

NEWSLETTER

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The ARC is located
in Vanier Building
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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, academics and managers 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, FCGA, 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, 1998, 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 which 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 corporate action.

Mr. Michael R. 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 resources, of the University of Ottawa, the Honourable Alfonso Gagliano, Daniel Zeghal, Executive Director, CGA-ARC, and Milf Masters, Director of educational and professional programs, CGA Ontario.

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Seventh Annual Conference

The introduction of non-financial performance information into the published reports of organizations presents an interesting challenge to the audit community. Mrs. Lillian Goh, Audit Director, Auditor General of Canada, stated that their approach to this challenge provided for the assessment of performance information. The focus of this assessment is on the performance information not on the performance indicators. The criteria for this include relevance, understandability, attribution, accuracy and balance.

Professor Merridee Bujaki of the University of Ottawa, was the moderator for the conference.



Distinguished speakers at the Seventh Conference, left to right, Merridee Bujaki, the Honourable Alfonso Gagliano, Jeannine Brooks, Michael Park, Lillian Goh, Noël Hyndman and Ralph Estes.

Upcoming Conference will look at the greening of the organization

The Eight Annual Conference of the CGA-ARC will be held in the Panorama Room of the National Arts Centre at 8:00 a.m., Thursday, 21 October, 1999.

Government leaders, educators and environmentalists continue to express their concern about how we are caring for our environment. Pollution, smog, the green-house effect and other issues continue, it seems, to defy solution. There are costs associated with caring for the environment. There are other costs, even more awesome, for not caring for the environment.

The theme of the conference will revolve around how organizations are meeting the challenges of environmental management, measurement, reporting and auditing.

The keynote speaker will be The Honourable Christine Stewart, Federal Minister of the Environment. Other speakers, tentatively, include Dr. Blair W. Feltmate, Sustainable Investment Group Ltd., Dr. Nabil Elias, of the University of Manitoba, Helen Howes, Director, Corporate Environment, Ontario Hydro and Jan Bebbington, Professor, University of Dundee, Scotland, UK..

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. Charges 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 it is equally vital 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 challenge. In order to respond to change and meet the challenge, 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

1. **Readability of the Auditor's Report - An International Comparison**, by Daniel Zeghal, Michael Maingot and Marc Tassé.

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 90 auditors' reports from 9 countries, classifying these countries into the Anglo American Model and the Continental Model. The objectives of the research were to test whether differences exist within the countries with respect to readability of the auditors' 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.

2. **Management Views on Dividend Policy: A Survey of Canadian Firms**, by Fodil Adjaoud and Daniel Zeghal.

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 extant literature and that a majority of factors shaping dividend policies are specific to the firm (e.g., firm's present 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).

3. **Earnings, Cash Flows and Value-Added as Performance Metrics: An International Comparison**, by Denis Cormier, Michel Magnan and Daniel Zeghal.

The measurement of a firm's performance is a crucial issue for many of its stakeholders: shareholders, directors, managers and debtholders. In addition, the effectiveness of many management systems (performance evaluation, compensation, strategy implementation) as well as their impact on value creation depends on the selection of an appropriate performance metric. This study purports to compare the ability of five performance metrics to capture value and value creation. These measures are net earnings, operating earnings, cash flows from operations, residual 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 report environment reduce the explanatory power of performance metrics.



Part of the over 200 professionals attending the Seventh Annual Conference.

4. **The Disclosure of Non-Traditional Assets in Annual Reports of High-Tech Firms: A Content Analysis**, by Jacques Barrette, Jérôme Doutriaux, Daniel Zeghal

In our 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 innovations, 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 Reviews 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/alliances and customers. Values and strategy come next, before markets and quality. These results are congruent 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.

	1995	1996
Canada	142 reports	—
United States	206 reports	—
Germany	69 reports	50 reports
France	80 reports	36 reports
Switzerland	90 reports	118 reports
United Kingdom	403 reports	—
Australia and New Zealand	145 reports	56 reports
Italy	39 reports	40 reports
Japan	81 reports	—

Publications

"Readability of The Auditor's Report - An International Comparison", by Daniel Zeghal, Michael Maingot and Marc Tassé, *European Accounting Association Annual Conference*, Bordeaux, May 5-7, 1999.

"Managing by Performance Measures: Making It Work", *Proceeding of the Seventh Annual Conference*, by Daniel Zeghal Editor, CGA - Canada, pp. 1-61, 1999.

"Towards a New Way of Managing Government and Reporting its Performance", by Paul Faulkner and Daniel Zeghal, *Proceeding of the Seventh Annual Conference*, pp. 46-61, 1999.

"Earnings, Cash Flows and Value-Added as Performance Metrics: An International Comparison", by Denis Cormier, Michel Magnan et Daniel Zeghal, CETAI, HEC, *Cahier de recherche 99-03*, February 1999.

"Managing by Performance Measures: Making It Work", by Daniel Zeghal and Paul Faulkner, *Statements*, pp 4-5, February/March 1999.

"Management Views on Dividend Policy: A Survey of Canadian Firms", by Fodil Adjaoud and Daniel Zeghal, *International Review of Accounting*, Volume 3, pp. 57-71, 1998.

"Environmental Management and Reporting", by Teresa Anderson, Nabil Elias and Daniel Zeghal, *CGA - Canada*, pp. 1-216, 1998.

"The Disclosure of Non-Traditional Assets in Annual Reports of High-Tech Firms: A Content Analysis", by Jacques Barrette, Jérôme Doutriaux and Daniel Zeghal, Institute of Business Administration and Technology, *1998 International Conference*, Toronto, July 8-11, 1998 also in Working Paper 98-17.

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.

Distinguished speaker series

The Accounting Research Centre sponsored three presentations by distinguished speakers:

1. "The Moral Syndromes of the Public Accounting Profession" by Dr. James C. Gaa, University of Alberta, February 12, 1999.
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. Merridee 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.uottawa.ca

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

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