

# NEWSLETTER

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

Université d'  
University of  
**Ottawa**

## **ELEVENTH ANNUAL CONFERENCE TAKES A CONCEPTUAL LOOK AT INTANGIBLES**

The topic of this conference was "Intangible Assets, Identification, Measurement, Management, Disclosure and Information Use: Trends and Issues." In this case, intangibles included intellectual and human capital, brands, patents and copyrights, research and development, and goodwill.

The conference lasted for a day, highlighted theoretical and conceptual presentations by a group of learned academics on the selected topic.

The academics who presented their papers at the conference were: Dr Steven Sonka, University of Illinois, Dr. Antonello Callimaci, UQAM, Dr Feng Gu, Boston University, Dr Hans-Peter Burghof, University of Munich, Dr. Baruch Lev, New York University and Dr Waymond Rodgers, University of California. Acting as conference Chair was Dr Gordon Thiessen, University of Ottawa and Former Governor of the Bank of Canada.

Dr. Micheál Kelly, Dean of the School of Management and CGA-Ontario Executive vice president Ron Francis, MBA, FCGA, welcomed the guest speakers and participants on behalf of the University of Ottawa and CGA Ontario. They both praised the work of the Centre and, in particular, the successful efforts of its executive director, Daniel Zeghal, Ph.D, FCGA.

Dr Gordon Thiessen, in his key-note presentation, reminded participants of the dramatic rise in stock prices in the late 1990's, particularly the shares of technology firms, low interest rates and new technology created an optimistic market place so that, aided by the classification of software investments as capital, created a surge in profits and stock prices. The asset bubble created by these factors burst causing asset values and stock prices to tumble. The government's policy of inflation control did nothing to help this situation. The solution to the problem of over-valued assets may have to wait for improvements in corporate governance.

Dr Steve Sonka noted that, in a venture economy, human assets are critical to economic success. He discussed the valuing of intellectual and human capital from a decision perspective. He used as example of the successful marketing of a New Zealand trust to demonstrate the importance of

exploiting intangible human assets such as innovation and strategic planning.

The study by Dr Antonello Callimaci examined how the decision to capitalize or expense R&D spending is influenced by management incentives and by the cross-listing of shares in both the U.S. and Canadian markets. His research concludes that the capitalizing of R&D spending increases for firms that are cross-listed and becomes more probable for firms that are more leveraged, more mature, and have higher levels of cash flow from operations.

Dr. Feng Gu, in his study of markets in intangibles concludes that for at least one intangible asset, patents, the disclosure of asset values and royalty income has a very real impact on investors. He reasons that, among other things, the intensity of patent royalties provides investors with a strong signal concerning the value and potential of R&D expenditures.

Value at risk is a concept used by both banks and bank regulators as a device to control risk in lending activities. Dr. Hans-Peter Burghof discussed this concept as a means of designing an optimal

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**The distinguished roster of speakers:** (front row, left to right) Antonello Callimaci, PhD, CA, - Professor, UQAM; Hans-Peter Burghof, PhD, - Professor, Munich University; Robert Yaansah, PhD, - Professor, University of Ottawa; Ron Francis, FCGA, - Executive Vice president, CGA Ontario; Baruch Lev, PhD, - Director of the Vicent C. Ross Institute for Accounting Research and the Project for Research on Intangibles, Professor, New York University; Feng Gu, PhD, - Professor, Boston University; (back row) Steven Sonka, PhD, - Director of the National Soybean Research Laboratory, Professor, Illinois University; Waymond Rodgers, PhD, Professor, University of Southern California; Micheál Kelly, PhD, Dean, School of Management, University of Ottawa; Gordon Thiessen, PhD, - Former Governor of the Bank of Canada

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**“Eleventh Annual Conference...” Continued from p.1**

structure for trading departments in financial institutions. The answers reached as a result of his studies suggest that, in an imperfect market setting, informed traders tend to herd as information cascades to them. This tends to increase the probability of extreme results. Accordingly, banks should strive to control information flows through approaches such as the isolation of small trading departments.

Dr. Baruch Lev in discussing intellectual capital observed that everyone accepts the existence of intangibles and indeed that investors do invest in them. The issue is one of value. Economic growth is a function of growth in capital investment and growth in labour productivity. But this accounts for less than 25% of total growth. The rest is what Dr Lev calls “Total Factor Productivity” growth which is the sum of the variety of intangible assets. Thus, the creators of stock market values are the sum of the book value of assets, their expected value plus the “total productivity factor” value.

In his presentation, Dr. Waymond Rodgers noted that there has been a shift in corporate assets to a situation where intangible assets have become more and more important. This change presents a major measurement problem to the accountant. In his study, Dr. Rodgers created a model using a knowledge asset he described as “customer relationship management” in regards to prospects for customer retention. He was able to illustrate that customer service accounting and non-traditional



*Gordon Thiessen, PhD, - Former Governor of the Bank of Canada, was the key-note speaker and acted as conference chair.*

information, together, will capture and depict knowledge assets to provide competitive advantages in the market place.

Judging from the animated question period that followed the presentations, the presentations were of much interest and certainly thought provoking.

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***BUSINESS MANAGEMENT ETHICS AND ACCOUNTABILITY WILL BE THE FOCUS OF THE NEXT CONFERENCE***

The Twelfth Annual Conference of the CGA-ARC will be held in the Panorama Room of the National Arts Centre, at 8:00 a.m. on 23 October 2003. You are invited to attend.

The bursting of the dot-com bubble, deceptive accounting practices, mismanagement, fraud, greed and the questionable ethics of corporate leaders, accountants and auditors have all led to a crisis of confidence and faith in the corporate sector. There is a real need to restore public confidence in companies, boards, managers and auditors as well as financial information and financial markets.



*The guests at the conference (left to right): Colin Lay, PhD, Professor, University of Ottawa; Ron Eden, PhD, Professor, University of Ottawa; Micheál Kelly, PhD, Dean, School of Management, University of Ottawa.*

This conference will focus on the challenges posed by these issues and on the actions being taken and yet to be taken to regain public trust. A panel of speakers will discuss fundamental changes to business management, ethics and accountability from a variety of perspectives including: the necessary role, qualifications and responsibilities of corporate board members and board committees; the business climate between accounting firms and their clients; the performance; accountability and compensation of CEOs; the disclosure of relevant and reliable information; and the initiatives that accountants should take to save accounting.

Again, your attendance will be welcome at this conference.

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## RESEARCH ABSTRACTS

1. "The Effect of the Reform of Canadian State-Owned Enterprises Major Corporate Governance Mechanisms" by R. Bozec, D. Zeghal and A. Boujenoui.

One of the most discussed topics by academics, practitioners and regulations in that of corporate governance with most of the discussion targeted at publicly held corporations. This research paper deals with the issue of governance in the public sector and more specifically in State-owned enterprises (SOEs). The paper investigates the effect of The Reform of Canadian SOEs on the characteristics of boards and board committees.

The research seems to confirm the presence of significant adjustments in board characteristics following two major events in the reform's commercialization and privatization. In both cases, board have, on average, evolved towards a set of structures and mechanisms that have potential to improve independence and governance. This study sheds new light on the process of adjusting corporate governance mechanisms to new strategies and environments.

2. "The Disclosure of Risk Management Information in Canadian annual reports" by K. Lajili and D. Zeghal.

Driven by a constantly changing new knowledge-based economy, a firm's risk exposure and management information is becoming increasingly sought after and analyzed by all the stakeholders involved. To this end, this paper examines risk information disclosure in Canadian annual reports of 1999 in order to provide insights into the current risk disclosure environment and characteristics while highlighting some concerns surrounding the usefulness and value of such information to the firm's stakeholders.

A content analysis is followed to describe the volume and actual content of risk disclosures by summarizing and classifying risk-related information found in the annual reports of TSE 300 listed Canadian companies. The risk analysis appears to be quite limited and too general for any rigorous analytical assessments of risk profile and exposure of firms. The paper concludes that a more formalized and focused risk disclosure might be warranted in the future to effectively reduce asymmetries between management and stakeholders.

3. "The Performance of State-Owned Enterprises Revisited" by Richard Bozec, Gaétan Breton and Louise Côté.

Many theoretical and empirical studies look at the ownership-performance relationship. So far, the literature in finance and in accounting mainly refers to the property rights, agency and public choice theories. Despite the fact that the results of these studies are more or less conclusive, it is usually considered that the private enter-

prise performs better than the state-owned enterprise. In this article, we argue that these studies suffer from one major limitation. They do not recognize that the goals of the state-owned enterprise are different from the ones espoused by the private firm.

Using a sample of public and private firms for the period 1976-1996, we present empirical evidence that the state-owned enterprises, when their main goal is to maximize profit, perform as well as the privately owned enterprises.

Therefore, the alleged under-performance of the state-owned enterprises may only be the result of pursuing other goals while the poor quality of public managers may be another urban myth.

4. "Financial Reporting of Small Business Entities (SBEs) in Canada" by Michael Maingot and Daniel Zeghal.

The issue of financial accounting and reporting for SBEs has generated much discussion in the accounting literature. There seems to be broad support for a different approach to reporting and disclosure because SBEs from public corporations. Generally Accepted Accounting Principles (GAAP) are designed for the preparation of the financial statements for large corporations with their complex transactions. JBEs must use the same GAAP. The reports of large corporations are used by millions of external readers and these companies can fear the cost of preparing and disseminating their accounts. The accounts of the SBE are used by very few, yet the SBE must accept the cost of using existing GAAP to prepare their accounts. SBEs very often use practitioners to prepare their financial reports. There is, consequently, both a cost to the SBE (fee charged) and a cost +. The practitioner (constantly updating their knowledge of GAAP) which causes the overall cost to continue to rise. SBEs do not like this aspect.



Presenters were able to network during the 2002 conference (left to right): Feng Gu, PhD, - Professor, Boston University; Baruch Lev, PhD, - Director of the Vincent C. Ross Institute for Accounting Research and the Project for Research on Intangibles, Professor, New York University.

## PUBLICATIONS

1. **“Financial Reporting of Small Business Entities (SBEs) in Canada”** by Michael Maingot and Daniel Zeghal, European Accounting Association, 26 Annual Congress, Seville, Spain, April 2-6, 2003
2. **“The Performance of State-Owned Enterprises Revisited”** by Richard Bozec, Gaetan Breton, Louise Cote, Financial Accountability and Management, Vol. 18, No. 6, pp. 383- 407, 2002
3. **“The effect of market environment on the use opportunistic earnings management”** by Alley Daneshfar and Daniel Zeghal, Financial Research, Sixth Annual Conference, Cardiff Business School, 4-5 July, 2002.
4. **“The Disclosure of Risk Management Information in Canadian Annual Report ”** by Kaouthar Lajili and Daniel Zeghal, Working Papers 03-08, March 2003, also presented at European Accounting Association, 26 Annual Congress, Seville, Spain, April 2-6, 2003
5. **“Intangible assets: An emerging issue”** by Paul Faulkner and Daniel Zeghal, www.cga-pd.net
6. **“The Effect of the Reform of Canadian State-Owned Enterprises on Major Corporate Governance Mechanisms”** by Richard Bozec, Daniel Zeghal and Ameur Boujenoui, Document de travail 03-04, January 2003
7. **“A Comparative Study of Earnings Management Practice Between Canada and France”** by Daniel Zeghal and Ben Othman, presented at 14<sup>th</sup> Asian-Pacific conference on International Accounting Issues, November 23-26, 2002, Los Angeles, USA
8. **“Évaluation floue des profils de risque des entreprises du TSE 300 à partir des informations divulguées dans les rapports annuels”** by M. Dia and Daniel Zeghal , Document de travail 02-50, Décembre 2002
9. **“Earnings Management in State-Owned Enterprises: A Canadian Perspective”** by Richard Bozec, Document de travail 02-34, July 2002
10. **“L’analyse de la gestion des résultats : un outil pour évaluer les états financiers”** par Richard Bozec et Daniel Zeghal, Analyse financière, No. 4, pp. 65-71, 2002
11. **“Labor Costs Voluntary Disclosure: Proprietary Information or a Signaling instrument? ”** by Kaouthar Lajili and Daniel Zeghal, Working papers 02-19, April 2002
12. **“Le commerce électronique : une stratégie prometteuse pour les PME”** by Daniel Zeghal and Y. Sangare, Document de travail 02-14, Mars 2002
13. **“La performance comparée des entreprises publiques et des entreprises privées: un état des lieux”** by Richard Bozec, Document de travail 02-07, Mai 2002
14. **“Governance in State-owned and Privately-owned Firms: A Comparison,** by Richard Bozec and Daniel Zeghal, Published in Proceeding of the Tenth Annual Conference, pp. 29- 41, 2002



Audience at the 2002 annual conference.

## DISTINGUISHED SPEAKERS SERIES

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

1. **“The Economics of Organization”** by Joseph T. Mahoney, Professor, University of Illinois, Urbana-Champaign, USA, 24 April 2003.
2. **“Aspects of Social Accounting: Bank Disclosures”** by Dianne McGrath, La Trobe University, Australia, 24 January 2003

## OTHER NEWS

1. Daniel Zeghal, Director of the Centre, has been reappointed as an associate editor to 'Canadian Accounting Perspectives', CAP's published by the Canadian Academic Accounting Association.
2. Professor Zeghal has been invited to join the editorial board of the 'Irish Accounting Review'.
3. The Centre has published a revised mission statement in a document titled "Research Strategy for the Next Decade", January 2003, pp. 1-6.

## 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:

Daniel Zeghal, Ph.D., FCGA  
Executive Director  
CGA-Accounting Research Centre  
School of Management  
University of Ottawa  
Ottawa, Ontario K1N 6N5

Telephone: (613) 562-5800 ext. 4769  
Fax: (613) 562-5164  
E-mail: [zeghal@management.uottawa.ca](mailto:zeghal@management.uottawa.ca)