

NEWSLETTER

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The ARC is located
in Vanier Building
Room 351G.



E-COMMERCE: TOPIC OF THE NINTH ANNUAL CONFERENCE

The conference, held on October 19, 2000, provided participants with an opportunity for an in-depth look at e-commerce and how it impacts the accounting profession. Conference speakers included:

- Philippe Lemay, Executive Vice-President, International Affairs and Electronic Products and Services at Canada Post,
- Norman P. Archer, Professor of Management Science and Information Systems, Director E-Commerce Research Centre, McMaster University,
- J. Efrim Boritz, Ernst & Young, Professor of Accounting, University of Waterloo, Director, Centre for Information System Assurance,
- Gerald D. Trites, Professor of Accounting, St. Francis Xavier University, and
- Oliver Kent, National E-Business Leader, PricewaterhouseCoopers Canada, Services Industries.

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



Speakers at the Ninth Conference (left to right): Gerald D. Trites, Professor of Accounting, St. Francis Xavier University, Former Partner, KPMG; J. Efrim Boritz, Ernst & Young Professor of Accounting, University of Waterloo, Director, Centre for Information System Assurance, 1999-2000 President, The Canadian Academic Accounting Association; Norman Archer, Professor of Management Science and Information Systems, Director E-Commerce Research Center, McMaster University; Philippe Lemay Executive Vice Presidente, International Affairs and Electronic Products and Services at Canada Post; Merridee Bujaki, Professor of Accounting, University of Ottawa.

Ronald Francis, a vice-president of CGA-Ontario opened the conference by welcoming the participants. In his opening remarks, he noted that the ARC was a testament to the cooperation between the accounting profession and the University.

The next speaker, Philippe Lemay, indicated that e-commerce presented both threats and opportunities for Canada Post. The Internet industry is presently as large as the auto industry and continues to grow. The major catalyst of this phenomenal growth is economic. In some instances the cost of a bank transaction can drop from one dollar to one cent by using the Internet. The main threat to – and, at the same time opportunity, for – Canada Post is e-mail. For organizations such as credit card companies, the data is already on computer, so the cost-effective means of billing a customer is through the Internet. Canada Post can get into this business by creating a network of electronic post offices. Through these offices, Canada Post can provide third-party protection, thereby allaying the privacy and security concerns of the users. Canada Post can also play a role in on-line shopping activity by offering services such as order management and billing.

Norman Archer also described the e-commerce phenomenon. He characterized the new economy in terms of its distinctive elements: knowledge-based, intangible assets to complement physical assets, and telecommunications systems and computers. The new economy is in an explosive growth phase primarily due to the substantial cost reductions available through the use of new technology.

The advent of e-commerce does not require new management principles, but it will require education and training. The major management problem associated with e-commerce lies in the transition phase. E-commerce itself is relatively easy to adopt. The problem rests with people and their resistance to change. The solution might lie in creating a new management team.

Public interest in technology is tempered by its concerns about the reliability of the Internet. The publicity surrounding instances of computer failures and interruptions to Internet service makes the public feel at risk when dealing with e-commerce. After citing these concerns,

J. Efrim Boritz offered an approach to assure system reliability through SysTrust.

SysTrust is an evaluation approach to forming an opinion on the reliability of a system. Boritz defines system reliability as relating to availability, security, integrity and maintainability. SysTrust provides a system reliability framework built around a set of some 58 criteria. It is a function of the approach to assess and evaluate the controls of a computerized system and to comment on it.

Gerald Trites in his presentation suggests that financial reprinting on the Internet is in a period of transition. At present, it is often the investor-relations section of a Web site that shows a collection of financial information. This may include a full set of financial statements as well as other financial data.



Guests and presenters at the conference (left to right): Daniel Zeghal, Professor, Director CGA-ARC, University of Ottawa; Jean-Louis Schaan, Director of the Executive MBA Program; Ronald Francis, Vice-President CGA-Ontario; Micheal Kelly, Dean, Faculty of Administration, University of Ottawa; Paul Faulkner, Editor of this Newsletter and Norman Archer, Professor of Management Science and Information Systems, Director E-Commerce Research Center, McMaster University.

An obvious fact with respect to reporting on the Internet is the freedom that Web site owners have in deciding what to report. They can display information for their own purposes and they can manipulate information as they wish. It seems certain that traditional financial models will survive, but an increasing amount of data can be added and some of that data can be unstructured. Data can be non-financial, such as performance information. Protocols will be required to maintain data integrity.

Oliver Kent, in his presentation, said that the federal government has pledged to be on-line by 2004. Ontario has said it will be on-line by 2003. Resources are in place to enable this to happen. More and more Canadian homes have Internet access and most businesses have universal Internet access.

The government already has an electronic interface with individuals through on-line filing of tax returns. The government also accepts electronic reports and returns from businesses. The government has a number of Web sites that need to be restructured and placed in some sort of order. The present focus is on on-line transactions. The question of reliability must be addressed in order to move forward. Controls will be required if transactions go on-line.

Dean Micheál Kelly of the Faculty of Administration, University of Ottawa closed the conference. He thanked the speakers and CGA-Ontario for its support of the ARC. He stated that the centre is on the leading edge of the profession.

CORPORATE GOVERNANCE: TOPIC OF NEXT CONFERENCE

In 1994, the Dey Committee defined corporate governance as "the process and structure used to direct and manage the business and affairs of the corporation with the objective of enhancing shareholder value, which includes ensuring the financial viability of the business". Based on the findings of the Dey Committee the TSE has established a set of guidelines for good corporate governance practices. In 1999, a set of similar guidelines were adopted for the voluntary sector.

Good governance practices may lead to numerous benefits in any organization. These benefits include: better performance, reduced risk, improved marketability of goods and services, greater access to capital markets, improved leadership, and enhanced transparency and social responsibility (CIMA, 2000).

In all organizations all of the stakeholders have corporate governance responsibilities. The challenge for all of these individuals is how to establish and maintain effective or good governance practices.

The conference aims to introduce participants to a good practice guide for governance. Issues and questions regarding the components of good governance, how to ensure good governance, the roles and responsibilities of accountants and financial managers, an effective control framework, and the liabilities arising from poor governance, will be discussed.

The conference will be held at the National Arts Centre on Thursday October 18, 2001.

PUBLICATIONS

- "An Electronic Revolution Discussed at CGA-ARC Conference"**, by Daniel Zeghal and Paul Faulkner, Statements, December/January 2000/2001.
- "The Informational Content of Labor Costs Voluntary Disclosure"**, by Kaouthar Lajili and Daniel Zeghal, Working Paper 00-64, November 2000.
- "The Underperformance of State-Owned Firms Revisited"**, by Richard Bozec, Gaétan Breton and Louise Côté, Working Paper 00-63, 2000.
- "Le contenu informationnel et la capacité prédictive de performance financière : une comparaison France, États-Unis et Suisse"**, by Denis Cormier, Michel Magnan and Daniel Zeghal, Comptabilité Contrôle Audit, forthcoming.
- "Timeliness of Annual Reports: An International Comparison"**, by Lucie Courteau and Daniel Zeghal, Accounting Enquiries, A Research Journal, forthcoming.
- "Demystifying the Illusion of the Positive Effects of Ownership Concentration on Corporate Performance"**, by Yoser Gadhoun and Daniel Zeghal, Working Paper 00-32, May 2000
- "A Logistic Decision Model for Labor Costs Voluntary Disclosure"**, by Kaouthar Lajili and Daniel Zeghal, Working Paper 00-29, May 2000.
- "Value-Relevance and Predictive Ability of Earnings, Cash Flows and Value Added: North American and European Differences"**, by Denis Cormier, Michel Magnan and Daniel Zeghal, Accounting & Bedrijfskinde, forthcoming.
- "A Survey of Audit Committees in Canada"**, by Michael Maingot and Daniel Zeghal, European Accounting Association, 23rd Annual Congress, Munich, March 29-31, 2000.

DISTINGUISHED SPEAKER SERIES

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

1. **"The Canadian Audit Market in the First Half of the Twentieth Century"**, by Dr. Allan J. Richardson, Director, CGA-Ontario International Business Research Centre, Queen's University, December 15, 2000.
2. **"The Matching Principle: An Empirical Test of its Relevance for Standard Setting"**, Professor Steve Fortin, McGill University, November 24, 2000.
3. **"Multi-Objective Stochastic Optimization for Portfolio Selection"**, by Professor Ben Abdelaziz, Institut Supérieur de gestion, June 2, 2000.

RESEARCH ABSTRACTS

1. **"A Survey of Audit Committees in Canada"**, by Michael Maingot and Daniel Zeghal.

This study traces the historical development of the audit committee in Canada, the U.S. and the UK. The impacts of the McDonald Commission, the Adams Report and the provincial legislation requiring an audit committee are examined in Canada. In the U.S., the impact of the New York Stock Exchange, the SEC and the Treadway Commissions is discussed. In the UK, the requirements of the London Stock Exchange and particularly the recommendations of the Cadbury Report are highlighted.

The empirical part of the research focussed on a questionnaire sent to the chairmen (chairpersons) of the audit committee. The questionnaire was sent to the top 400 companies listed on the Toronto Stock Exchange. The research questions addressed the following:

- (1) The motives for having an audit committee;
- (2) The composition of the audit committee;
- (3) Affiliation or background of audit committee members;
- (4) Selection of audit committee members and chairman;
- (5) Frequency of audit committee meetings;
- (6) The audit committee's relationship with external and internal auditors;
- (7) The audit committee's broader role. The aggregate results of this study are consistent with recent prior empirical findings in the U.S. and the UK.



The Faculty of Administration at the University of Ottawa was particularly well represented at the ninth annual conference (left to right) : Dr. Colin Lay, Professor; Douglas Angus, Vice Dean and Associate Dean (Academic & Research); Georges Henault, Associate Dean (Programs); Jean-Louis Schaan, Director of the Executive MBA Program; Daniel Zeghal, Professor, Director CGA-ARC.

2. **"New Assets for the New Economy"**, by Daniel Zéghal.

The purpose of this article is to discuss the importance of identifying, evaluating, conveying and analysing information on intellectual and intangible assets in order to more effectively reflect current business realities, thereby making financial statements more relevant and promoting better performance on the part of managers, and outside decision makers. Intellectual and intangible assets include information systems, clientele, and reputation as well as human capital. If managers in the public sector were to give due consideration to this new reality, they would not only ensure better management of their organization but would also increase the relevancy and efficiency of government, policies at all levels and their implementation strategies.

3. **"The Underperformance of State-Owned Firms Revisited"**, by Richard Bozec, Gaéтан Breton, and LouiseCôté.

Many theoretical and empirical studies look at the relationship between the type of ownership of enterprises and their efficiency. So far, the literature in finance and in accounting is concentrated around the theories of property rights and of public choice. They carry more proposals than demonstration. To the knowledge of the authors, no studies take into consideration the goals or objectives of the enterprises.

Using a quite simple methodology, although carefully matching public and private firms, this article presents empirical evidence that, when the goals of state-owned enterprises are to maximize their profits, they are as efficient as the privately owned enterprises.

Therefore, the alleged underperformance may only be in pursuing other goals while the poor quality of public managers may be another urban myth.

4. **"Impact of adopting new management control approaches on the economic value added"**, by Daniel Zéghal and Majdi Bouchekoua..

The purpose of this study is to measure the impact of adopting new management control approaches such as just-in-time (JIT), activity-based costing and management (ABCIM) and total quality management (TQM) on the performance of firms as measured by the economic value added (EVA).

Our results based on a survey of North American companies seem to indicate that, on the overall, firms which have adopted either one of these three approaches subsequently experienced a significant increase in their economic value added.



A Small number of the record number of participants at the Ninth Conference.

EXECUTIVE DIRECTOR RECEIVES RECOGNITIONS

- Daniel Zéghal, Director, CGA-Accounting Research Centre has received the 1999-2000 Alan G. Ross Award for Writing Excellence for his article **"New Assets for the New Economy"** published in the winter 2000 issue of the FMI Journal.
- Professor Zéghal has been appointed associate editor of Canadian Accounting Perspectives. The journal is published by the Canadian Academic Accounting Association.
- In addition, Dr Daniel Zéghal was unanimously nominated by the FTPC for the University of Ottawa Award for Excellence in Research.

OTHER NEWS

- Please note that there has been a modification to our Web site address: www.cga-arc.uottawa.ca

FOR MORE INFORMATION

- To learn more about the CGA-ARC visit our Web site at the following address: www.cga-arc.uottawa.ca
Contact ARC by E-mail, phone, fax or mail to:

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