

NEWSLETTER

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

**VOL.2 NO.2
SPRING 1998**

CONTENT

PAGE 2

**Upcoming Conference
Will Look at the
Challenges of
Managing by
Performances**

Publications

PAGE 3

Research Abstracts

PAGE 4

**Executive Director's
Activities**

**Annual Reports on
CD-ROM**

**Distinguished
Speaker Series**

LAST YEAR'S CONFERENCE ASSESSED FAIRNESS OF THE TAX SYSTEM

The Sixth Annual Conference of the Centre discussed the ability of the Canadian tax system to meet the challenges facing the system. These challenges included the need to address issues such as:

- a tax system based on income and sales taxes may not make much sense in future years, when more income will be generated by technology and capital;
- the need for Canada to harmonize its tax systems with those of major competing nations in response to the globalization of financial and product markets;
- the determination of residency status for tax purposes of corporations engaging in electronic commerce; and
- the continued appropriateness of tax incentives for investments in tangible assets in an increasingly knowledge-based economy.

The first of the speakers at the Conference, Allan Maslove, Dean, School of Public Administration, Carleton University, presented the public policy perspective of the taxing system. He stated that the design of any good tax system should aim at being predictable, efficient and equitable.

To these ends tax reform in the mid-1980s focused on efficiency because of the impacts of

global markets and the attendant mobility of capital.

Public perceptions about the tax system are very important in formulative tax strategy. As if to demonstrate this, Professor Maslove suggested that the next tax reform agenda would aim at equity. That this is a desirability was stressed by the next speaker, Walter Robinson, Federal Director of the Canadian Tax Payers' Federation.

As the representative of an organization made up of some 55,000 tax payers he stressed the need for surveillance of, and consent to, the tax system. While stressing the need for fairness in taxation, he also stated that the major issue in any future tax policy reform is the need for government to reduce its appetite. Expenditure reform must come before tax reform.

John Sargent, Executive Director, Technical Committee on Business Taxation, Department of Finance, Canada, presented a briefing on some of the preliminary work done by his committee. That committee's objective is to assess the tax system with a view to making it simpler and fairer.

In assessing the tax system, their study is looking at all taxes paid by business. The mix of taxes paid by business. The mix of taxes includes those on income, payroll, capital and insurance premiums and property taxes. One feature of this mix of taxes is that some of them have counterparts or are linked to specific government programs e.g. benefit-related taxes such as CPP. Other taxes, such as capital taxes are not so linked but must still be harmonized as between federal and provincial governments.

Finally, Paul Setlakwe, Partner, Stikeman-Elliott, presented his comments on the international developments in taxation. To achieve his aim he centred his discussion on a comparison of the tax results in Canada with those in other countries for particular investment and business situations.



Distinguished speakers at the Sixth Conference, left to right: Kathryn Pedwell, John H. Sargent, Walter Robinson and Allan M. Maslove.

**The ARC is located
in Vanier Building
Room 351G.**



(Continued on page 4)

UPCOMING CONFERENCE WILL LOOK AT THE CHALLENGES OF MANAGING BY PERFORMANCES

The Seventh Annual Conference of the CGA-ARC will be held in the Parcorama Room of the National Arts Centre at 8:00 a.m., 22 October, 1998.

In today's complex environment, organizations find that they can no longer operate effectively with an exclusive focus on financial results. Other indicators of performance are now being required to adequately evaluate organizational performance.

This conference will examine the emergence of supplemental performance measures from a variety of perspectives. Both conceptual as well as pragmatic issues will be looked at. The development, implementation, employment and assessment of these new evaluation tools will be examined.

Topics to be addressed at the Conference include: how

Publications

"The Philosophy of Just-In-Time: A Zero Tolerance for Inventory - An Analysis and Review" by Michael Maingot and Ron Eden, *Working Paper 97-54*, December 1997.

"Human Resources Information Disclosure in Annual Reports: An International Comparison", by A.V. Subbarao and Daniel Zeghal, *Journal of Human Resource Costing and Accounting*, Volume 2, Number 2, Autumn 1997, pp. 53-73.

"Analysing the Cost Structures of UK/Canadian Hospitals", Research Report of the Chartered Institute of Management Accounting (CIMA), by Sue Llewellyn, Douglas Patron, Ron Eden and Colin Lay, 1998 Forthcoming.

"Management Views on Dividend Policy ...", by Daniel Zeghal and Fodil Adjaoud, *International Review of Accounting*, Volume 3, 1998, Forthcoming.

performance indicators can help your organization achieve its objectives; what criteria to use in selecting performance indicators or how to develop effective performance indicators; how and where to report the results of supplemental performance measures; how to evaluate results or trends in performance; and how to incorporate the use of performance indicators in managerial decision-making, policy formulation and organizational governance.

The speakers for the conference will be: Dr. John Waterhouse, Dean, School of Business, Simon Fraser University; Dr. Noel Hyndman, Professor of Accounting, The University of Ulster Ireland; David Rattray, FCGA, Assistant Auditor General, Auditor General of Canada; Michael R. Park, Vice President, Bell Canada. The keynote speaker will be the minister of Public Works and Governmental Services, the Honourable Alfonso Gagliano.

"The Public Sector Challenge: Shifting the Focus to Results", by Daniel Zeghal, in *Public Sector Accounting: Shifting the Focus to Results*, CGA-Canada, 2nd Edition, 1998.

"Is the Canadian Tax System Up To Its Challenges?", by Daniel Zeghal Editor, CGA-Canada, 1998.

"Public Sector Accounting: Shifting the Focus to Results", by Daniel Zeghal Editor, 2nd edition, 1998, CGA-Canada.

"An Examination of The Length and Organization of The Auditor's Report - An International Comparison", by Daniel Zeghal, Michael Maingot and Marc Tassé, Presented at the *Irish Accounting & Finance Association*, April 1998.

"Is Our Tax System Up To Its Challenges?", by Daniel Zeghal and Paul Faulkner, *Statement*, pp. 4-5, December-January 1997/1998.

"Activity-Based Costing: A Tool to Discover", by Fodil Adjaoud, *Optimum, The Journal of public sector management*, Volume 27, Number 3, pp. 39-43.

"La comptabilité par activités: Un outil à découvrir", by Fodil Adjaoud, *Optimum, Revue de gestion du secteur public*, Volume 27, Number 23, pp. 46-51.

"Le défi de l'administration publique: mettre le cap sur les résultats", by Daniel Zeghal, *Document de travail 97-36, Octobre 1997*.

"Communications in Annual Reports: An International Comparison", by David McPeak and Daniel Zeghal, Research Study Number 2, *Certified General Accountants' Association of Canada*, 1997, 228 pages.

"EDI Technology: Auditing Issues and Implications", by Michael Maingot, *Accountancy Ireland*, Volume 29, Number 4, August 1997.

(Continued on page 4)



Bill Skelly, CGA, member of Advisory Committee chatting with interested guests at the Annual Conference.

RESEARCH ABSTRACTS

1 "Communications in Annual Reports: An International Comparison" by David McPeak and Daniel Zeghal, 1998, 228 pages.

The authors examined the harmonization of information in corporate annual reports from major industrialized countries by reviewing the reporting practices of 344 companies from nine countries (United States, Canada, United Kingdom, Germany, France, Japan, Korea, New Zealand and Australia). The examination covered over 55 items in the following categories of information; form and presentation, corporate profile, review of operations, financial analysis, and supplementary information. An electronic executive summary of this research is available at the following address: http://www.cga_canada.org/cga_private/ciar/index.htm

2 "Analysing the Cost Structure of UK/Canadian Hospitals" by Sue Llewellyn, Douglas Patron, Ron Eden and Colin Lay.

There is an international concern to control the rate of growth in health care expenditures while still delivering good health care. In absolute terms, spending on health care in the UK (at just six percent of GDP) is still less than half that of the U.S., with Canada occupying an intermediate position at about 8.8 percent. However, the rate of growth in expenditure on health care is the same in all three countries at about eight percent per year.

Control over the rate of growth in health care costs while maintaining or improving service provision care only come from improvement over the way health care resources are allocated and managed. In turn, improving the financial management of health care depends upon knowledge of current resource allocation patterns and an awareness of the possibilities for change in these allocations. In this respect, trans-national comparisons in resource allocation patterns are particularly valuable. This study is designed to contribute to knowledge of international patterns in resource allocation and management in the following ways:

- i By establishing a common basis for comparing the cost structures of the British and Canadian health care systems;
- ii By exploring the nature of the incentives inherent in these systems; incentives which may explain differential cost patterns.
- iii By making a comparison between the British and Canadian systems on a basic resource allocation characteristic - the proportionate resource allocated between direct and indirect costs. Specifically, based on the differing incentives in the systems, the study tested the hypothesis that on a cost per care comparison between the same specialisms in hospitals in Canada and the UK (where the hospitals are comparable in terms of function and size) the proportion of direct (as compared to indirect) cost in the Canadian hospitals will be higher.

3 "An Examination of the Length and Organization of the Auditor's Report - An International Comparison". by Daniel Zeghal, Michael Maingot and Marc Tassé.

The research on the length and organization of the Auditor's Report is based on a random selection of ten reports for each of the following countries; Australia, Belgium, Canada, France, Germany, Italy, Japan, United Kingdom and United States.

The results show an average of 1.06 pages, 4.06 paragraphs, 1.0 introductory paragraph, 1.40 paragraphs of scope limitation, 0.91

paragraph expressing an opinion and 0.75 other type of paragraph. The German report is the shortest (1-2 paragraphs) while the Italian report is the longest (5-8 paragraphs). The order of presentation for all countries is: (a) Introductory paragraph; (b) Paragraph of scope limitation; (c) Paragraph expressing an opinion; (d) Other paragraph(s). Belgium is the exception to this order. Anglo-American reports are more uniform in terms of their organization compared with their Continental counterparts.

4 "Activity-based costing: a tool to discover", by Fodil Adjaoud.

With special operating agencies and other government departments operating on a cost recovery basis, an information system that allows managers to determine the cost of products and services more accurately has become essential to their success. Professor Adjaoud outlines the merits of activity-based costing and its corollary, activity-based management, and describes how they can help public sector managers with strategic decision making.

5 "Using Annual Report Data to Measure Market Orientation: A New Method and Comparison of International Firms", by Michael Guolla and Daniel Zeghal.

This study describes a method of using information contained in annual reports to assess the degree to which organizations are market oriented. The twelve market orientation variable coded from the annual reports are based on a synthesis of the Norver and Slater (1990) framework and the Kohli and Jaworski (1990) framework. The sample of annual reports spans two sectors; consumer goods and services, and electrical and electronics; and six countries; Australia, United Kingdom, Canada, Germany, Japan, and United States. In order to assess the feasibility of the annual report data, tests are conducted to determine if there are any sector or country differences in market orientation. The two hypotheses put forward are consistent with empirical tests conducted in the literature thus far. Results indicate that, (1) a higher level of market orientation in the electronics sector, as compared to the consumer sector, approaches a significant difference, and (2) Australia and United Kingdom have significantly lower levels of market orientation as compared to the other four countries. Post hoc analysis indicates that sector and regional differences clearly emerge in a 2x3 ANOVA.



Participants exchanging "tax tips" during the break at the Annual Conference.

Executive Director's Activities

Daniel Zeghal served on a CGA Canada Committee established to submit an Association's position paper to the Government of Canada on its "New Initiatives on Financial Information Strategy".

He also met the Board of CGA Ontario to report on this Centre's activities.

Annual Reports on CD-ROM

The Accounting Research Centre has a large number of 1995 Corporate Annual reports on CD ROM. They are as follows:

| | |
|---------------------------|-------------|
| Canada | 142 reports |
| United States | 206 reports |
| Germany | 69 reports |
| France | 80 reports |
| Switzerland | 90 reports |
| United Kingdom | 403 reports |
| Australia and New Zealand | 145 reports |
| Italy | 39 reports |
| Japan | 81 reports |

Continued from page 1

Last Year's Conference

The investment scenarios presented by Mr. Setlakwe illustrated the complexity of the rules respecting the international flow of investment. The tax treatment afforded subsidiary and parent company income and investment depends on a plethora of rules, precedents and agreements.

The moderator for the conference was Kathryn Pedwell, a professor at the Faculty of Administration, University of Ottawa.

Continued from page 2

Publications

"Electronic Data Interchange: A Discussion of the Technology", by Michael Maingot, *Accountancy Ireland*, Volume 29, Number 3, June 1997.

"The Effects of Three Market Orientation Constructs on ROA: A Test Using Annual Report Data and An Objective Performance Measure", by Michael Guolla and Daniel Zeghal, *Working Paper 97-34*, August 1997.

"Using Annual Report Data to Measure Market Orientation : A New Method and Comparison of International Firms", by Michael Guolla and Daniel Zeghal, *Working Paper 97-32*, August 1997.

"On the Price Reaction to Dividend Announcements by Interlisted Firms: Test of the Integration of Canadian and American Financial Markets", by Fodil Adjaoud and Komlan Sedzro, Presented at the *4th Annual Conference of the Multinational Finance Society*, Thessaloniki, Greece, June 25-29, 1997.

CITATION OF EXCELLENCE

Professors Fodil Adjaoud CGA, and Abdul Rahman of the University of Ottawa were cited with the "Highest Quality Rating" by ANBAR Electronic Intelligence. The Editorial Board of ANBAR awarded its citation of Excellence to these two researchers in recognition of the outstanding contribution to the literature and body of knowledge of their paper "A Note of the Temporal Variability of Canadian Financial Services Stock Returns". This paper was supported by the CGA-Research Centre.

Distinguished Speaker Series

The Accounting Research Centre sponsored two presentations by distinguished speakers:

- Margo Wade of Canberra University, Australia on "The Credibility of Performance Audit".
- Dr. Bill Rentz, chairman of the University of Ottawa Pension Fund Management Committee on "The University of Ottawa Pension Fund".

NEWSLETTER

This is the sixth 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 web site at the following address:

www.cgaarc.uottawa.ca

Any communications with the ARC can be sent by E-mail, phone, mail or fax to:

Daniel Zeghal, Ph.D., FCGA
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