SEVENTH ANNUAL CONFERENCE
LOOKED AT PERFORMANCE MEASUREMENT
AND HOW TO MAKE IT WORK

Last October the Centre held what was perhaps its most successful conference. A panel of excellent speakers, a topic of current interest and an attendance of over 200 professional accountants, academicians and manager all contributed to the success of the conference.

The conference, on the topic of making performance measurement work, was opened by welcoming remarks from Jeannine Brooks, FCFA, executive vice-president of CGA Ontario. The keynote speaker was The Honourable Alfonso Gagliano, Federal Minister of Public Works and Government Services. He stressed the need for a recognition of the principles of accountability and value for money in government. Improved financial and performance reporting is the aim of the Expenditure Management System being implemented in Government. As part of this, accrual accounting and indicators of performance are being implemented to provide for better management, control and reporting.

Dr. Noël Hyndman, of the University of Ulster, Ireland, discussed the implementation of performance measurement in the government of the United Kingdom. By September 1999, there were 138 agencies on a financial management initiative requiring organizational performance measurement. These agencies, operating like small businesses, are required to submit 5-year corporate and 1-year business plans. Performance measures and their associated targets provide information that is both activity-oriented and quality-oriented. Senior public service managers operating with this system, felt that they have more freedom and control of their activities.

The next two presentations related to the application of performance measurement in the private sector. It is interesting and instructive that one approach focuses on external reporting while the other focuses on internal management planning and control.

Dr. Ralph Estes, Director, Centre for Advancement of Public Policy, Washington, D.C., gave a presentation on the "Sunshine Standards." These are simple disclosure standards that are aimed at providing information relevant to the needs of the major stakeholders in a corporation. Financial disclosure standards serve the needs of the financial investor. Corporate reporting, however, should provide the information needed by stakeholders such as employees, the community, society and customers so that they may make rational and informed decisions in the marketplace and protect themselves from the negative consequences of opportunistic action.

Mr. Michael P. Park, VP, Bell Canada, presented a case of performance measurement for internal management planning and control. His remarks focused on a "Balanced Score Card" system being used by Bell Canada. This internal management system is designed to focus on a number of key value initiatives that can be directly linked to the major strategic and integrated themes of the organization. The system provides measures of customer satisfaction, internal processes, financial data and information as to learning and growth.

Guests at the Conference include (left to right) Dr. Peter Ryan, chair, department of accounting and finance, Carole Workman, vice-rector resource, of the University of Ottawa, the Honourable Alfonso Gagliano, Daniel Zeghal, Executive Director, CGA-ARC, and Milt Mazuren, Director of educational and professional programs, CGA Ontario.

(Continued on page 2)
Some millennium thoughts from the pens of Daniel Zeghal, Director, and Paul Faulkner, Editor

In the millennium just ending, the accounting profession has had to face many challenges. In fact, the profession has had to evolve from an ill-organized, undisciplined and individualistic approach to the keeping of certain fiduciary records to the organized and disciplined approach to financial and managerial accounting that we have today.

That development has been, at times, rather slow and generally reactive. Nonetheless, the profession has met most of the challenges facing it. Financial accounting and reporting, managerial accounting and the attest function have all reached a state of professionalism in which the accounting profession can take justifiable pride.

But as we look at the next millennium, we see more changes. Changes of all kinds—technological, educational, demographic, governmental, professional, societal and many others—are having a significant impact on all of us.

All sectors of the accounting profession currently have to deal with challenges arising in one or more of these areas of change. In most of these cases, there is a pressing need for action to be taken. To serve better the business, investing and government communities, as well as the other stakeholders, the action by the profession should be proactive rather than just reactive. The accounting profession must actively participate and cooperate in the process of developing new knowledge to give guidance to its members and to help solve the problems faced by the profession.

The following are some of the challenging areas where there is an urgent need for new knowledge:

- intellectual capital;
- corporate governance and control;
- performance indicators;
- assurance services;
- information disclosure on the web;
- electronic money and electronic commerce;
- public sector accounting and accountability; and
- environmental accounting, reporting and auditing.

As the profession continues to take up positions on all of these issues, it is important that this Accounting Research Centre not only keep abreast of these developments and report them to our readers, but also give it an equal voice that the Centre contribute, through its research projects, to the understanding and resolution of the issues. It is clear that when and where there is change, there is a challenge. In order to respond to change and meet the challenges, knowledge is needed. A role for the Research Centre is to add to this body of knowledge and to communicate this new knowledge to you.
RESEARCH ABSTRACTS


Auditors’ reports are important in the international environment. Readability, one of the major characteristics of the auditor’s report, is important to a variety of users both at the national and international levels. This study examines a random sample of 50 auditors’ reports from 9 countries, classifying these countries into the Anglo American Model and the Continental Model. The objective of the research was to test whether there are differences in the readability of the auditor’s reports among countries with respect to the readability of the auditor’s reports using the Flesch Reading Ease Method and the Gunning Fog Index Method. The results show that the level of readability of the auditor’s report is rather low in all 9 countries. Although the auditor’s reports of the countries under the Anglo American Model present a level of difficulty lower than the reports of the Continental Model, the level of difficulty is quite high whether the Flesch Reading Ease Method or the Gunning Fog Index is applied.


Prior research has addressed dividend policies within different frameworks (e.g., stock price behaviour, taxation, agency costs, information content, and signalling) with an emphasis on shareholders and managers behaviour. This study attempts to analyze managers’ views on dividend policies using data that were collected from 116 firms through questionnaires. The results indicate that dividend decisions are consistent with the dividend literature and that a majority of factors shaping dividend policies are specific to the firm’s (e.g., firm’s past and expected profitability and its shareholder preferences regarding dividends). In addition, there were no statistically significant differences between different dividend patterns (namely increased or decreased dividends).


The measurement of a firm’s performance is a crucial issue for many of its stakeholders: shareholders, directors, managers and creditors. In addition, the effectiveness of management systems (performance evaluation, compensation strategy implementation) as well as the efficiency of value creation depends on the selection of an appropriate performance metric. This study purports to compile the ability of five performance metrics to capture value and value creation. These measures are net earnings, operating earnings, cash flows from operations, median income and value added. Since country-specific standards and regulations influence the computation of performance metrics, the sample comprises firms from four countries: the United States, Canada, France and Switzerland.

Results suggest that the value relevance of a performance metric as well as its predictive ability depends on a country’s financial measurement and reporting environments. A financial reporting environment that is investor focused and less restrictive, enhances the power of performance metrics to explain a firm’s value or financial prospects. In contrast, a national accounts focus and a more restrictive reporting environment reduces the explanatory power of performance metrics.


In an increasingly global knowledge-based economies, a firm’s competitive advantage is more and more determined by characteristics not traditionally captured in balance sheets such as patents and innovation, skilled workforce, company culture, alliances and partnerships, distribution and logistics, software and information systems. The objective of this pilot study is the identification of the non-traditional assets reported by high-technology companies to their shareholders in their annual reports, and the measure of their relative importance. A textual analysis of President’s Letters and of Review of Operations of 35, 1994-1995 annual reports showed that technology and human resources are the two non traditional assets most frequently listed by high-technology managers, followed by partnerships and customers. Values and strategies come next, before markets and quality. These results are consistent with the recent published literature, but sample size and classification issues limit their external validity. These points will be addressed in the planned full size study.

ANNUAL REPORTS ON CD-ROM

The Centre continues to expand its electronic data base of Annual Reports. Reports on CD-ROM for the following countries are available for the years 1995 and 1996.

<table>
<thead>
<tr>
<th>Country</th>
<th>1995</th>
<th>1996</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canada</td>
<td>142</td>
<td></td>
</tr>
<tr>
<td>United States</td>
<td>306</td>
<td></td>
</tr>
<tr>
<td>Germany</td>
<td>69</td>
<td>50</td>
</tr>
<tr>
<td>France</td>
<td>80</td>
<td>36</td>
</tr>
<tr>
<td>Switzerland</td>
<td>90</td>
<td>118</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>403</td>
<td></td>
</tr>
<tr>
<td>Australia</td>
<td>145</td>
<td>56</td>
</tr>
<tr>
<td>New Zealand</td>
<td>39</td>
<td>40</td>
</tr>
<tr>
<td>Italy</td>
<td>81</td>
<td></td>
</tr>
</tbody>
</table>
Publications


Distinguished speaker series
The Accounting Research Centre sponsored three presentations by distinguished speakers:
2. "Disentangling the Association Between Social Performance and Quality Disclosure: The Care of Environmental Disclosures", by Dr. Hussein Warsame, Concordia University, March 26, 1999.
3. "Corporate Governance Disclosures in the Annual Reports of TSE 300 Firms", by Dr. Merideth Bujaki, University of Ottawa, and Dr. Bruce McConomy, Carleton University, April 16, 1999.

NEWSLETTER

This is the seventh of a series of Newsletters to be published by the CGA - ARC. The objective of the Newsletter is to keep the academic and accounting community and other interested persons aware of the activities of the Centre. To know more about the CGA ARC you are invited to visit our website at the following address: www.cga-arc.admin.ouestawa.ca

Any communications with the ARC can be send by E-mail, phone, mail or fax to:
Daniel Zeghal, Ph.D., CGA
Executive Director
CGA Accounting Research Centre
Faculty of Administration
University of Ottawa
Ottawa, Ontario K1N 6NS

Telephone: (613) 562-5805 ext. 4769
Fax: (613) 562-5164
Email: zeghal@admin.ouestawa.ca

New appointment to advisory board
On November 28, 1998, the Board of Governors of CGA Ontario, confirmed the appointment of Ms. Vivien Kaye, CGA, to serve as a member of the Advisory Board of the CGA Accounting Research Centre at the University of Ottawa until June 2001.