

# NEWSLETTER

CGA Accounting Research Centre • School of Management • University of Ottawa

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The CGA-ARC  
is located in  
Vanier Building  
Room 351F.

## CORPORATE GOVERNANCE IS TOPIC OF TENTH ANNUAL CONFERENCE

A large turnout of accountants, managers and academics gathered at the National Arts Centre to hear an excellent panel of speakers present their views on corporate governance. The speakers present their views on corporate governance. The speakers were: Guylaine Saucier, Chair, Joint Corporate Governance Committee, and Past Chair, Board of Directors of CBC/ Radio-Canada; Karen Hughes, Professor, University of Alberta; Alex Dunlop, Professor, Sheffield University, UK; and Al Hatton, President, Coalition of Voluntary Organizations.

The aim of the Conference was to provide participants with a good practice guide for governance. Included in the issues to be covered were: how an organization, whether in the public or private sector, can ensure good governance; the roles and responsibilities of the players involved, accountants, managers or Board members; and how an effective framework for internal control can contribute to good governance.

Basing her remarks on the research and findings of the Joint Corporate Governance Committee, Guylaine Saucier noted that the major conclusions of the Committee revolved around the need to change the behaviour and culture of Boards. The keys to such a change are the improvement of disclosure and increased board independence. Disclosure should be focused on behaviour rather than structure and on function rather than form. Increased board independence can be achieved by ensuring that there is a good working based with strong leadership and the right people on the board.

The relative absence of women on Boards and in top executive positions was the theme of the presentation by Professor Karen Hughes. While the situation is improving, women are still not sharing the growth of the top jobs. The explanation for this lies in the number of barriers that exist. There are institutional barriers such as biased recruitment practices, exclusion of women from informal networks, and outright discrimination. Also, there is a shortage of qualified female candidates for the top jobs. Too, some women chose to leave the workplace to raise a family. What is needed to ameliorate the problem is an expanded pool of qualified women candidates as well as improved recruitment practices.

According to Professor Dunlop, corporate governance involves the direction, management and control of an organization. More and more a stakeholder perspective of governance is demanding accountability and transparency in corporate affairs as well as an emphasis on business ethics. Recent studies have tended to highlight these requirements of corporate governance. The globalization of equity markets is accentuating these demands. They are forcing better reporting including international accounting standards.

In his remarks, Al Hatton pointed out the size and growth of the voluntary organization sector. There are a number of factors which are demanding improved governance for organizations in this sector. Among these factors are: a blurring of roles between sectors (private, public, nonprofit); government restructuring and shifts in roles and responsibilities; a new volunteerism; and high public expectations. Improved governance and leadership in response to these factors will involve the boards of voluntary organizations in issues such as: leadership, power and legitimacy, management, job descriptions, culture, norms and attitudes, and competence. A number of formal groups have been formed to tackle these issues.

The participants and speakers were welcomed by Herb Wodehouse, President of CGA Ontario and thanked by Dean Micheál Kelly of the School of Management of the University of Ottawa. Moderator for the conference was Professor Kathryn Pedwell of the University of Ottawa.



Speakers at the Tenth Conference (left to right): Herb J. Wodehouse, MBA, FCGA, President CGA-Ontario; Guylaine Saucier, FCA, Chair, Joint Corporate Governance Committee (CICA, TSE, CDNX); Al Hatton, BA, President Coalition of National Voluntary Organization; Karen Hughes, Ph.D., Professor University of Alberta

## ACCOUNTING RESEARCH CENTRE MARKS A DECADE OF ACHIEVEMENT

The tenth annual conference of the ARC held at the National Arts Centre, Ottawa, on 18 October, 2001, marked a milestone in the history of the ARC. The Centre had contributed to accounting thought in Ottawa and throughout the profession for a decade.

Two testimonials to its success were provided to the Centre during its tenth conference. Dean Micheál Kelly of the Faculty of Administration, University of Ottawa, observed that the success of the Centre's conferences and work testified in part in its ability to identify key issues in accounting and management. Speaking at the same conference, Herb Wodehouse, President, CGA Ontario said that the high standard of the Centre's research activities was reflected in the high quality and prestige of the professional journals in which it was published.



The Executive Director with members of CGA-Ontario Board (left to right): Richard R. Duffield, CD, MBA, CFE, CGA, Governor; Ronald V. Colucci, MBA, FCGA, Second Vice President/Treasurer; Daniel Zeghal, FCGA, Professor, Director Executive CGA-ARC, University of Ottawa; Herb J. Wodehouse, MBA, FCGA, President; Frederick H. Burke, B.Comm., CGA, Vice President; Bruce W. Hutton, TEP, CFG, Vice President

The Centre, located at the University of Ottawa, was established in 1992 with financial support from CGA Ontario. The Centre is designed to promote research in accounting and related fields.

To honour its mission and achieve its objectives, the Centre has undertaken a number of activities. These include: a comprehensive research program, annual conference, research workshops featuring distinguished speakers in accounting, an annual Newsletter, the development of a website and an infrastructure featuring published articles and corporate reports.

The research program is the engine that drives the Centre. Its objective is to shape the practice of accounting by building enduring knowledge, educating for leadership and communicating innovative and substantive ideas in the most effective ways. The research program is aimed at meeting the challenges of change and advancement in the economic and business environment that face accounting, accountants and the accounting product.

The research program produces a variety of outputs. The output results are published in articles in academic journals and professional and trade journals. They also include the publication of books, conference proceedings, research reports, presentations at conferences and articles on the web. The total number of these outputs to date is about one hundred.

The Centre has a comprehensive program of conferences. These are annual events in which a panel of academics and

practitioners come together to discuss common issues. The purpose is to educate, provide a forum for discussion, facilitate the dissemination of research results and give visibility to the Research Centre, the University of Ottawa and CGA Ontario.

To date, ten highly successful conferences have been held. They have all been well attended by professionals, academics and experts in their own fields. The focus has been on pressing issues in accounting and on themes which are relevant to professionals and practitioners in all types of sectors and organizations. The conferences have had the following themes:

- Fall 2001: 'Good Corporate Governance in the Third Millennium: Improving the systems by Which Canadian Organizations Are Governed',
- Fall 2000: 'E-Commerce Revolution: New Roles for Accountants and Financial Managers',
- Fall 1999: 'The Greening of Organizations: How Organizations Are Meeting the Challenge of Environmental Management, Measurement, and Reporting and Auditing',
- Fall 1998: 'Managing by Performance Measures: Making It Work',
- Fall 1997: 'The New social and Economic Order: Is Our Tax System Up To Its Challenge?',
- Fall 1996: 'Public Sector Accounting: Shifting the Focus to Results',
- Fall 1995: 'Financial Statements: Do They Have a Future?',
- Fall 1994: 'Management Control: The Challenges in a Turbulent Time',
- Fall 1993: 'The Crisis in Auditing',
- Fall 1992: 'Performance Measurement and Reporting in Non-profit Organizations: Is There an Alternative to the Traditional Accounting Model?'

The proceedings of these conferences have been published and are made available to the public.

Another of the Centre's activities involves a series of research workshops with well-known academics and practitioners who are invited to present their research results at these workshops. This forum presents an opportunity for the exchange of ideas and the enhancement of knowledge and research methodologies between teams of researchers at the Centre and researchers in other institutions. It also facilitates networking and gives the Research Centre a higher profile in the research and academic communities. Distinguished speakers have come from all over Canada, the United States, United Kingdom, Australia, Hong Kong, Ireland and Korea.

The CGA Accounting Research Centre publishes a Newsletter (of which this is the ninth) reporting on major activities and achievements during the year. The objective of the Newsletter is to keep the academic and accounting communities and other interested parties, aware of the activities of the Centre, and to give it, the University of Ottawa and CGA Ontario appropriate visibility.

The Centre has made innovative use of technology to educate and communicate on work being done at the Centre by creating a website. The website provides on-line information on the Centres' activities and resources.

Finally, as one of its major initiatives, the Centre undertook to build an adequate infrastructure which would make it possible to meet its goals and objectives and to give more focus to its research activi-



## "ARC marks a decade..." Continued from p.2

ties. This involved acquiring a collection of academic and professional journals, acquiring critical data bases for research programs, assembling a collection of international corporate annual reports, and acquiring access to computing services.

The Centre has been quite successful in these efforts. It has a library of more than 30,000 annual reports, publications and other data from major listed companies in ten countries. This collection of annual reports has been put on CD-Rom to save space and facilitate the use of those sources of information by researchers.

The people who have participated in the activities of the Centre take pride in their accomplishment. They hope to be challenged to do more in the coming years. The Centre has been meeting its goals and objectives and it is positioned to shape the practice of accounting in the coming years by building enduring knowledge.



Guests and presenters at the conference (left to right) : Guylaine Saucier, FCA, Chair, Joint Corporate Governance Committee (CICA, TSE, CDNX); Paul Faulkner, MBA, member of the advisory council at the CGA-ARC, Editor of this Newsletter; Al Hatton, BA, President Coalition of National Voluntary Organization; Micheal Kelly, Dean, School of Management, University of Ottawa; Herb J. Wodehouse, MBA, FCGA, President CGA-Ontario; Kathryn Padwell, Ph.D. Professor, University of Ottawa; Karen Hughs, Ph.D. Professor University of Alberta

## RESEARCH ABSTRACTS

1. "Value-Relevance of Earnings, Cashflows and Value Added: North American and European Differences", by D. Cormier, M. Magnan and D. Zeghal.

The measurement of a firm's performance is critical. Many persons and issues depend on the selection of an appropriate performance metric. This study compares five performance metrics in terms of their ability to capture value and value creation. These measures are net earnings, operating earnings, cashflows 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 depend upon a country's financial measurement and reporting environment. An investor-focused, less restrictive financial reporting environment enhances the power of performance metrics to explain firm value or financial prospects. In contrast, a national accounts focus and more restrictive reporting environment diminish the explanatory power of performance metrics.



CGA Ontario's president and University of Ottawa guests were able to network over coffee and tea during the conference. From left to right: Michael Kelly, Dean, School of Management, University of Ottawa; Carole Workman, Vice Factor (resources), University of Ottawa; Herb Wodehouse, 2001/2002 president, CGA Ontario; and Daniel Zeghal, Executive Director, CGA-ARC, University of Ottawa.

2. "Labor Costs Voluntary Disclosure: Proprietary Information or a Signalling Instrument?" by Kaouthar Lajili and Daniel Zeghal.

This study explores the information content of labor cost voluntary disclosure by examining and comparing labor productivity and management efficiency in labor use between disclosing and non-disclosing and non-disclosing firms and between disclosing firms differing in their degree of industry disclosure intensity. A production function approach is followed to estimate labor-related productivity and efficiency indicators based on accounting data relative to labor cost disclosure for a sample of US firms in 1997. The estimates are then incorporated into binary and multinomial logistic regressions to model the disclosure decision and intensity along with other explanatory variables, namely political costs or proprietary information costs. The study's main results show that non-disclosing firms have on average a higher value marginal product of labor than disclosing firms and that proprietary information costs are negatively related to voluntary disclosure of labor costs. These results seem to support the "proprietary information" hypothesis of voluntary disclosure where its indirect costs in terms of competitive and strategic costs outweigh the signalling benefit from disclosing labor and related costs.

3. "Earnings Management and the Stock Market Environment" by Alireza Daneshfar and Daniel Zeghal.

This study examines the effect of stock market environment on the opportunity earnings management through discretionary accruals. Market environment is defined as the general markets' disposition that underlies the investors' view on the direction of stock price changes and receptiveness of earnings changes. Market environment is classified into three clusters; optimistic, neutral and pessimistic market environment. It is argued that in an optimistic market environment, positive information including earnings information is greatly awarded by investors. Optimism about stock price changes and the general economic situation make accrual increases more acceptable to investors, providing incentive and opportunity to firms to manage their reported earnings upward. This issue is examined by investigating the effect of market environment on earnings management during the period of first quarter of 1999 to first quarter of 2000, when a strong optimistic market existed. A sample of 1510 firms was selected. The results show that the mean of abnormal accruals was statistically significant during the test period. The results also indicate that the changes in accruals had an increasing effect on reported earnings numbers during this period and accruals were used to manage earnings upward. Further, the results show that the earnings were managed upward during every quarter in the test period.

## PUBLICATIONS

"The Exchange Rate Exposure of Multinational Firms in Korea" by Mun Soo Choi and Daniel Zeghal, *International Journal of Management*, Vol. 23-24, Nov. 2001, pp. 68-73.

"Earnings Management at the Stock Market Environment" by Alireza Daneshfar and Daniel Zeghal, Working Paper 02-07, January 2002.

"The Impact of the Commercialization Process on the Operating Financial Performance of State-Owned Firm" by Richard Bozec and Gaetan Breton, Working Paper 01-53, October 2001.

"The E-Commerce Revolution: New Roles for Accountants and Financial Managers" Proceedings of Ninth Annual Conference by Daniel Zeghal, Editor, pp. 1-68, 2001.

"E-Commerce: New Challenge for SMB" by Daniel Zeghal and Yalla Sangare, published in Proceedings of Ninth Annual Conference, pp. 149-68, 2001.

"Value-Relevance of Earnings, Cashflows and Value Added: North American and European Differences" by Daniel Zeghal, *Accountancy & Bedrijfskunde*, Vol. 26, No. 2, pp. 35-59, June 2001.

"L'analyse de l'effet de la privatisation des entreprises étatiques sur la divulgation de l'information dans les rapports annuels" by Richard Bozec and Daniel Zeghal, Working Paper 01-22, June 2001.

"L'évaluation de la performance des filiales situées au pays et à l'étranger : une perspective canadienne" by Daniel Zeghal and Fodil Adjaoud, *Governance Revue Internationale*, Vol. 2, No. 1-2, pp. 64-73, Winter/Spring 2001.

"European Accounting Research: An Analysis of Issue and Country Productivity" by Hans-Peter Burghof and Daniel Zeghal, *European Accounting Association*, 24th Annual Congress, Athens, Greece, April 18-20, 2001.

"A Comparison of Information Disclosed on the Web with Information in the Annual Reports: An Exploratory Study of Canadian Companies" by Michael Maingot and Daniel Zeghal, *European Accounting Association*, 24th Annual Congress, Athens, Greece, April 18-20, 2001.

"An Analytical Approach to the Information Content of Labor Costs Voluntary Disclosure" by Kaouther Lajili and Daniel Zeghal, *European Accounting Association Annual Congress*, Athens, Greece, April 18-20, 2001.

## DISTINGUISHED SPEAKER SERIES

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

1. "Knowledge-Based Information Used in Investment Decision Making" by Dr. Waymond Rodgers, Professor, Graduate School of Management, University of California, Riverside, 9 November, 2001.



*The tenth conference was well attended. Some of the participants.*

2. "Application of Earnings Persistence Information in Employee Compensation Analysis, The Case of Profit Sharing Plan" by Dr. Alley Daneshfar, Professor, University of New Haven, 4 June, 2001.
3. "L'analyse par enveloppement des données floues" by Dr. Foued Ben Abdelaziz, Professor, Laurentian University, 22 May, 2001.

## OTHER NEWS

1. CGA Ontario has renewed its commitment to the Accounting Research Centre for ten years to April 30, 2013.
2. Daniel Zeghal, Director of the Centre, has been listed in the 22nd edition of the "Who's Who in Canadian Business", one of the most respected and sought after business resources in Canada.
3. CGA Ontario has been encouraging the Centre to engage in international alliances. To this end the Centre has had three distinguished scholars spending time doing joint research projects. The scholars are Dr. Mun Soo Choi from Korea, Dr. Hamadi Matoussi from Tunisia and Professor Hans-Peter Burghof from Germany. Also Med Dia from UQAM is currently engaged in a post doctoral program at the Centre.

## FOR MORE INFORMATION

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

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