth differentials and favours short-term gains to individuals, into a tool which is much more suited to the promotion of intra- and inter-generational equity, environmental sustainability and even 'the good life'. There is potential in

the measurement of service performance and position for a fascinating evolution of the role of accountancy in society.

Acknowledgements

I thank Professor Bevan Clarke for the advice out of which the thesis topic was born and for his critical reading of a draft of the thesis. I thank Lindsay Hampton who also offered helpful advice during the early stages of this project.

I thank Christchurch City Council accountants Lindsay Moore and Paul Melton and city councillor Charles Manning for helping me to understand city council accounting. I thank Briony Ellis and Peter Hazael of Caltex Oil New Zealand Ltd for helping me to understand corporate sponsorship, and Briony Ellis for other observations about the New Zealand artworld.

I thank Tony Kunowski for the insights he gave me into the operations of the Christchurch Symphony Orchestra, Don Whelan, Director of the CBS Choir and Orchestra for our discussion about the relationship between professional and amateur music, and John Coley, Director of the Robert McDougall Art Gallery, for the information about public art galleries.

I thank John Walsh for his lively interest in the project and for the learned and not-so-learned articles about the arts from his private files.

I thank Professor Athol Mann of Victoria University of Wellington, Max Barber of the Canterbury Regional Council, Ingrid van Aalst of Queen Elizabeth II Arts Council of New Zealand and the Southern Regional Arts Council for the information they provided.

I thank poet and theatre critic Bill Lennox for the Shakespearean quotation.

I thank my supervisor Alan Robb for his encouraging comments and useful criticisms.

I thank my wife Helen for her unyielding support and faith in my ability to complete the project and my daughter Victoria for the love and laughter she causes.

Appendix: Territorial Authority Reports Cited

The reports of the following city and district councils were obtained for the purpose of the art gallery analysis in Chapter 8. They are all annual reports for the year ending 30 June 1992, except where noted.

Auckland City Council

Christchurch City Council

Dunedin City Council

Hamilton City Council

Invercargill City Council

Manakau City Council Annual Plan for year ending 30 June 1993.

Napier City Council

Nelson City Council

New Plymouth District Council

North Shore City Council Annual Plan for year ending 30 June 1993.

Palmerston North City Council

Porirua City Council

Rotorua District Council

The Hutt City Council

Timaru District Council

Upper Hutt City Council

Wanganui District Council

Wellington City Council

References

Adam, P., 1992. *Art of the Third Reich*, New York: Harry N. Abrams Inc.

Aegon Insurance Group, 1990. *Annual Report.*

American Accounting Association, 1966. *A Statement of Basic Accounting Theory*, Illinois: American Accounting Association.

Andrew, R., 1990. "Arthur Gelgoot", *CA Magazine*, December, pp. 39-40.

Anheier, H.K. and W. Seibel, 1990. "Introduction" in Anheier, H.K. and W. Seibel, *The Third Sector: Comparative Studies of Nonprofit Organizations*, Berlin: Walter de Gruyter.

Anthony, B., 1986. "Negotiating Canadian culture: what's at stake?", *Canadian Business Review*, Summer, pp. 14-15.

Anthony, R. N., 1989. *Should Business and Nonbusiness Accounting Be Different?*, Boston, Mass.: Harvard Business School Press.

Appleyard, B., 1985. "Silken gloves and ruddy fists", *The Times Educational Supplement*, June 14, p.26.

Attali, J., 1985. *Noise: The Political Economy of Music*, trans B. Massumi, Minneapolis: University of Minneapolis Press.

The Australian Accountant, 1984. "Spotlight", October, pp. 751-752.

Baden, J. and G. Hardin, 1977. "Preface", in G. Hardin and J. Baden (eds), 1977. *Managing the Commons*, San Francisco: W. H. Freeman and Company.

Baker, W. E. and R. R. Faulkner, 1991. "Role as resource in the Hollwood film industry", *American Journal of Sociology*, Vol. 97, No. 2, September, pp. 279-309.

Ball, I., 1992. "Outcome Specification", *Papers from the 1992 Public Sector Convention,* Wellington: New Zealand Society of Accountants.

Baumol, W. J., 1975. "Business responsibility and economic behaviour" in Phelps, E. S. (ed), *Altruism, Morality and Economic Theory*, New York: Russell Sage Foundation.

Becker, H. S., 1976. "Art worlds and social types", in R. A. Peterson (ed), *The Production of Culture*, California: Sage.

Beechy, T. H., and B. J. Zimmerman, 1992. "Costs and the collective good", *CA Magazine*, November, pp. 44-49.

Beiner, S. C., 1987. "Budgeting in not-for-profit organizations, *CMA (Canada)*, Vol. 61, November-December, pp. 20-27.

Ben-Ner, A., 1986. "Nonprofit organizations: why do they exist in market economies?", in S. Rose-Ackerman (ed), *The Economics of Nonprofit Institutions*, New York: Oxford University Press.

Biggs, D., 1970. *Expenditure on the Arts in New Zealand*, Wellington: Queen Elizabeth II Arts Council of New Zealand.

Birch, W., 1992. "Political expectations of the public sector performance", *Papers from the 1992 Public Sector Convention*, Wellington: New Zealand Society of Accountants.

Bird, P., 1985. "The level of reserves in fund-raising charities", *Financial Accountability and Management*, Vol. 1, No. 2, Winter, pp. 161-171.

Birss, N., 1991. "Clash of cultures as Mair's meeting", *The Christchurch Press*, November 21.

Blake, M., 1991. "Hands on involvement with the arts", *The New Zealand Listener and TV Times*, July 22, p.48.

Blessing, L. J., 1991. "Reporting of governmental performance indicators for assessment of public accountability", Doctor of Public Administration Dissertation, Arizona State University, An Arbor: University Microfilms International.

Bolnick, B., 1975. "Toward a behavioural theory of philanthropic activity", in Phelps, E. S. (ed), *Altruism, Morality and Economic Theory*, New York: Russell Sage Foundation.

Booth, P.J., 1991, "Accounting and accountants in organizational context: a case study of a voluntary organization", PhD Thesis, Griffith University.

Boston, J. 1991. "The theoretical underpinnings of public sector restructuring in New Zealand", in Boston, J, J Martin, J Pallot and P Walsh (eds) *Reshaping the State: New Zealand's Bureaucratic Revolution*, Auckland: Oxford University Press.

Boulding, K.E., 1973. *The Economy of Love and Fear*, Belmont, California, Wadsworth.

Bourdieu, P., 1984. *Distinction: A Social Critique of the Judgement of Taste*, translated by R. Nice, Cambridge, Massachusetts: Harvard University Press.

Bourdieu, P., 1986. "The production of belief: contribution to an economy of symbolic goods", in Collins, R., J. Curran, N Garnham, P. Scannell, P. Schesinger and C. Sparks eds, *Media, Culture and Society: A Critical Reader* , London: Sage.

Brandenberg, M., 1988a. "Who pays the piper", *Accountancy,* February, pp. 89-94.

————., 1988b. "Sustenance from the city", *Accountancy*, September, pp. 65-69.

Breckman, R., 1988. "The accountant as stage manager", *Accountancy*, May, pp. 148-149.

Briggs, A., 1960. "Mass entertainment: the origins of a modern industry", *The 29th Joseph Fisher Lecture in Commerce*, Adelaide: The Griffin Press.

Broadbent, J and J. Guthrie, 1992. "Changes in the public sector: a review of recent 'alternative' accounting research", *Accounting, Auditing and Accountability*, Vol. 5, No. 2.

Bromwich, M., 1990. "The case for strategic management accounting: the role of accounting information for strategy in competitive markets", *Accounting Organizations and Society*, Vol. 15, No. 1/2, pp. 27-46.

Bush, G., 1991. "Can local bodies be measured?", *New Zealand Local Government,* Vol. 27, No. 11, November, pp. 8-9.

Carroll, R., E. Hutchinson and C. Officer, 1991. "Make it Work", *New Zealand Local Government*, April, Pp. 15, 34-36.

Carty, P., 1991. "Patronage in the public eye". *Accountancy*, April, pp. 74-75.

Cebik, L. B., 1990, "Knowledge or control as an end of art". *British Journal of Aesthetics*, Vol. 30, No. 3, July, pp. 244-255.

Chapman, L., 1992. "The moral basis for the state and its implications for future performance assessment", *Papers from the 1992 Public Sector Convention,* Wellington: New Zealand Society of Accountants.

Cheyne, C., 1986. "The state and the arts: the state of the art", *New Zealand Sociology*, Vol. 1, No. 2, November, pp. 113-120.

Chlala, N., A. Fortin, and C. Lafond-Lavallee, 1992. "Non monetary exchanges — a pain in the ledger", *CGA Magazine,* January, pp. 51-57.

The Christchurch Press, 1992. "Criticism of Accounting", Friday July 3.

Chua, W.F. 1988. "Interpretive sociology and management accounting research — a critical review", *Accounting, Auditing and Accountability Journal,* Vol. 1, No. 2, pp. 59-79.

Cohen, D., 1991. "Art for everybody's sake", *Accountancy*, April, pp. 70-71.

Collard, D. A., 1978. *Altruism and Economics—A Study in Non-Selfish Economics*, Oxford: Martin Robertson.

Controller and Auditor-General, 1992, "Report of the Controller and Auditor-General on Local Government and Other Matters", August.

Cooper, D. J. and T. M. Hopper, 1990. "Stimulating research in critical accounts", in Cooper, D. J. and T. M. Hopper (eds), 1990, *Critical Accounts,* London: MacMillan.

Cooper, M. J. and J. J. Staunton, 1986, "Non-profit organisations: some issues", *University of New England Working Paper No. 86-2.*

Covaleski, M. A. and M. W. Dirsmith, 1991. "The management of legitimacy and politics in public sector administration", *Journal of Accounting and Public Policy*, Vol. 10, No. 2, Summer, pp. 135-156.

Covaleski, M.A., M. W. Dirsmith and S. F. Jablonsky, 1985. "Traditional and emergent theories of budgeting: an empirical analysis", *Journal of Accounting and Public Policy,* Vol. 4, No. 4, Winter, pp. 277-300.

Cramp, T. 1991. "Pleasures, prices and principles", in J. G. Tulip (ed), *Thoughtful Economic Man: Essays on Rationality, Moral Rules and Benevolence*, Cambridge: Cambridge University Press, pp. 50-73.

Cullen, M., 1992. "Political expectations of the public sector performance", *Papers from the 1992 Public Sector Convention,* Wellington: New Zealand Society of Accountants.

Cutt, J., 1982. "Accountability, efficiency and the 'bottom line' in non-profit organizations", *Canadian Public Administration*, Vol. 25, No. 3, Fall, pp. 311-331.

Dahl, H., 1984. "In the market's place: cultural policy in Norway", in R. D. Lambert (ed), *The Annals of the American Academy of Political and Social Science,* Vol. 471, January.

Daly-Peoples, J., 1991. "Bargains abound", *NBR Weekly Magazine,* May 10, p.34.

Dedman, R., 1985. "Is art an investment or a passion?", *The Australian Accountant,* March, pp. 24-28.

Dent, J. F., 1991. "Accounting and organizational cultures: a field study of the emergence of a new organizational reality", *Accounting Organizations and Society,* Vol. 16, No. 8, pp. 705-732.

Department of Statistics, 1992. *New Zealand Official 1992 Year Book,* Wellington: Department of Statistics.

Dermer, J. 1990. "The strategic agenda: accounting for issues and support", *Accounting, Organizations and Society,* Vol. 15, No. 1/2, pp. 67-76.

DiMaggio, P., 1987. "Classifications in art", *American Sociological Review,* Vol. 52, No. 4, August, pp. 440-455.

Donnelly, P., 1992. *Canterbury Arts Economic Impact Study,* Canterbury Regional Council Report 92(39), Christchurch.

Douglas, R. and M. Callen, 1987. *Toward Prosperity,* Auckland: David Bateman.

Drucker, P., 1990. *Managing the Nonprofit Organization,* New York: HarperCollins Publishers.

Due, J. F., and A. F. Friedlaender, 1973. *Government Finance: Economics of the Public Sector,* Homewood, Illinois: Richard D. Irwin, Inc.

Dworkin, R., 1985. "Panel discussion: art as a public good", *Columbia Journal of Art and the Law,* Vol. 9, pp. 143-178.

Easley, D. and M. O'Hara, 1986. "Optimal nonprofit firms", in S. Rose-Ackerman (ed), *The Economics of Nonprofit Institutions,* New York: Oxford University Press, pp. 85-93.

The Economist, 1991. "Sleeping with the enemy", October 26th, p.87.

————, 1992a. "The media mess", February 29th, p.15.

————, 1992b. "The caring company" June 6th, p.73.

Edwards, James B., 1986. *The Use of Performance Measures,* Montvale, New Jersey: National Association of Accountants.

Elcock, H., 1986. *Local Government: Politicians, Professionals and the Public in Local Authorities*, London: Methuen.

Elwood, B., 1991. "A testimonial to achievement", *New Zealand Local Government*, Vol. 27, No. 9, p.12.

Falk, H., 1992. "Towards a framework for not for profit accounting", *Contemporary Accounting Research*, Spring, pp. 468-499.

FASB, 1990. Exposure draft: proposed statement of financial accounting standards, 1990.

Fieldhouse, A. E., 1987. *A Dictionary of Philanthropic Trusts in New Zealand* , Second Edition, Wellington: New Zealand Council for Economic Research.

Fisher, W. H. III, 1988. "Reconstructing the fair use doctrine", *Harvard Law Review*, Vol.101, pp. 1661-1795.

Fleming, R. J., 1985. "Not-for-profit organizations: a unique marketing opportunity", *The Practical Accountant*, April, pp. 43-51.

Fox, J. M. 1967. *State Aid to the Arts in New Zealand*, Wellington: Victoria University of Wellington.

Freedman, M. and A.J. Stagliano, 1990. "Consequences of the failure to account for externalities", in Cooper, D. J. and T. M. Hopper (eds), 1990, *Critical Accounts,* London: MacMillan.

Friedman, M. and R. Friedman, 1979, *Free to Choose*, Melbourne: MacMillan.

Gambino, A. J. and T. J. Reardon, 1981. *Financial Planning and Evaluation for Nonprofit Organizations,* New York: National Association of Accountants.

Gammond, P., 1991. *The Oxford Companion to Popular Music*, Oxford: Oxford University Press.

Gans, H. J., 1974. *Popular Culture and High Culture*, New York: Basic Books Inc.

Garner, T.I. and J. Wagner, 1991. "Economic dimensions of household giving, *Journal of Consumer Research*, Vol. 18, No. 3, December, pp. 368-379.

Gartman, D., 1991. "Culture as class symbolization or mass reification? A critique of Bourdieu's Distinction", *American Journal of Sociology*, Vol. 97, No. 2, September, pp. 347-75.

Gibson, R., 1990. "Stephen Gilman and australian accounting", *Accounting History*, Vol. 2, No. 2, pp. 101-123.

Glazer, A. S. and H. R. Jaenicke, 1991. "The conceptual framework, museum collections, and user-oriented financial statements, *Accounting Horizons*, Vol. 5, No. 4, December, pp. 28-43.

Globerman, S. and A. Vining, 1986. "Canadian culture under free trade", *Canadian Business Review*, Summer, pp. 18-22.

Goodson, L., 1990, "Charles Du Toit", *CA Magazine*, pp. 29-30.

Goody, K., 1984. "Arts funding: growth and change between 1963 and 1983", in (ed) R. D. Lambert, *The Annals of the American Academy of Political and Social Science*, Vol. 471, January.

Gorz, A. 1988. *Critique of Economic Reason*, translated by G. Handyside and C. Turner, London: Verso.

Gould, S. J., 1990. "Taxonomy as politics: the harm of false classification", *Dissent*, Winter, pp. 73-78.

Gray, R. H., 1992. "Accounting and environmentalism: an exploration of the challenge of gently accounting for accountability, transparency and sustainability", *Accounting Organizations and Society*, Vol. 17, No. 5, pp. 399-425.

Hackney, S., 1984. "Supply, demand and the university", in R. D. Lambert (ed), *The Annals of the American Academy of Political and Social Science*, Vol. 471, January.

Hagan, L. L. and J. J. Staunton, 1986. "Nonprofit accounting: some dilemmas in organization classification", University of New England Working Paper No. 86—1.

Haller, L., 1982. *Financial Resource Management for Nonprofit Organizations*, New Jersey: Prentice-Hall.

Hanfling, O., 1992, "The problem of definition", in O. Hanfling (ed), *Philosophical Aesthetics: An Introduction*, Oxford: Blackwell Publishers.

Hansmann, H. B., 1980. "The role of the nonprofit enterprise", *The Yale Law Journal*, Vol. 89, No. 5, April, pp. 835-898.

———————, 1981. "Nonprofit enterprise in the performing arts", *Bell Journal of Economics*, Vol. 12, No. 2, Autumn, pp. 341-361.

Hardin, G., 1968. "The tragedy of the commons", in G. Hardin and J. Baden (eds), 1977. *Managing the Commons*, San Francisco: W. H. Freeman and Company.

————, 1977. "Denial and disguise", in G. Hardin and J. Baden (eds), 1977. *Managing the Commons*, San Francisco: W. H. Freeman and Company.

Hart, K. C., 1984. "Changing public attitudes toward funding of the arts", in R.D. Lambert (ed), *Paying for Culture, The Annals of the American Academy of Political and Social Science,* Vol. 471, January.

Hawke, G. R, 1991. "Commentary: belonging and participating in constrained circumstances", in G. R. Hawke, (ed), *A Modest Safety Net? The Future of the Welfare State*, Wellington: The Institute of Policy Studies.

Hay, D., 1992. "Public sector accounting in New Zealand: an update and clarification", *Financial Accountability and Management*, Vol. 8, No. 1, Spring, pp. 1-6.

Haynes, A. R., 1986. "Funding Canadian culture: a corporate view", *Canadian Business Review*, Summer, pp. 23-25.

Heilbrun, J., 1988. "Nonprofit versus profit-making firms: a comment", *Journal of Cultural Economics*, Vol. 12, No. 2, December, pp. 87-96.

Hines, R. D., 1988. "Financial accounting: in communicating reality, we construct reality", *Accounting, Organizations and Society*, Vol. 13, No. 3, pp. 251-261.

——, R. D., 1991. "The FASB's conceptual framework, financial accounting and the maintenance of the social world", *Accounting, Organizations and Society*, Vol. 16, No. 4, pp. 313-331.

Hoek J.A., P. J. Gendall, and R. D. West, 1990. "The role of sponsorship in marketing planning selected New Zealand companies, *New Zealand Journal of Business,* Vol. 12, pp. 87-95.

Holtmann, A. G., 1988. "Theories of non-profit institutions", Journal of Economic Surveys, Vol. 2, No. 1, pp. 29-45.

Hooper, E., 1993. "The embattled theatre", *The Christchurch Press*, Wednesday, January 13.

Horowitz, H., 1988. "Challenges for research on the training of arts administrators", *Journal of Cultural Economics*, Vol.12, No.2, December, pp. 19-38.

Hyndman, N., 1990. "Charity accounting — an empirical study of the information needs of contributors to UK fund raising charities", *Financial Accountability and Management,* Vol. 6, No. 4, Winter.

Humphries, B., 1981 *A Nice Night's Entertainment*, Sydney: Currency Press.

Hyndman, N., 1991. "Contributors to charities — a comparison of their information needs and the perceptions of such by the providers of information", *Financial Accountability and Management,* Vol. 7, No. 2, Summer, pp. 69-82.

Ijiri, Y, 1967. *The Foundations of Accounting Measurement*, New Jersey: Prentice-Hall.

Ingram, T., 1985. "Investing in art and Australiana gaining popularity", *The Chartered Accountant in Australia*, April, pp. 38-40.

Inkson, K., 1987. "The craft ideal and the integration of work: a study of potters", *Human Relations*, Vol. 40, No. 3, pp. 163-176.

Institute of Chartered Accountants of Scotland, 1988, *Making Corporate Reports Valuable,* London: Cogan Page.

James, E., 1990. "Economic theories of the nonprofit sector: a comparative perspective", in Anheier H. K. and W. Seibel (Eds), *The Third Sector: Comparative Studies of Nonprofit Organizations,* Walter de Gruyter, Berlin.

James, E. and S. Rose-Ackerman, 1986. *The Nonprofit Enterprise in Market Economics*, Switzerland: Harwood, Chur.

Jesson, B., 1987. *Behind the Mirror Glass*, Auckland: Penguin.

Joy, B. J., 1984. "Staffing, funding and accounting within the Australian Ballet", *The Australian Accountant*, October, pp. 715-718.

Joyce, M. S., 1984. "Government funding of culture: what price the arts?" in R. D. Lambert (ed), *Paying for Culture, The Annals of the American Academy of Political and Social Science,* Vol. 471, January.

Khakee, A., 1988. "The rationale for urban government action for arts funding", *Journal of Cultural Economics*, Vol. 12, No. 2, December, pp. 1-18.

Keller, E. B., 1984. "The public and the arts", in R. D. Lambert (ed), *Paying for Culture, The Annals of the American Academy of Political and Social Science,* Vol. 471, January.

Kelly, M., 1988. "Is the discipline of accounting socially constructive?", Massey University Discussion Paper, No. 70.

Krukowski, L., 1990. "Artist-work-audience: musings on Barthes and Tolstoy", *British Journal of Aesthetics*, Vol. 30, No. 2, April, pp. 143-148.

Lahr, J., 1976. "Introduction", in *Joe Orton, The Complete Plays*, London: Eyre Methuen Ltd.

Laughlin, R. and R. H. Gray, 1988. *Financial Accounting: Method and Meaning*, London: Van Nostrand Reinhold (International).

Lev, B., and A. Schwartz, 1971. "On the use of the economic concept of human capital in financial statements", *The Accounting Review*, Vol. 46, No. 1, January, pp. 103-112.

Low A., 1983. *No Free Lunch*, Lower Hutt: Alan Low.

Lüder, K., 1992. "International analysis of governmental accounting", Speyerer Arbeitshefte Nr. 98, Hochschule für Verwaltungswissenschaften Speyer.

MacKenzie-Forbes, K., 1984. "The Victorian State Opera: moving towards financial independence", *The Australian Accountant*, October, pp.733-734.

Management, 1992. "Backchat: Absolutely, positively art?", *Management*, May, p.84.

Martin, R., 1992. "Reporting financial performance", *Papers from the 1992 Public Sector Convention,* Wellington: New Zealand Society of Accountants.

Mascarenhas, R. C. 1990. Reform of the public service in Australia and New Zealand", *Governance*, Vol. 3, No. 1, January, pp. 75-95.

Maslow, A. H., 1954. *Motivation and Personality*, New York: Harper and Row.

Mattessich, R., 1964. *Accounting and Analytical Methods*, Illinois: Irwin.

McCaughan, B, 1990. "Knight attack of status quo", *New Zealand Local Government,* Vol. 26, No. 7, July, pp. 26-27.

McCrae, M., 1982. "Nonbusiness organizations in the private sector—the need for accounting standards", *The Australian Accountant*, July, pp. 389-392.

McCulloch B.W and I. Ball, 1992. "Accounting in the context of public sector management reform", *Financial Accountability and Management*, Vol. 8, No. 1, Spring, pp. 7-12.

McKean, R. N., 1975. "Economics of trust, altruism and corporate responsibility", in E. S. Phelps (ed), *Altruism, Morality and Economic Theory*, New York: Russell Sage Foundation.

McNally, G., 1992. "Reporting financial performance", *Papers from the 1992 Public Sector Convention,* Wellington: New Zealand Society of Accountants.

Meenaghan, T., 1991. "The role of sponsorship in the marketing communications mix", *International Journal of Advertising,* Vol. 10, No. 1, pp. 35-47.

Merryman, J. H., 1989. "The public interest in cultural policy", *California Law Review*, Vol. 77, pp. 339-364.

Miah, N. Z., 1991. "Attempts at developing a conceptual framework for public sector accounting in New Zealand", *Financial Accountability and Management*, Vol. 7, No. 2, Summer, pp. 83-97.

Middleton, L., 1981. *Local authorities and sports organisations,* Study Series No. 2, Research Unit, Department of Internal Affairs, Wellington.

Miller, P. and E. O'Leary, 1990. "Making accountancy practical", *Accounting, Organizations and Society*, Vol. 15, No. 5, pp. 479-498.

Ministry of Cultural Affairs, 1991. *A New Act for the Arts*, Wellington: Ministry of Cultural Affairs.

Montgomery-Massingberd, H., 1990. "The opposition to the arts spokesman", *The Daily Telegraph*, April 16, p. 17.

Morris, R. A., 1990. "Legal and ethical issues in the trade in cultural property", *New Zealand Law Journal*, February, pp. 40-42.

Most, K. S., 1982. *Accounting Theory*, 2nd Ed, Columbus, Ohio: Grid.

Moustakas, J., 1989. "Group rights in cultural property: justifying strict inalienability", *Cornell Law Review*, Vol. 74, pp. 1179-1227).

Nagel, T., 1975. "Comment" in Phelps, E. S. (ed), *Altruism, Morality and Economic Theory*, New York: Russell Sage Foundation.

Navarro, P., 1988. "Why do corporations give to charity?", *Journal of Business*, Vol. 61, No. 1, January, pp. 85-93.

Neave, D., 1978. "A survey of municipal authority cultural spending", *Queen Elizabeth II Arts Council of New Zealand: Research Studies No. 1*, Wellington: Department of Internal Affairs.

Neu, D., 1991. "Lets get critical", *CA Magazine*, November, pp. 45-48.

New Zealand Local Government, 1991a. "Art for employment's sake", *New Zealand Local Government*, Vol. 27, No. 3, pp. 11-13.

New Zealand Local Government 1991b. "Facing the future", *New Zealand Local Government*, Vol. 27, No. 6, pp. 14, 15, 23, 31, 35.

New Zealand Society of Accountants, 1987. *Statement of Public Sector Accounting Concepts*, Wellington: NZSA.

————————————, 1991. *A Proposed Framework for Financial Reporting in New Zealand*, Wellington: NZSA.

Novitz, D., 1989. "Ways of artmaking: the high and the popular in art", *British Journal of Aesthetics* , Vol. 29, No. 3, Summer, pp. 213-229.

————, 1990. " Art, life and reality", *British Journal of Aesthetics* , Vol. 30, No. 4, October. pp. 301-310

Nozick, R., 1985. "Panel Discussion: Art as a Public Good", *Columbia Journal of Art and the Law,* Vol. 9, pp. 143-178.

O'Grady, S., 1986. "Accounting for the fringe", *The Australian Accountant*, December, pp. 13-15.

O'Hare, M. and A. L. Feld, 1984. "Indirect aid to the arts", in R. D. Lambert (ed), *Paying for Culture, The Annals of the American Academy of Political and Social Science,* Vol. 471, January.

Oettle, K., 1986. "The stages of development of public and charitable tasks with regard to connections with the financial accounting system", *Financial Accountability and Management*, Vol. 2, No. 4, Winter, pp. 235-249.

Pallot, J., 1991a. The legitimate concern with fairness: a comment, *Accounting Organizations and Society*, Vol. 16, No. 2, pp. 201-208

————, 1991b. "Financial management reform", in J. Boston, J. Martin, J. Pallot and P. Walsh (eds), *Reshaping the State: New Zealand's Bureaucratic Revolution*, Auckland: Oxford University Press.

———, 1991c. "Accounting, auditing and accountability", in J. Boston, J. Martin, J. Pallot and P. Walsh (eds), *Reshaping the State: New Zealand's Bureaucratic Revolution*, Auckland: Oxford University Press.

———., 1992. "Elements of a theoretical framework for public sector accounting" *Accounting, Auditing and Accountability Journal*, Vol. 5, No. 1, July, pp. 38-39.

Paton, W. A., 1922. *Accounting Theory*, reprint 1962, Chicago: A.S.P. Accounting Studies Press Ltd.

Patten, D. M., 1991. "Exposure, legitimacy, and social disclosure", *Journal of Accounting and Public Policy*, Vol. 10, No. 4, Winter, pp. 297-308.

Peacock, A. T., 1979. *The Economic Analysis of Government and Related Themes*, Oxford, England: Martin Robinson.

Peacock, A. T. and C. Godfrey, 1973. "Cultural accounting", *Social Trends*, No. 4, pp. 61-65.

Pekar, P. P. Jnr, 1982. "Setting goals in the non-profit environment", *Managerial Planning*, Vol. 30, No. 5, March/April, pp. 43-46.

Peterson, R. A., 1976. "The production of culture: a prolegomenon", in R.A. Peterson, (ed), *The Production of Culture*, California: Sage.

Phelps, E. S., 1975. "Introduction" in E. S. Phelps (ed), *Altruism, Morality and Economic Theory* , New York: Russell Sage Foundation.

Prebble, M., 1991. "Critical new elements in government thinking" in G. R. Hawke, (ed), *A Modest Safety Net? The Future of the Welfare State*, Wellington: The Institute of Policy Studies.

Preston, A. E., 1988. "The nonprofit firm: a potential solution to inherent market failures", *Economic Inquiry*, Vol. 26, No. 3, July, pp. 493-506.

Provost, L., 1992. "Reporting service performance", *Papers from the 1992 Public Service Convention*, Wellington: New Zealand Society of Accountants.

Putterill, M., 1982. "Financial management in local government and non-profit organisations: techniques and application", New Zealand Society of Accountants Continuing Education Seminar Paper S.155, November.

Queen Elizabeth II Arts Council of New Zealand, 1971. *Arts Conference 70*, Wellington.

———————————————, 1986a. "You and your sponsors", *The Arts Council in the Community, No. 9,* Wellington.

———————————————, 1986b. "Community Arts Workers: A Handbook", *The Arts Council in the Community, No. 10,* Wellington.

———————————————, 1992. *Annual Report.*

Roberts, J., 1991, "The possibilities of accountability", *Accounting Organizations and Society*, Vol. 16, No. 4, pp. 355-368.

Robinson, J., 1990. *Excess Capital*, Martinborough: Technology Monitoring Associates.

Rodgers, P., 1989. *The Work of Art*, London: Policy Studies Institute.

Rowles, T., 1991. "Accounting for infrastructure and heritage assets", *Charter*, July, pp. 48-53.

Rubenstein, D. B., 1992. "Bridging the gap between green accounting and black ink", *Accounting Organizations and Society*, Vol. 17, No. 5, pp. 501-508.

Sacks, A., 1985. "Angels can have fun—even if risk may bedevil them", *Accountancy*, November, pp. 71-74.

Sax, J. L., 1990. "Heritage preservation as a public duty: the Abbé Grégoire and the origins of an idea", *Michigan Law Review*, Vol. 88, April, pp.1142-1169.

Schick, A, 1992. "Achieving good performance through effective budgeting", *Papers from the 1992 Public Service Convention,* Wellington: New Zealand Society of Accountants.

Schlesinger, P., 1986. "In search of the intellectuals: some comments on recent theory", in R. Collins, J. Curran, N. Garnham, P. Scannell, P. Schlesinger and C. Sparks (eds), *Media, Culture and Society: A Critical Reader*, London: Sage.

Scott, D. R., 1931. *The Cultural Significance of Accounts,* reprint 1973, Houston Texas: Scholars Book Co.

Seibel, W. and H. K. Anheier, 1990. "Sociological and political science approaches to the third sector", in Anheier, H.K. and W. Seibel, *The Third Sector: Comparative Studies of Nonprofit Organizations*, Berlin: Walter de Gruyter.

Shannon, P. 1991. *Social Policy*, Auckland: Oxford University Press.

Shrum, W., 1991. "Critics and publics: cultural mediation in highbrow and popular performing arts", *American Journal of Sociology*, Vol. 97, No. 2, September, pp. 347-375.

Simon, J. G., 1990. "Modern welfare state policy toward the nonprofit sector: some efficiency-equity dilemmas" in Anheier, H.K. and W. Seibel, *The Third Sector: Comparative Studies of Nonprofit Organizations*, Berlin: Walter de Gruyter.

Smith, P., 1991, "Corporate financing of kiwi films 'dead'", *National Business Review*, Monday, Mar 4.

Smyth, B. W., 1973. "The role of culture in leisure time in New Zealand", *Studies and Documents on Cultural Policies*, Paris: UNESCO.

Sparshott, F., 1982. *The Theory of the Arts*, New Jersey: Princeton University Press.

Spring, J., 1991. "Museums 1990: art museums, museums and public galleries in Australia and New Zealand", *Research paper No. 6,* Redfern: Australia Council for the Arts.

————, 1992. "Museums 1991: art museums, museums and public galleries in Australia and New Zealand", *Research paper No. 7,* Redfern: Australia Council for the Arts.

Sprouse, R. T., and M Moonitz, 1962. *A Tentative Set of Broad Accounting Principles for Business Enterprises*, Accounting Research Study No. 3, New York: American Institute of Certified Public Accountants.

Stafford, A.J. and Associates, 1991. "A survey of visitors to public and commercial art galleries and museums in New Zealand", unpublished survey report.

Stecker, R., 1990. "The boundaries of art", *British Journal of Aesthetics*, Vol. 30, No. 3, July, pp. 266-272.

Steele, J., 1991. "Information for citizens", *Policy Studies*, Vol. 12, No. 3, Autumn, pp. 47-55.

Sterling, R. R., 1990, "Positive accounting: an assessment", *Abacus*, Vol. 26, No. 2., pp. 97-135.

Tanner, M., 1985, "Accounting for art", *Outlook*, Spring, pp. 14-53.

Task Force On Economic and Social Planning, 1976. *New Zealand at the Turning Point*, Wellington.

Taylor, A., 1991. "The masters of art investment", *NBR Weekly Magazine*, February, 22, pp. 12-17.

Taylor, R. L., 1978. *Art, the Enemy of the People*, Hassocks, Sussex: Harvester Press.

Thompson, M., 1979. *Rubbish Theory*, Oxford: Oxford University Press.

Thomson, D., 1991. *Selfish Generations*, Wellington: Bridget Williams Books Ltd.

Thomson, K. W., 1981. *Art Galleries and Museums in New Zealand*, Wellington: A.H. and A.W. Reed Ltd.

——————, 1991. *A Guide to Art Galleries and Museums in New Zealand*, Auckland: Reed Books.

Tinker, A. M., B. D. Merino and M. D. Neimark, 1982. "The normative origins of positive theories: ideology and accounting thought", *Accounting, Organizations and Society*, Vol. 7, No. 2, pp. 167-200.

Tonks, J., 1986. *The New Zealand Symphony Orchestra: the First Forty Years*, Auckland: Reed Methuen Publishers Ltd.

Topp, N., 1991. "Kunowski plays a different tune", *The Christchurch Press*, Wednesday, April 10, p.21.

Tripp, R. T., 1976. *The International Thesaurus of Quotations*, Harmondsworth, Middlesex: Penguin.

Turnovsky, F., 1990. *Turnovsky: Fifty Years In New Zealand*, Wellington: Allen and Unwin New Zealand Ltd.

Wallace, C., 1992. "Conveying good performance: meeting public information needs", 1992 Public Service Convention Papers: "The Public Sector Challenge: Defining, Delivering and Reporting Performance", Wellington: New Zealand Society of Accountants.

Watson, C., 1988. "New Zealand feature films: their state and status", *New Zealand Sociology*, Vol. 3, No. 2, November, pp. 79-96.

Watts, R. L. and J. L. Zimmerman, 1979. "The demand for and supply of accounting theories: the market for excuses", in , Ed Bloom, R. and P. T. Elgers, 1987. *Accounting Theory and Policy: A Reader*, Orlando: Harcourt, Brace, Jovanovich.

Weiniger, P. and L. Rabinowicz., 1984. "The success of Australian films", *The Australian Accountant*, October, pp. 722-724.

Weisbrod, B. A., 1988. *The Nonprofit Economy*, Cambridge Massachusetts: Harvard University Press.

West, E. G., 1987. "Nonprofit versus profit firms in the performing arts", *Journal of Cultural Economics*, Vol. 11, No. 2, December, pp. 37-46.

————, 1988. "Government grants to nonprofit firms: still searching for the rationale", *Journal of Cultural Economics*, Vol. 12, No. 2, December, pp. 93-96.

Whitfield, E., 1990, "And now a word from our sponsors", *CA Magazine*, December, pp. 18-25.

Witcher, B. and J. G. Craigen, D. Culligan and A. Harvey, 1991. "The links between objectives and function in organizational sponsorship", *International Journal of Advertising*, Vol. 10, No. 1, pp. 13-33.

Wolf, M., 1991. "Financial crisis hits British theatre", *The Christchurch Press*, Saturday, March 27.

Wolk, H. I., J. R. Francis and M. G. Tearney, 1984. *Accounting Theory: A Conceptual and Institutional Approach*, Boston, Massachusetts: Kent Publishing Company.

Yarwood, V., 1987. "Corporate sponsorship: the gentle face of business", *Management*, March, pp. 28,31,35,37,41.

Yeo, D., 1987. "Towards an anatomy of fundraising", *Accountancy*, Vol. 100, December, p.83.

Young, C., 1992. "Turning to the arts", *Marketing*, February, pp. 47-50.