

NEWSLETTER

CGA Accounting Research Centre • CGA-ARC • University of Ottawa

EXCELLENT! OUTSTANDING!

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CGA-ARC in the News

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

Université d'
University of
Ottawa

A review of the CGA-Accounting Research Center activities and performances done in 2003-2004 by both a University of Ottawa Internal Committee and a Committee of External Reviewers have concluded: "It is absolutely clear that the Center has achieved outstanding results". They rated the Center as 'Excellent' comparable to the top 20% of similar institutions in Canada."

Congratulations and many thanks to ALL

colleagues who have contributed to the Center success. Also thanks to Dean Micheál Kelly for his continuous support and a great thanks to Dr. Joanne Leck, Associate Dean (Research), School of Management; Dr. Linda Manning, Director of Research, School of Management; and Dr. Yvonne Lefebvre, Associate Vice-Rector (Research), University of Ottawa, for their most appreciated support all through the review process.

TWELFTH ANNUAL CONFERENCE LOOKS AT TAINTED REPUTATION OF ACCOUNTING PROFESSION

In excess of two hundred professionals gathered at the National Arts Centre on 23 October, 2003, to hear a panel of experts discuss the damaged reputation of the accounting profession. This tainted reputation arose out of the recent plaque of deceptive accounting practices, high executive compensation, MIS management, fraud, greed, the unethical behaviour of corporate leaders, and the lack of auditor integrity and independence.

The conferences' topic sought an answer to the question "How to restore public trust in business management?" It was the considered opinion of the panel of speakers that it is going to take some time before the public and investors trust the published financial reports of companies.

The participants to the conference were greeted by Joanne Leck, Vice Dean/Research, School of Management, University of Ottawa on behalf of the University and by Diane Burgess, Executive Director and COO, CGA Ontario on behalf of the Association.

The expert panel of speakers comprised the following academics: Michelle Causton, Canadore College of Business; Peter J. Barry, University of Illinois at Urbane-Champaign; Gary L. Sundem, School of Business, University of Washington; Sally P. Gunz, School of Accountancy, University of Waterloo; Rick Antle, School of Management, Yale University; and Merridee Bujaki (who also acted as moderator), School of Management, University of Ottawa.



Distinguished speakers at the CGA-ARC 12th annual conference: (left to right) Sally P. Gunz, Professor, School of Accountancy, University of Waterloo, ON; Peter J. Barry, Professor, University of Illinois, Urbana-Champaign, USA; Rick Antle, Professor, William S. Beinecke School of Management, Yale University, USA; Michelle Causton, Professor of Accounting Canadore College, School of Business, North Bay, ON; Gary Sundem, Professor, School of Business, University of Washington, USA

The first speaker, Professor Michelle Causton, pointed to breakdowns in corporate governance as being responsible for the collapse of corporations. Some of the specific shortcomings were: non-participating or non-independent boards of directors, deficiencies in management training and depth, a weak finance function, and the lack of external auditor independence. These shortcomings are not new and have been the subject of many studies. Old or new, these weaknesses must be corrected. The public must

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“Twelfth Annual Conference...” Continued from p.1

make its concerns known so that corporate governance will contribute to the proper running of a corporation.

Professor Peter J. Barry in his presentation on the role of information about financial markets and risk bearing, noted that investors and lenders rely heavily on information as to the assets, income and wealth of the organizations in which they have an interest. Obviously, as the financial interest of the investor or lender grows, so does the need for more information. Indeed, as debt increases the lender bears more and more risk. The borrower then, may be forced to allocate more and more control to the lender so that the lender may become a "contingent owner" of the borrowers' assets. There are many ways that the lender can reduce the risks associated with financing heavy debt loads.

Professor Gary Sundem pointed to a lack of self-regulation and poor credit practices as having contributed to the crisis in the credibility of financial reporting. The value of the external audit is that it is supposed to add credibility to published financial reports. The value and hence the credibility of financial reports has been compromised because the auditors' attention seemed to be on making money rather than on ensuring true disclosure. In his opinion, it is going to take some time before the reputation of the accounting profession is restored. Accounting can survive if there is a focus on solving the cultural problems facing the profession.

In the opinion of Professor Sally P. Gunz, public trust in the professions and business can only be restored if it is earned. The many business frauds could only occur with the active assistance of the professions. More regulation is certainly one way to help in restoring public confidence. But rules have always existed. What is really needed is compliance. Ethical behavior is affected by organizational factors. There is little evidence of conflict between a professional code of ethics or organizational obligations.

The Sarbanes-Oxley Act is the main legislative thrust in the United States to try to better govern financial reporting. Professor Rick Antle noted that this piece of legislation made a number of moves toward that end. The Act shifted corporate power and governance from the executive to the board; it established a system of regulation for the accounting profession; and it called for more transparency to public companies and auditors. To regulate the accounting profession, the Sarbanes-Oxley Act established the Public Company Accounting Oversight Board. Despite a rocky start, there is a great deal of hope being placed in the Board that it will help restore good practice and hence faith in the accounting profession.

Professor Merridee Bujaki presented the regulatory environment in Canada. She highlighted the public trust initiatives being taken by the Senate Committee on Banking, Trade and Commerce, the Canadian Council of Chief Executives, and the Canadian Democracy and Corporate Accountability Commission. All of these groups have as they aim the restoring of investor and public confidence in corporate management, the accounting profession and the published financial reports of companies. Canada's three professional accounting bodies are also actively involved in attempting to restore the integrity of the accounting profession, particularly in the eyes of those who depend upon it.

UPCOMING CONFERENCE WILL QUESTION WHETHER WE WORK TOO HARD

The topic for the 13th Annual Conference is "Work, Life-style, and Productivity: The Challenge for Individuals, Managers, Organizations and for the Society". A Health Canada study indicates that 60% of participants today feel that workload has exceeded acceptable limits. Canadians report working an average of 50 hours a week, up from the 35 to 40 hours they worked a few decades ago. For many, work is getting longer, harder and more stressful, and the boundary between work and personal life is becoming less and less distinct.

According to a study by the International Bureau of Labor, US and Japanese workers averaged 1825 hours of work in 2002. French and German workers averaged 1545 and 1444 hours, respectively. In Canada, the average was 1778 hours of work in 2002. According to the study, US workers are the most productive in absolute terms. However, on an hourly basis, Norwegian workers, with an average productivity of \$38 for each hour of work, followed by the French (\$35/hour), and the Belgian (\$34/hour), are more productive. US workers are fourth, with average productivity of \$32 per hour.

A number of factors are thought to explain work overload, including

- i. Increasing high demands from consumers, investors and other groups which exacerbates the already-high pressures on productivity and profit.
- ii. New technology which has exponentially increased the rate of information transfer and helped to blur the distinction between work and non-work.
- iii. Increase in non-value added activities (such as attending to a large number of e-mails, voice mails and meetings) arising, in part, from a lack of defined organizational priorities and responsibilities with inadequate coordination.
- iv. Poor technology and lack of training have often been blamed for wasted hours and reduced productivity.

QUESTIONS TO BE DISCUSSED AT THE CONFERENCE:

1. Why are we overloaded with work?
2. Do our organizations make us work too hard?
3. What are the consequences of the intensification of work?
5. How do we build a healthy and productive workplace?
6. What are progressive organizations doing to achieve such a balance?
7. What accounting and management control initiatives could be implemented to facilitate the transition to a fusion between work and personal life?

The Conference will be held on the morning of October 21, 2004, in the Panorama Room of the National Arts Centre.

RESEARCH ABSTRACTS

1. "The impact of commercialization and privatization on the technical efficiency of State-Owned Enterprises in Canada", by Richard Bozec and Mohamed Dia.

This study sets out to analyze the impact of privatization on the technical efficiency of some state-owned enterprises (SOEs) in Canada. It also focuses on the changes that are undertaken, prior to the transfer of property, in a bid to commercialize the corporations. In Canada, the commercialization of public sector enterprises started in the mid-1980s and the reforms were pursued with the privatization of SOEs. This specific context can be used to assess the impact of commercialization on the performance of public corporations in the post-privatization era. The results obtained following the multivariate analysis show that commercialization and privatization have a positive and significant impact on the technical efficiency of SOEs. They also show that once the corporations are commercialized, the impact of privatization on their efficiency becomes insignificant.

2. "The Effect of the Reform of Canadian State-Owned Enterprises on Major Corporate Governance Mechanisms", by Richard Bozec, Daniel Zeghal and Ameer Boujenoui.

Nowadays corporate governance is one of the most discussed topics by academics, practitioners and regulators. Most of the discussion is 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). We investigate the effect of the reform of Canadian SOEs on the characteristics of boards committees. Our results seem to confirm the presence of significant adjustments in board characteristics following two major events in the reform: commercialization and privatization. In both cases, boards have on the average evolved toward a set of structures and mechanisms that have the potential to improve independence and governance. This study sheds new lights on the process of adjusting corporate governance mechanisms to new strategies and to new environments.

3. "The Disclosure of Risk Management Information in Canadian Annual Reports", by Kaouther Lajili and Daniel Zeghal.

A firm's exposure to risk and the management of that exposure is becoming increasingly sought after and



Guests and presenters at the 12th annual conference: (left to right) Paul Faulkner, a member of CGA-ARC's advisory council; Diane Burgess, Director executive, CGA-Ontario; Joyce Evans, second vice president and treasurer, CGA-Ontario; Michelle Causton, Professor of Accounting Canadore College, School of Business, North Bay, ON; Lilian Goh, audit director, Office of the Auditor General of Canada; Tom Beechy, professor, York University, Schulich School of Business.

analysed information both at the firms internal and external levels for management, investment and valuation purposes. With that in mind, this paper examines risk information disclosure in Canadian annual reports in 1999 to provide insight into the current risk disclosure environment, characteristics and the analytical usefulness of the information disclosed mainly to outside agents, particularly shareholders. Our analysis of the financial reports of TSE 300 Canadian companies showed a high of risk disclosure intensity and an abundant set of qualitative information ranging from the simple listing of risks the firm is facing to the analysis of risk exposure and risk management strategies. Financial risk and to a lesser extent business risk were found to be the most frequently disclosed and analysed risk categories. However, the analytical power of the current risk disclosures as captured by the risk assessment analysis, appears to be quite limited, sometimes vague and possibly irrelevant for the purposes of carrying out rigorous, accurate and timely analyses of company risk profits and exposure both within and outside the firm's boundaries. We conclude that more formalized, comprehensive yet focused risk disclosure might be warranted in the future to effectively reduce information asymmetries between management and stakeholders.

4. "Revisiting Agency and Transaction Costs Theory Predictions on Vertical Financial Ownership and Contracting: Electronic Integration as an Organizational Form Choice", by K. Lajili and J. Mahoney.

Following an efficiency perspective and a micro-analytic approach, this research paper provides an organizational economics foundation to assist managers in selecting the appropriate organizational mode for major firm-level transactions under alternative assumptions. In particular, this paper focuses on alternative assumptions concerning: (1) the degree of specificity of the assets involved in the transactions (including human capital asset specificity), (2) the degree of uncertainty surrounding the transaction, and (3) the number of trading partners (suppliers and clients) in the vertical supply chain. The role of technology, and more specifically the e-business infrastructure and its effects on the choice of transaction organizational modes, is highlighted. The main results from this conceptual analysis suggest that the changes in information technology are changing the nature of transaction costs leading to more efficient management through an electronic integration solution thus favoring contracting and outsourcing as the preferred organizational form choice.



Members of CGA-Ontario board of Governors at the 12 annual conference: (left to right) Peter Rummye, Governor, CGA-Ontario; Keith Pearce, Director, Educational and Professional Programs, CGA-Ontario; Bruce Hutton, First Vice President/Secretary, CGA-Ontario; Lilian Goh, Audit Director, Office of the Auditor General of Canada;



The School of Management at the University of Ottawa was particularly well represented at the 12th annual conference: (left to right) Sadrudin Ahmed, Professor; Aremanda Subbarao, Professor; Joanne Leck, Associate Dean (Research), Sally P. Gunz, Professor, School of Accountancy, University of Waterloo, ON; Linda Manning, Director of Research; Lilian Goh, Audit Director, Office of the Auditor General of Canada;

CGA-ARC IN THE NEWS

The topic of the Twelfth Annual Conference, the problems of the accounting profession, seemed to hit a responsible cord with the news media. Both local and national media, printed and electronic carried stories of the conference.

In its issue of mid-November 2003, the Bottom Line carried a report on the Conference title "Restoring Financial Professionals Tainted Image".

The Ottawa Citizen of October 24, 2003 carried an article "Restoring Investor Confidence Could Take a Decade".

The local TV station "Ottawa Business TV" also carried a news feature on the conference featuring the remarks made by Professor Sundem.

The text of Professor Michelle Causton's presentation at the Conference was featured in the February/May 2004 issue of Statements.

Also an article written by Reine Degarie has been published in the Winter 2004 issue of the School of Management Bulletin. The head line was: "Modern Accounting Touches the Cornerstones of Our Society". The article is available in PDF at the following address: www.management.uottawa.ca

SAMPLE OF PUBLICATIONS

"The Effect of the Reform of Canadian State-Owned Enterprises on Major Corporate Governance Mechanisms" by Richard Bozec, Ameer Boujenoui and Daniel Zeghal, Australian Journal of Public Administration, 63(1), pp. 1-15, March 2004.

"Will the Accounting Profession Ever be Trusted Again?" by Paul Faulkner and Daniel Zeghal, Statements, February/March 2004.

"Revisiting Agency and Transaction Costs Theory Predictions on Vertical Financial Ownership and Contracting: Electronic Integration as an Organizational Form Choice?" by Kaouthar Lajili and Joseph Mahoney, Working Papers 04-02, February 2004.

"L'impact de la commercialisation et de la privatisation sur l'efficacité technique des sociétés d'État au Canada" by Richard Bozec and Mohamed Dia, Canadian Journal of Administrative Sciences, Vol. 20(4), p. 291-310

"Labor Costs Voluntary Disclosures and Firm Equity Values: Is Human Capital Information Value-Relevant?" by Kaouthar Lajili and Daniel Zeghal, Working Paper 04-03, February 2004.

"Board Structure and Firm Efficiency: Evidence from Canadian State-Owned Enterprise Using Data Envelopment Analysis" by Richard Bozec and Mohamed Dia, Working Papers 04-04, February 2004.

"Intellectual Capital: The New Engine for Wealth Creation" by Daniel Zeghal, New Engineer, Vol. 1., No. 1, July 2003.

"Analyse de la relation entre les mesures floues et les mesures traditionnelles de rendement et de risque", by Mohamed Dia and Daniel Zeghal, Working Papers 04-05, February 2004.

"Intangible Assets, Intellectual and Human Capital", Proceedings of the Eleventh Annual Conference, by Daniel Zeghal Editor, 183 pages, 2003.

"Analyse de l'évolution des mécanismes de gouvernance corporative dans les sociétés d'État au Canada" by Richard Bozec, Ameer Boujenoui and Daniel Zeghal, Finance, Contrôle et Stratégie (accepted).

FOR MORE INFORMATION

To learn more about the CGA-ARC visit our web site at the following address: www.cga-arc.uottawa.ca

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