

NEWSLETTER

CGA Accounting Research Centre • Faculty of Administration • University of Ottawa

VOL.1 NO.4
FALL 1996

FOURTH ANNUAL CONFERENCE LOOKS AT THE FUTURE OF FINANCIAL STATEMENTS

CONTENTS

PAGE 2

Research
Abstracts

PAGE 3

Publications
Distinguished
Speaker Series

Directors meets
CGAO Board

PAGE 4

Recent
Acquisitions

Over 260 professionals attended the fourth annual conference of the CGA Accounting Research Centre at the University of Ottawa. The conference took place on 16 November, 1995, and had as its theme "Financial Statements: Do They Have a Future?". Generally, the panel of eminent speakers felt that indeed financial statements did have a future, but with some modifications.

The guest speakers at the conference were: Robert I.G. McClean, Executive Director, the International Federation of Institutes for Advanced Studies; Jerry I. Weygandt, Professor of Accounting at the University of Wisconsin at Madison, and President of the American Accounting Association; Dan Thornton, Professor of Accounting at Queen's University, and President of the Canadian Academic Accounting Association; Nabil Elias, Professor of Accounting at the University of Manitoba and Past President of the Canadian

Academic Accounting Association; and Anthony T. Cope, Member of the Board, Financial Accounting Standards Board. The moderator was Bill Skelly, CGA.

All the speakers agreed that financial statements, in order to continue to be useful, would have to react to the demands and pressures of a well-informed and international business community. Extended business reporting will likely be the major demand based on financial statements presentations. Information presented in annual reports will be both financial and non-financial and also will be both historical and future-oriented. Globalization of securities markets and tougher international competition will create a greater drive for the harmonization of GAAP. In the post-industrial area, knowledge will become a critical asset and the valuation of intellectual capital a real requirement. Environmental concerns will create the need for environmental reporting standards.

FIFTH ANNUAL CONFERENCE (Forthcoming) – "PUBLIC SECTOR ACCOUNTING: SHIFTING THE FOCUS TO RESULTS"

The conference will be held on the morning of Thursday, October 24, 1996, in the Fountain Room of the National Arts Centre.

In these times of government deficits and debt and fiscal restraints, Canadians need information about the overall financial status of their government and about how effectively the major components of these governments are performing. This requires a shift in the focus of public sector accounting to reporting on results.

This conference examines the innovative reforms undertaken by the Canadian federal government and by the government of the Province of Alberta.

The speakers at the conference will be L. Denis Desautels, FCA, Auditor General of Canada; Peter Harder, Secretary of the Treasury Board and Comptroller General of Canada; Jim Peters, CA, Comptroller, Alberta Treasury, Province of Alberta; John Kelly, FCA, Director, Public Sector Accounting and Auditing Board, CICA; and Gilles Paquet, Professor of Public Policy and Economics, University of Ottawa. Dave Rattray, FCGA, FCIS, Assistant Auditor General of Canada will be the moderator. A formal announcement of the conference is being distributed.

The ARC is located
in Vanier Building
Room 351G.



RESEARCH ABSTRACTS

1 "Canadian Business Failures: Explanatory Factors" by Professors Fodil Adjaoud and Daniel Zeghal, *Gestion*, March 1996.

Following the interest in the causes of business failures, the authors, in this study, attempted to find the causes of financial distress in a sample of 123 Canadian businesses of which 70 went on to declare bankruptcy, 18 sought protection under the Bankruptcy Act, and 35 undertook major reorganization.

The approach followed by this study is different in that it attempts to establish a link between business failure and the managerial decisions made within the firm. The authors proceeded in two stages. First, based on a content analysis of newspaper articles that reported bankruptcies, they assigned the cause of failure to one of the following categories: clientele, debt, cost of production, and other. Their findings show that debt was the main cause of bankruptcies, while a drop in clientele or a failed expansion occupied second place. Cost of production acted as the impetus behind major reorganizations. Next, the authors categorized causes along the line of inadequate strategic or operational management, in order to better identify managerial responsibility on the bankruptcy process. The results seem to show that business failure may be attributable to weaknesses in strategic management, or what other authors have called "bad management".

One of the major conclusions of this study is that managers must pay particular attention to strategic issues if they wish to maintain the health of their businesses and to avoid crises in an environment increasingly marked by uncertainty and change.

2 "A Note on the Temporal Variability of Canadian financial Services Stock Returns", by Fodil Adjaoud and Abdul Rahman, *Journal of Banking and Finance*, 20 (1996), pp. 165-177.

This paper shows that Financial Services stock returns in Canada are covariance nonstationary with respect to any benchmark variable and vary negatively with interest rate levels. The paper finds that the conditional correlation between financial services stock returns and the market returns varies directly and monotonically with market volatility. This result is robust to monetary regime shifts and other sources of high volatility. These findings combined with those of Kane and Unal (1988) for the U.S., cast considerable doubt on the constant coefficient Two-Index Model and its variants, to provide reliable estimates of usual risk measures.

3 "Timeliness of Annual Reports: An International Comparison", by Lucie Courteau and Daniel Zeghal presented at the 19th Annual Congress of the European Accounting Association, Norway, May 1996.

This study investigates the determinants of reporting delay for 3,618 firms from eight countries: Australia, Canada,

France, Germany, Italy, Japan, The United Kingdom and the United States. Previous studies have considered only firms from one country at a time (Australia, New Zealand, The U.S., Canada) but the authors are not aware of a study making an international comparison. Such comparison may be useful as investing is getting global as financial markets integrate. Differences in disclosure behaviour across countries are often considered as obstacles to such integration. An investigation of some of these differences may help to understand them.

By comparing mean reporting delay - the lag between fiscal year end and the date at which annual reports become publicly available - the authors find significant differences across countries. These differences may be explained by some firm-specific factors that have been identified in previous studies and by "national factors" that affect all firms of a country. Firm-specific factors such as firm size, size of auditor, and industry are found to be significant in some countries and not in others. In regression analyses for each country, regression coefficients are found to be significantly different across countries for industry factors but not for firm size or auditor effects.

4 "International Audit Market Concentration: An Empirical Investigation", by Mun Soo Choi and Daniel Zeghal presented at the 19th Annual Congress of the European Accounting Association, Norway, May 1996.

This paper examines the effects of two mega-mergers of the Big 8 firms on accounting market concentration in 11 countries and also the relationship between the market shares of the accounting firms in the 11 countries and their marketing activities. The results show that the mergers resulted in increased concentration ratios at the four, six and eight firm levels in most countries. The post-merger Herfindahl indices for France, Italy, Spain, Switzerland, and the U.S. indicate that the mergers raised the competitive structure for the accounting markets and resulted in the fairly balanced market share among the top firms. These findings may result from the fact that the six relatively large and two relatively small firms (the big 8) become six relatively large firms (the big 6) with approximately equal market shares. The post-merger Herfindahl indices for Canada, Denmark, Germany, Sweden and the U.K. moved farther away from the base levels (1/n). This indicates that there has been a greater dispersion of market shares among the four, six and eight largest firms in these countries since the mergers. A further study of concentration measures indicates that in any case, the Big 6 firms have been dominating, or moving toward dominating, the market for accounting services since the Big 8 mergers. The results of cross-rational regression analyses indicate that there is a significant relationship between the market share of accounting firms and their marketing activity variables such as the number of partners and the number of professional staff.

DISTINGUISHED SPEAKER SERIES

The Accounting Research Centre sponsored a number of presentations by distinguished speakers:

- Professor W.R. Scott of University of Waterloo, on "**Auditor Liability and Current Investor's Welfare**".
- Professor Mun Soo Choi of Soongsill, Korea, on "**Estimating the Elasticity of Debt**".
- Professor Susan Llewellyn of University of Edinburgh, on "**The Impact of Fundholding on Primary Health Care**".
- Dr. Suzanne Paquette of Laval University, on "**Tax Practitioners Serving Two Masters: A Game-Theoretic Analysis**".
- Professor Rajiv M. Dewan of University of Rochester, on "**Strategic Choices in IS Infrastructure: Corporate Standards versus 'Best of Breed' Systems**".
- Dr. Maria Barrados, Assistant Auditor General, on "**Finding Value Beyond Dollar**".
- Professor Ieuan Morgan of Queen's University, on "**Limit Moves as Censored Observations in an Equilibrium Price as GARCH Processes**".
- Professor Jean-Claude Cosset of Laval University, on "**La performance des entreprises nouvellement privatisées - le cas des pays en développement**".
- Dr. Bruce McConomy of Carleton University, on "**The Effect of Audit on Published Forecast**".

PUBLICATIONS

"**A Note on the Temporal Variability of Canadian Financial Services Stock Returns**", by Fodil Adjaoud and Abdul Rahman. *Journal of Banking and Finance*, (Vol. 20, No. 1), 1996, pp. 165-177.

"**Canadian Business Failures: Explanatory Factors**", by F. Adjaoud and D. Zeghal, *Gestion*, Mars, 1996, pp. 38-41.

"**Financial Statements: Do They Have a Future?**", by Paul Faulkner and Daniel Zeghal in *Statements*, February/March, 1996, pp. 7-8.

"**Le rôle du contrôle de gestion dans la régie moderne des organisations**", by Daniel Zeghal, *Working Paper 95-91*.

DIRECTOR MEETS CGAO BOARD

On 11 May 1996, the Director of the CGA-ARC, Professor Daniel Zeghal, CGA, made a presentation to the CGAO Board of Governors. The presentation covered the formation, role, organization, activities and achievements of the ARC from its founding in 1992 to the present.

AT THE CONFERENCE



The speakers at the conference, left to right: Dan Thornton, Robert McLean, Bill Skelly, Jerry Weygandt and Nabil Elias.



Left to right: Daniel Zeghal, Director of the CGA-ARC and Paul Faulkner, Editor of the ARC Newsletter.

RECENT ACQUISITIONS

From the Centre for International Financial Analysis and Research Inc., the ARC has obtained two publications:

- Global Register of the Leading International Accounting Firms, and
- International Accounting and Auditing Trends.

The ARC has also acquired two software packages:

- from Laval University, a data bank on stocks, and
- from Stock Guide Publications Inc., a package providing a fundamental analysis of securities of companies listed with the Toronto and Montreal Stock Exchanges.

NEWSLETTER

This is the fourth 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.

Any communications
with the ARC
can be sent by mail or fax to:

Daniel Zeghal, Ph.D., CGA
Executive Director
CGA-Accounting Research Centre
Faculty of Administration
University of Ottawa
Ottawa, Ontario **K1N 6N5**

Telephone: (613) 562-5800
ext. 4769

Fax: (613) 562-5164

E-Mail:
zeghal@admin.uottawa.ca