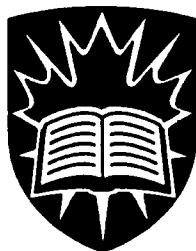


**PROGRAM  
AND  
COLLECTED ABSTRACTS  
OF  
THE CANADIAN ACADEMIC ACCOUNTING ASSOCIATION  
ANNUAL CONFERENCE**



**JUNE 10 to 12, 1993**



**CARLETON UNIVERSITY**

**Program Compliments of School of Business and Economics, Wilfrid Laurier University**

# **1993 CAAA CONFERENCE PROGRAM**

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**Special Acknowledgement: Thanks go to Faith McCord, Wilfrid Laurier University for her considerable effort, time and skill that she devoted to the Conference Program.**

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 The University of Calgary  
 University of Saskatchewan  
 Laurentian University  
 University of Ottawa

**Thursday, June 10**

**8:00 a.m. - 4:00 p.m.**

**REGISTRATION**

**Location:** Tory Building, Foyer

**EDUCATION WORKSHOP**

**Chairperson:** David Bateman, St. Mary's University

**9:00 a.m. - 12:00 p.m.**

**Content:** Session 1

Patricia Rogers, York University  
"The Preparation and Use of the Teaching  
Dossier: Identifying and Rewarding Good  
Teaching"

**12:10 p.m. - 1:25 p.m.**

**Lunch**

**Location:** Senate Lounge, Administration Building (sixth  
floor)

**1:30 p.m. - 4:30 p.m.**

**Content:** Session 2

Donald Woods, McMaster University  
"Empowering Students with Confidence in  
their Problem Solving Skills"

**Location:** Steacie Building, Room 311

Luncheon and materials sponsored by Harcourt Brace & Company  
Canada

Thursday, June 10

4:30 p.m. - 6:00 p.m.

**SESSION FOR CURRENT AND RECENT DOCTORAL STUDENTS AND INTERESTED FACULTY**

**Chairperson:** Sati Bandyopadhyay, University of Waterloo

**Content:** The objectives of the session are to enable current and recent doctoral students to become acquainted, to facilitate the exchange of ideas, and to promote interaction between students and faculty. In addition to current and recent doctoral students and those considering pursuing a doctorate, faculty members who are active in research are encouraged to attend. William Scott, University of Waterloo, and Dick Chesley, St. Mary's University will attend the session as special invited guests.

**Location:** Steacie Building, Room 311

6:30 p.m. - 10:00 p.m.

**CAAA WELCOME RECEPTION**

Sponsored by the Canadian Institute of Chartered Accountants

**Location:** Administration Building, Foyer

**Friday, June 11**

**7:00 a.m. - 8:15 a.m.**

**BREAKFAST**

Sponsored by Times Mirror Professional Publishing

**Location:** University Commons, Lounge (main floor)

**8:00 a.m. - 5:00 p.m.**

**REGISTRATION**

**Location:** Tory Building, Foyer

**8:30 a.m. - 8:45 a.m.**

**\*WELCOMING REMARKS**

**Speakers:** Dr. Robin Farquhar  
President and Vice-Chancellor  
Carleton University

Jean-Guy Rousseau, CAAA President  
École des Hautes Études Commerciales

**Location:** Minto Centre, Bell Theatre

**8:45 a.m. - 10:30 a.m.**

**\*PLENARY SESSION 1: Innovations in Research of Environmental Issues**

**Chairperson:** Howard Teall, Wilfrid Laurier University

**Content:** Chris Robinson, York University  
"A Deep Ecology Critique of Accounting"

Marjolaine Naud, École des Hautes Études Commerciales

"Les taxes vertes: voie d'avenir en matière de protection de l'environnement et de développement durable"

\*Simultaneous translation will be provided for these sessions.

**Friday, June 11**

Hay Y. Chung, Kyung Hee University  
 Jeong-Bon Kim, Concordia University  
 "Market Reactions to Incidents of Hazardous  
 Wastes Leakage and Expected Remedial  
 Costs"

**Discussants:** Daniel Thornton, University of Calgary

Len Brooks, University of Toronto

**Location:** Minto Centre, Bell Theatre

10:30 a.m. - 10:45 a.m. **BREAK/BOOK DISPLAYS**

Sponsored by The Institute of Chartered Accountants of Ontario

**Location:** Steacie Building, Foyer (third floor)

10:45 a.m. - 12:15 p.m. **CONCURRENT SESSIONS 1A, 1B, and 1C**

**\*Session 1A:** Innovations in Financial Reporting

**Chairperson:** Irene Gordon, Simon Fraser University

**Content:** Egbert McGraw, Université de Moncton  
 "Etude de la réaction du marché boursier à  
 la norme SFAS 87"

Frederick Niswander, East Carolina  
 University

Stephen Salter, Texas A&M University  
 "Evidence of Income Smoothing Among  
 Large Multinational Banks in the US, UK  
 and Canada"

Jeffrey Power, University of Rhode Island  
 "Income Manipulation Around the Time of  
 Antitakeover Amendment Proposals"



Friday, June 11

**Discussants:** Andreas Charitou, University of Toronto  
Gary Entwistle, University of Saskatchewan

**Location:** Minto Centre, Bell Theatre

**Session 1B:** Innovations in Auditing

**Chairperson:** William Banks, Wilfrid Laurier University

**Content:** Steven Salterio, The University of Michigan  
"The Effects of Precedents on Financial Accounting Policy Judgments"

Kevin Chen, Rutgers, The State University of New Jersey

Bryan Church, Wilfrid Laurier University  
"Going Concern Opinions, Bankruptcy Announcements, and Excess Stock Returns"

Duncan Green, University of Calgary  
W. Daryl Lindsay, University of Saskatchewan

"Audit Quality: The Perceptions of Canadian Audit Committee Members"

**Discussants:** Morley Lemon, University of Waterloo

Claude Pilote, Université Laval

**Location:** Steacie Building, Room 311

**Session 1C:** Innovations in Compensation Research

**Chairperson:** Sally Gunz, University of Waterloo

**Content:** Thomas Scott, University of Alberta  
Peter Tiessen, University of Alberta  
"A Review of the Literature on Executive Compensation and Performance"

**Friday, June 11**

Michel Magnan, Université du Québec à Montréal

Linda Thorne, McGill University/Bishop's University

"CEO Compensation and Corporate Performance: A Comparative Analysis of Canadian and American Firms"

Vaughan Radcliffe, University of Alberta

"Understanding Management Compensation"

**Discussants:** Amin Mawani, University of Waterloo

Nabil Elias, University of Manitoba

**Location:** Steacie Building, Room 310

12:30 p.m. - 2:30 p.m.

**CAAA PRESENTATIONS LUNCHEON**

Sponsored by the Certified General Accountants' Association of Canada

**Chairperson:** Jean-Guy Rousseau  
President, CAAA

**Speaker:** Keith O. Dorricott  
Vice-Chairman, Corporate Services  
Bank of Montreal

**Location:** University Commons, Green Dining Room  
(second floor)

2:45 p.m. - 4:15 p.m.

**CONCURRENT SESSIONS 2A, 2B, 2C**

**\*Session 2A:** Innovations in Management Accounting

**Chairperson:** Louis Zanibbi, Laurentian University

**Content:** Emanuelle Charles, Université de Genève  
Bernard Morard, Université de Genève  
Jacques Trahand, Université de Grenoble,  
France  
Patrick Viallanex, Université de Grenoble,  
France

**Friday, June 11**

"Approche formelle de la repartition: des regles classiques à l'allocation optimale"

Jim Fisher, Wilfrid Laurier University  
John McCutcheon, Wilfrid Laurier University  
Mort Nelson, Wilfrid Laurier University  
"Information Technology and Management Accounting: A Survey"

Tupper Cawsey, Wilfrid Laurier University  
Gene Deszca, Wilfrid Laurier University  
Howard Teall, Wilfrid Laurier University  
"Management Control Systems in Excellent Canadian Companies"

**Discussants:** David Sharp, University of Western Ontario

Joseph Abegah, University of New Brunswick

**Location:** Minto Centre, Bell Theatre

**Session 2B:** Education and the Profession

**Chairperson:** Jack Hanna, University of Waterloo

**Content:** Martin Mathews, Massey University  
B. P. Budge, The University of Montana  
R. D. Evans, The University of Montana  
"Reactions to the AECC Proposals by a Sample of Academic Administrators"

Ronald Davidson, Simon Fraser University  
J. T. Dalby, University of Calgary  
"A Comparison of the Personalities of Canadian Accounting Faculty and Public Accountants"

Friday, June 11

Julien Bilodeau, Université du Québec à Montréal

Guy Cucumel, Université du Québec à Montréal

Danielle Gagnon-Valotaire, Université du Québec à Montréal

"La relation entre la formation universitaire en sciences comptables et la performance à l'examen final uniforme de l'institut canadien des comptables agréés"

**Discussants:** John Gunn, Doane Raymond Pannell

Khalid Nainar, McMaster University

**Location:** Steacie Building, Room 311

**Session 2C:** Research of Financial Reporting Information

**Chairperson:** Michel Magnan, Université du Québec à Montréal

**Content:** Sati Bandyopadhyay, University of Waterloo  
Douglas Hanna, University of Waterloo  
Gordon Richardson, University of Waterloo  
"Capital Market Effects of American-Canadian GAAP Differences"

Lucy Ackert, Wilfrid Laurier University  
Bryan Church, Wilfrid Laurier University  
Mohamed Shehata, McMaster University  
"An Experimental Examination of the Effect of Forecast Bias on the Demand for and Use of Forecasted Information"

Efrim Boritz, University of Waterloo  
Duane Kennedy, University of Waterloo  
Augusto de Miranda e Albuquerque, University of Waterloo  
"Predicting Corporate Failure Using a Neural Network Approach"

Friday, June 11

**Discussants:** Norm Betts, University of New Brunswick  
Anwer Ahmed, University of Florida

**Location:** Steacie Building, Room 310

4:15 p.m. - 4:30 p.m.

**BREAK/BOOK DISPLAYS**

Sponsored by Carswell/Thomson Professional Publishing

**Location:** Steacie Building, Foyer (third floor)

4:30 p.m. - 5:45 p.m.

**\*CAAA ANNUAL MEETING**

**Chairperson:** Jean-Guy Rousseau  
President, CAAA

**Attending by invitation:** Andrew Bailey, Jr.  
Incoming President, AAA

**Location:** Minto Centre, Bell Theatre

6:30 p.m. - 9:30 p.m.

**CAAA MEMBERS' RECEPTION**

Sponsored by John Wiley & Sons Canada, Ltd.

**Location:** Dunton Tower, Room 2017, The Arts Lounge

**Saturday, June 12**

7:30 a.m. - 8:45 a.m.

**BREAKFAST**

Sponsored by Nelson Canada

**Location:** University Commons, Lounge (main floor)

9:00 a.m. - 10:30 a.m.

**PLENARY SESSION 2: Reporting on Internal Control****Chairperson:** Efrim Boritz, University of Waterloo**Speakers:** Andrew Bailey, University of Arizona

Duncan Galloway, Deloitte &amp; Touche

Bonnie Miller, Office of the Auditor General  
of Canada

Frank Barfuss, Bell Canada

**Location:** Steacie Building, Room 103

10:30 a.m. - 10:45 a.m.

**BREAK/BOOK DISPLAYS**

Sponsored by The Society of Management Accountants of Ontario

**Location:** Steacie Building, Foyer (third floor)

10:45 a.m. - 12:15 p.m.

**CONCURRENT SESSIONS 3A, 3B, 3C****Session 3A:** Innovations in Pedagogy**Chairperson:** Ian McKillop, University of Waterloo**Content:** William Banks, Wilfrid Laurier University  
Donald Smith, Wilfrid Laurier University  
"A New Educational Software Package for  
Introductory Financial Accounting"

**Saturday, June 12**

Donald Smith, Wilfrid Laurier University  
William Banks, Wilfrid Laurier University  
"A Microcomputer Based Windows 3.1,  
Interactive, Multimedia Introduction to the  
Mechanics of Financial Accounting"

Howard Armitage, University of Waterloo  
"Implementing Activity-Based Management  
in a Classroom Setting"

**Location:** Steacie Building, Room 103

**Session 3B:** International Accounting

**Chairperson:** David Manry, University of Manitoba

**Content:** Jeffrey Kantor, The University of Windsor  
David Sharp, The University of Western  
Ontario  
"Firm and Country Cultures in the  
International Accounting Profession: An  
Exploratory Study"

Gary Entwistle, University of Saskatchewan  
"International Financial Accounting  
Research: A Framework for Understanding"

Ali Sedaghat, Loyola College in Maryland  
Sharon Levin, Loyola College in Maryland  
"Globalization of Accounting Profession:  
Toward Development of an International  
Accounting Certification/Designation"

**Discussants:** Tom Beechy, York University

Martin Mathews, Massey University

**Location:** Steacie Building, Room 311

**Session 3C:** Accounting, Behaviour and Organization

**Chairperson:** Thomas Scott, University of Alberta

Saturday, June 12

**Content:** Dean Neu, University of Calgary  
Cynthia Simmons, University of Calgary  
"Reconsidering the 'Social' in Positive Accounting Theory: The Case of Site Restoration Costs"

Ronald Marden, University of South Florida  
Somnath Bhattacharya, University of South Florida

Karen Hooks, University of South Florida  
"Additional Findings Regarding Audit Evidence in Light of the Belief Revision Model"

Robert Rosacker, University of South Dakota  
Jon Carpenter, University of South Dakota  
Richard Metcalf, University of South Dakota  
"Deterministic Chaos: The Evolution of an Innovative Research Methodology"

**Discussants:** Vaughan Radcliffe, University of Alberta  
Irene Gordon, Simon Fraser University

**Location:** Steacie Building, Room 310

12:30 p.m. - 2:00 p.m.

**CAAA MEMBERS' LUNCHEON**

Sponsored by the Society of Management Accountants of Canada

**Chairperson:** Jean-Guy Rousseau, President, CAAA

**Speaker:** Admiral Peter Martin, National Defence

**Location:** University Commons, Green Dining Room  
(second floor)



**Sponsored by Houghton Mifflin Canada Limited**

Thank you for your support of the CAAA.

Plan to attend next year's conference at  
the University of Calgary

## **ABSTRACTS**

## A DEEP ECOLOGY CRITIQUE OF ACCOUNTING

Chris Robinson  
York University

Current accounting practice is deeply implicated in the catastrophic degradation of our ecosystem. It is easily shown that these practices cannot appropriately reflect our relationship with Nature, using Commoner's (1971) four 'laws' of ecology:

1. Everything is connected to everything else;
2. Everything must go somewhere;
3. Nature knows best; and,
4. There is no such thing as a free lunch.

The emergent principles of 'green' accounting attempt to respond to this failure. I pose the philosophical question:

**To whom do we account for Nature?**

In the 'shallow' or 'reform' tradition of ecological philosophy, the answer is all present and future members of the human species. A green accounting that will serve this purpose can exist within a modestly-enhanced framework of accounting as we know it today.

In the new ecophilosophy of 'deep' or 'transpersonal' ecology, the answer is all species present and future. Deep ecology rests on two ultimate norms:

1. Self-realization, in the sense of organic wholeness with all life; and,
2. biocentric equality of all things in the biosphere.

A green accounting that operates within the present structure of accounting cannot and will not support these norms. Only a radical restructuring of what we mean by accounting can reflect the unity of our existence within an ecosystem.

I contend that the shallow reform is not enough. Without the paradigm shift entailed in deep ecology, accounting will continue to contribute to the destruction of the ecosystem of which we are all inseparable parts, and we will thus be destroying our Selves, in every way.

### PLENARY SESSION 1

Friday, June 11  
8:45 a.m. - 10:30 a.m.

Location: Minto Centre, Bell Theatre

## **"LES TAXES VERTES: VOIE D'AVENIR EN MATIÈRE DE PROTECTION DE L'ENVIRONNEMENT ET DE DÉVELOPPEMENT DURABLE"**

**Marjolaine Naud**  
École des Hautes Études Commerciales

La question environnementale suscite plusieurs interrogations dans bien des domaines. Le monde de la fiscalité n'y échappe pas, bien au contraire. Par exemple, quelles sont les possibilités qui s'offrent aux gouvernements afin de contribuer à améliorer l'état de la planète? La politique fiscale canadienne a-t-elle un rôle à jouer dans la poursuite du développement durable? C'est à ce genre de questions que ce papier a essayé de répondre.

Actuellement le gouvernement fédéral légifère beaucoup en matière environnementale par voie de règlements ou de normes environnementales que les entreprises doivent respecter, sous peine d'amendes. Une analyse de l'utilisation des règlements démontre que ces derniers ne sont pas suffisants pour provoquer des changements de comportements chez les entreprises. Une comparaison entre les règlements et les instruments économiques permet de dégager que ces derniers ont plus de chances de réussir là où les règlements échouent. Effectivement les instruments économiques se servent des forces du marché pour intégrer les considérations écologiques dans le processus de prise de décision. Ils comprennent à la fois des instruments non fiscaux et des instruments fiscaux. Une brève analyse des instruments non fiscaux a été effectuée, mais cela ne signifie pas qu'ils sont moins efficaces que les instruments fiscaux. Une attention particulière a été accordée aux instruments fiscaux, plus précisément les taxes vertes ou les redevances écologiques.

L'analyse démontre que l'utilisation des taxes vertes augmente les chances que les objectifs suivants soient atteints:

- 1 - Respect du principe "Pollueur - Payeur" pour faire en sorte que les prix reflètent mieux les coûts véritables de production.
- 2 - S'assurer que ce soit ceux qui endommagent l'environnement qui en paient le prix et non la société toute entière et les générations futures.
- 3 - Inciter les entreprises et les consommateurs à opter pour des solutions de rechange qui soient moins nuisibles pour l'environnement (concept du développement durable).

Comment ces taxes vertes risquent-elles d'être perçues par les entreprises et par les consommateurs? Quels éléments doit-on considérer lors de l'instauration de ces taxes? Comment s'intégreront-elles aux systèmes fiscal et comptable actuels? Voilà autant de questions auxquelles l'auteure a essayé de répondre.

### **PLENARY SESSION 1**

**Friday, June 11**  
8:45 a.m. - 10:30 a.m.

**Location: Minto Centre, Bell Theatre**

## **MARKET REACTIONS TO INCIDENTS OF HAZARDOUS WASTES LEAKAGE AND EXPECTED REMEDIAL COSTS**

**Hay Y. Chung**  
Kyung Hee University

**Jeong-Bon Kim**  
Concordia University

The paper investigates stock market reactions to incidents of the hazardous wastes leakage by semiconductor firms in the Silicon Valley area for the 1980-1986 period. When daily returns are utilized, no unusual market performance is observed around the detection dates of the leakage. However, when monthly returns are utilized, negative market performance is observed only after the detection month and it continues for several months. This protracted price adjustment indicates that the market is not fully informed of adverse economic consequences of the leakage at times of detections, and thus, needs more information to complete its price adjustment process. Results also show that the negative market performance after the detection of the leakage appears to depend on expected remedial costs such as clean-up costs. This dependency suggests that the market correctly interprets the return implication of the leakage when additional information about the leakage becomes available. The above results, taken as a whole, may thus be viewed as empirical evidence supporting the need for a new reporting system to account for the hazardous wastes disposal: expected future remedial costs be reported as contingent liabilities in financial statements.

### **PLENARY SESSION 1**

**Friday, June 11**  
8:45 a.m. - 10:30 a.m.

**Location: Minto Centre, Bell Theatre**

## **ETUDE DE LA RÉACTION DU MARCHÉ BOURSIER À LA NORME SFAS 87**

**Egbert McGraw**  
Université de Moncton

En décembre 1985, le Financial Accounting Standard Board (FASB) a autorisé la publication de la norme SFAS 87 qui portait sur la comptabilisation des régimes de retraite. La norme SFAS 87 exige que toutes les entreprises utilisent la même méthode actuarielle et comptabilisent dans leur bilan financier une dette (actif) nette lorsque les obligations reliées aux droits à des prestations sont supérieures (inférieures) aux actifs du régime et qu'ainsi, le régime est sous provisionné (sur provisionné).

Cette recherche étudie la réaction du marché boursier américain à certains événements entourant les discussions et les positions du FASB sur cette norme. La théorie sur laquelle repose cette étude postule que l'élimination d'une procédure comptable faisant partie d'un ensemble optimal de procédures utilisées par l'entreprise entraîne une diminution de la valeur de la firme et du prix de ses titres. Le prix des titres diminuera si la procédure éliminée pouvait être utilisée afin de diminuer la probabilité de défaut sur les contrats de dette existant avant les changements proposés ou pour diminuer les coûts reliés aux pressions politiques. Le modèle du marché a été utilisé pour calculer les rendements anormaux aux dates des événements.

Les résultats montrent que le marché a réagi de façon significative aux événements entourant les débats sur la norme SFAS 87. Les entreprises sous provisionnées ont réagi positivement et significativement à certains événements qui représentaient un adoucissement éventuel ou des annonces d'adoucissement éventuel de la position du FASB. En aucun temps nous n'avons observé une réaction négative significative des titres des compagnies sous provisionnées. À quelques reprises, les compagnies sur provisionnées ont réagi négativement et leurs titres ont subi une correction à la baisse. Cette réaction négative fait aux entreprises sur provisionnées s'explique par un ajustement des anticipations des investisseurs pour des événements qui les désavantageaient. Les réactions observées laissent croire qu'avant la date du premier événement étudié, le marché avait en partie anticipé les conséquences économiques de la comptabilisation des régimes de retraite.

**CONCURRENT SESSION 1A**

**Friday, June 11**  
**10:45 a.m. - 12:15 p.m.**

**Location: Minto Centre, Bell Theatre**

## **EVIDENCE OF INCOME SMOOTHING AMONG LARGE MULTINATIONAL BANKS IN THE U.S., U.K., AND CANADA**

**Frederick Niswander**  
East Carolina University

**Stephen B. Salter**  
Texas A&M University

This paper examines income smoothing by large multinational banks in the United States, United Kingdom, and Canada. The likelihood of bank income smoothing is theorized to be dependent upon two country-specific factors: the probability of bank failure and the regulatory style. Empirical tests are performed which test whether a sample of multinational banks use the level of bad debt provision as a method to smooth pre-tax earnings.

This research is important for three reasons. First, bank regulators use accounting information including accounting income and capital, in the regulatory process. A better understanding of the earnings and reporting process will assist regulators. Second, bank income smoothing has not been tested in a cross-national setting. Examination of a common industry across countries may provide insights into accounting and business actions. Third, although there is significant academic literature concerning income smoothing and income management in general, there is little smoothing literature relating to banks and the bank bad debt provision. This research should fill a gap in the academic literature.

This paper builds on a smoothing motivation theory set forth by Trueman and Titman (1988), who suggest that smoothing may differ across industries depending on the probability of bankruptcy of the industry. This theory can be extended in an international context: within one industry, smoothing may vary across countries depending on the probability of bankruptcy across countries. We also theorize that the "style" of regulatory oversight may enhance or restrict smoothing activities and we derive a taxonomy of three regulatory styles. The combination of the bankruptcy and regulatory theories suggest that if there are differences in the probability of bank bankruptcy and in the extent and nature of regulatory oversight between countries, the occurrence of income smoothing will also differ. We hypothesize that it is more likely that U.S. banks smooth income because the probability of bankruptcy is higher and the regulatory oversight is more rule-oriented in the U.S. as compared to the U.K. and Canada.

Empirical tests are performed to determine whether U.S., U.K., and Canadian banks use the bad debt provision to smooth income. Financial statements of 14 U.S. banks, 7 U.K. banks, and 6 Canadian banks are examined for the 1978-1986 period using a pooled time series regression model. Endogenous and exogenous control variables are incorporated in the model. Tests indicate that U.S. banks smooth net income before taxes by using the loan loss provision as a smoothing instrument. There is evidence that U.K. banks and Canadian banks do not smooth. The model exhibits cross-sectional and intertemporal stability.

**CONCURRENT SESSION 1A**

**Friday, June 11**  
10:45 a.m. - 12:15 p.m.

**Location: Minto Centre, Bell Theatre**



## **INCOME MANIPULATION AROUND THE TIME OF ANTITAKEOVER AMENDMENT PROPOSALS**

**Jeffrey W. Power**  
University of Rhode Island

Prior studies dealing with managerial manipulation of earnings and corporate control issues have had mixed results. DeAngelo (1986) found no evidence of income decreasing behavior on the part of firms prior to their going private in a management buyout. However DeAngelo (1988) did find income increasing behavior on the part of firms actively engaged in a proxy fight. The research presented here is similar in that it investigates another potential opportunity for income increasing behavior to be observed.

The purpose of this research is to investigate the potential for self serving earnings manipulation by managers at a time when there was a perceived possibility of divergent goals between managers and shareholders. The proposal of an antitakeover amendment is seen as a confirmation of this divergence. During the takeover wave of the early 1980's many managers felt threatened, in that they were managers of potential takeover targets. A manager's wealth is tied much more directly to the particular firm with which he is employed than its shareholders. Shareholders have the ability to diversify away at least a part of the risk of an investment of capital, but a manager cannot diversify the risk inherent in the investment of his labor. Therefore, a takeover threat increases the nondiversifiable risk to the manager of his investment of labor.

Hypotheses based on the expectation that managers will report higher earnings increasing accruals in the period preceding an antitakeover amendment proposal were developed. The premise is that there is an increased risk to the managers' economic welfare due to a perceived takeover threat, and that they would be predisposed to manipulating reported earnings in an effort to reduce their personal risk and to increase their own compensation in the short run.

These hypotheses were tested using both parametric and nonparametric methods and the measure of income manipulation behavior was calculated in several different ways. The primary measure of income manipulation used was the difference in the accounting accruals of antitakeover amendment proposing firms and non proposing firms. The results of these tests were consistent over four different measures of accrual levels as well as changes in accruals and three different deflator variables. Income increasing behavior was observed in the annual report released one year prior to the antitakeover amendment proposal. In addition, a reversal of this behavior was observed in the proposal year, and for some subsamples, in the year following the proposal year. This income increasing behavior, and the subsequent reversal, was most evident in firms proposing the more restrictive amendments and in the firms with lower levels of institutional ownership.

**CONCURRENT SESSION 1A**

**Friday, June 11**  
**10:45 a.m. - 12:15 p.m.**

**Location: Minto Centre, Bell Theatre**

## **THE EFFECTS OF PRECEDENTS ON FINANCIAL ACCOUNTING POLICY JUDGMENTS**

**Steven Salterio**  
The University of Michigan

Accountants and audit firms decide on a daily basis about financial accounting measurement, valuation, and reporting issues. Specifically, auditors make judgments about whether significant accounting policies are "in conformance with generally accepted accounting principles" (Statement of Auditing Standards No. 5). A few issues involve such difficult judgments that these issues are brought to the attention of the audit firm's national office. This study investigates the effects of the precedents generated by national office's central research unit (CRU) on the accounting policy judgments of auditors in the firm's practice offices.

Limited prior research has taken place on the effects of precedents on a public accountant's judgment. Both studies (Marchant, 1989, and Marchant et al., 1991) were only able to show limited effects of precedents on experienced auditor and experienced tax manager judgments.

The findings in these studies are troubling as prior research (Danos and Boley, 1980, and Salterio, 1992) documents significant use of precedents in making financial accounting policy judgments in public accounting practice. All of the Big Six audit firms have CRU's whose primary function is to provide precedents to practice offices for use in making financial accounting policy judgments (Danos and Boley, 1980).

The approach taken in this research employs a combination of experiments and archival data to investigate whether auditors respond to precedents. The archival data, obtained from the CRU of a Big Six firm, focuses on the precedent generation process. The experiments test whether the precedents generated affect an experienced auditor's judgment. The archive search discovered the case employed in the experiment. The case contains all the information that an auditor would normally receive from the CRU in such a situation.

Case based reasoning (CBR), a within domain theory about the effects of precedents on judgment, forms the basis for testing the proposition that precedents will affect the auditor's resolution of the case problem. CBR theory predicts that the perceived similarity of the precedent to the case will explain variation in usage of precedents by auditors to solve the case. Within this broad framework, I study whether two well documented psychological effects, source credibility and inherited hypothesis, are major factors in the auditor's judgment. The conditions under which differential source credibility effects (Sharma, 1990, Krapfel, 1985, and Bimbaum and Mellers, 1983) happen and inherited hypothesis effects (Libby, 1985, and Ashton et al., 1988) happen occur naturally in this environment. Thus, the environment provides an excellent opportunity for testing whether these are key factors in audit judgments of this type.

The results support the CBR based explanation of auditor judgment. The contents of the precedents affect the auditor's judgment. The perceived similarity of the precedents to the case provides explanatory power as to the degree the precedents affect the auditor's judgment. Further, support is found for the factors identified by case base reasoning theory that are hypothesized to underlie more experienced auditor judgment. The experiments provide no support for either the effect of precedent source or the effect of an inherited hypothesis on the auditor's judgment. Post hoc analysis provided indications as to why these psychological effects do not occur in the audit environment.

### **CONCURRENT SESSION 1B**

**Friday, June 11**  
10:45 a.m. - 12:15 p.m.

**Location: Steacie Building, Room 311**

## **GOING CONCERN OPINIONS AS AN EARLY INDICATOR OF FINANCIAL FAILURE: EVIDENCE FROM EXCESS RETURNS OF BANKRUPT FIRMS**

**Kevin C. W. Chen**  
Rutgers, The State University of New Jersey

**Bryan K. Church**  
Wilfrid Laurier University

Over the past decade, the number of firms filing for bankruptcy has increased dramatically. This rapid increase is of concern to market participants because of the potential for high costs when contracting with financially distressed firms. As such, market participants may be particularly interested, today, in information that signals impending failure. In this paper, we investigate the usefulness of going concern opinions as an early indicator of approaching financial demise. Several analyses are performed on a sample of bankrupt firms. The empirical results suggest that, after controlling for other variables, going concern opinions are useful in explaining excess returns occurring around the media disclosure of bankruptcy. Firms receiving going concern opinions experience less negative excess returns around the announcement of bankruptcy than firms receiving non-GC opinions. These findings provide evidence that GC opinions lessen the impact of bankruptcy announcements, perhaps because such announcements are better anticipated for GC firms. Our results also provide some evidence that going concern opinions are useful in explaining excess returns occurring around the issuance of the auditor's report. We found some evidence that firms receiving going concern opinions experience more negative excess returns around the issuance of the auditor's report than firms receiving non-GC opinions. These findings provide additional evidence that going concern opinions convey useful information to market participants, potentially signalling approaching financial difficulties. In sum, our results indicate the importance of GC opinions.

**CONCURRENT SESSION 1B**

**Friday, June 11**  
10:45 a.m. - 12:15 p.m.

**Location: Steacie Building, Room 311**

## **AUDIT QUALITY: THE PERCEPTIONS OF CANADIAN AUDIT COMMITTEE MEMBERS**

**Duncan L. Green**  
University of Calgary

**W. Daryl Lindsay**  
University of Saskatchewan

Audit committees, a well established part of corporate governance, have become involved with many functions related to financial statements, internal controls, and auditing. A major duty of the audit committee is to nominate or select the external auditor. This specific task represents a basic assessment of the tradeoffs between audit quality and audit fees.

This study examines audit quality from an outcome perspective based on direct evidence from audit committee members. There is little existing evidence regarding the attributes which audit committee members perceive to affect the quality of audit service. Hence, the primary research objectives were to investigate audit committee members' perceptions of the impact of factors related to the quality of audit service on the selection of auditors and to obtain background data related to Canadian audit committees. The results indicated that audit committee members do perceive a significant difference in the impact of the individual audit quality attributes. The major conclusions of the study were (1) audit team attributes were considered more important than firm wide characteristics, one grouping of team attributes explained more than 30% of the respondents' perceptions of audit quality; (2) audit expertise was considered to be the second most important attribute, followed by auditor reputation, and audit partner technical and interpersonal skills; and (3) the extensive list of functions performed by respondent audit committees indicated their increasingly important role in corporate governance.

### **CONCURRENT SESSION 1B**

**Friday, June 11**  
10:45 a.m. - 12:15 p.m.

**Location: Steacie Building, Room 311**

## A REVIEW OF THE ECONOMICS-BASED LITERATURE ON EXECUTIVE COMPENSATION AND PERFORMANCE

Thomas Scott and Peter Tiessen  
University of Alberta

This paper reviews compensation-performance research from accounting, finance, and economics. Jensen and Murphy (1990) have launched a debate concerning how strongly executive compensation should be associated with firm performance. They advocate greater CEO shareholdings, a stronger sensitivity of compensation to performance, and a greater probability of termination for poor performance. Others believe that current mechanisms provide a sufficiently strong incentive. The paper reviews evidence on the strength of the compensation-performance relationship for different performance measures, how changes in performance sensitivity affects future performance, whether performance is measured relative to peer groups, the role played by the threat of termination, and tests of the efficacy of different compensation arrangements through stock market responses. In addition, methodological issues and weaknesses are identified and discussed.

Overall, tests of the compensation-performance link suggest that the relationship is relatively weak, with  $R^2$ 's generally less than .05 for stock returns and less than .10 for accounting returns. Accounting returns are the more important performance measure in explaining cash compensation, whereas stock returns are more important when options and shareholdings are included. Sales growth appears to explain performance in some studies, but is generally insignificant in studies including both accounting and stock returns. Despite, strong theoretical support, there is little evidence that the performance of top executives is evaluated relative to peer groups in determining compensation; however, there is some evidence that termination is associated with relative performance.

Most studies examine only ex-post associations between compensation and performance, thus we cannot infer causality. We found only two studies that test whether having compensation more sensitive to performance is associated with improved future performance, and these provide only very weak, although positive results.

Several papers have examined stock market reactions to the introduction of specific compensation plans or stock market reactions to merger activity conditional on either the existence of specific plans or levels of management shareholdings. The findings indicate that adoption of both short and long term plans appear to be associated with positive returns and that mergers are valued more positively if managers' compensation packages emphasize long term performance.

**CONCURRENT SESSION 1C**

**Friday, June 11**  
10:45 a.m. - 12:15 p.m.

**Location: Stacie Building, Room 312**

## **CEO COMPENSATION AND CORPORATE PERFORMANCE: A COMPARATIVE ANALYSIS OF CANADIAN AND AMERICAN FIRMS**

**Michel Magnan**  
Université du Québec à Montréal

**Linda Thorne**  
McGill University/Bishop's University

This study compares the relationship between CEO compensation and corporate performance among Canadian and American firms. New S.E.C. regulations requiring U.S. firms to discuss how corporate performance influences executive compensation underline the importance of this issue for investors and regulators. However, since securities regulations in Canada do not require the disclosure of individual compensation data, the Canadian sample is composed of firms that are publicly traded in the United States and thus subject to U.S. securities disclosure regulations. The Canadian sample is then matched with U.S.-based firms that are active in the same industries. Overall, the sample comprises 378 firm-year observations collected from 1984 up to 1990. Since it is an exploratory investigation, only cash salary plus bonus was considered. Extensions from the study will consider more comprehensive forms of compensation.

Results indicate that the relationship between  $\log(\text{firm size})$  and  $\log(\text{CEO compensation})$  is similar for U.S. and Canadian firms, thus confirming the robustness of the relationship across countries and industries found in other studies. In addition, while Canadian firms seem to emphasize stock market performance as a compensation determinant, U.S. CEOs' compensation is dependent upon accounting returns (i.e., return on equity). The presence of a controlling stockholder leads CEO compensation to be based upon accounting returns.

Contributions from the study's results are threefold. First, since agency theory predicts that compensation contracts directly influence executives' actions, the investigation of actual compensation contracts is of primary importance if we want to gain further insight into their motivation. Second, the current debate about the competitiveness of the Canadian economy could also benefit from further investigation of Canadian executive compensation practices. By contrast, U.S. executive compensation practices have been subject to extensive empirical research.

Finally, statistical analyses of objective compensation data obtained from public sources allow for the extension of U.S.-based results and help lay the foundation of future research with Canadian data if and when disclosure requirements change. Up to now, most studies on Canadian compensation practices have relied on data that firms self-reported and which was therefore not subject to the same degree of attention than data included in proxy statements.

### **CONCURRENT SESSION 1C**

**Friday, June 11**  
10:45 a.m. - 12:15 p.m.

**Location: Steacie Building, Room 312**

## UNDERSTANDING MANAGEMENT COMPENSATION

Vaughan Radcliffe  
University of Alberta

This study focuses on the understandings that ground both academic and practitioner writings on management compensation. Management compensation has become a staple feature of accounting research, touching such central areas as agency theory and capital markets. It has also developed as a focal point for popular discussion of corporate governance, with considerable public and political concern being expressed both at the absolute levels of management compensation, and at a perceived invariance of compensation with corporate performance. Jensen and Murphy's (1990; Murphy, 1991) empirical work has questioned widespread belief in the efficacy of contemporary management compensation schemes and provided a counterpoint to much conventional research. This questioning provides a space to consider the beliefs and conventions which have been involved in understanding management compensation.

The study maps out these understandings by drawing on the theoretical work of Michel Foucault. It places emphasis on the analysis of thoughts and ideas which guide our views in differentiating between true and false, between acceptable and unacceptable lines of argument, and which produce and reproduce our understandings of the world (Foucault, 1984). Thoughts are more than simple representations or forms of cognition that enable tasks to be performed, rather they are

what allows one to step back from this way of acting or reacting, to present it to oneself as an object of thought and question it as to its meaning, its conditions and its goals. (Foucault, 1984.)

An analysis of discourse, that is of the 'rules' that guide our statements, offers a means to contextualise individual expressions. These statements may then be best viewed in terms of their links to other statements rather than as isolated events. The paper starts to analyse the discursive articulation of a range of academic and practitioner oriented literature.

Conventional understandings of management compensation are found to spring from related conceptions of the market, control and performance. A change in understanding is attempted by reflection on what is wrapped up in these conceptions. The links between the market and control involve significant contradictions. Ideas of the *market* involve arguments that scarce and desirable managerial talent warrants significant compensation, a course of action apparently bolstered by the need to *control* this same managerial talent from being applied with undesirable effect. That both contradictory possibilities are met with essentially the same response, further compensation, is itself an indicator of our apparent faith in the efficacy of managerial action in influencing corporate *performance*. This faith may help explain the significant international differences both in absolute levels of management compensation, and in salary differentials between senior managers and others in the firm.

The paper concludes that field work may be the most promising avenue of future research regarding these issues.

### CONCURRENT SESSION 1C

Friday, June 11  
10:45 a.m. - 12:15 p.m.

Location: Steacie Building, Room 312

## APPROCHE FORMELLE DE LA REPARTITION: DES REGLES CLASSIQUES A L'ALLOCATION OPTIMALE

**Emanuelle Charles and Bernard Morard**  
Université de Genève

**Jacques Trahand and Patrick Viallanex**  
Université de Grenoble

L'état actuel des connaissances en contrôle de gestion nous permet d'avancer qu'il existe un certain échec des méthodes traditionnelles d'évaluation des coûts comme l'attestent les travaux de KAPLAN-JOHNSON (1987). Cette difficulté rencontrée dans la détermination du système de coût naît du problème de la répartition des charges indirectes sur les activités, départements ou produits. En effet, le choix de la règle de répartition de ces charges jointes est jugé souvent arbitraire et fait apparaître des disparités importantes dans le calcul même du coût. Une telle constatation prend sa pleine dimension dans un environnement où le montant des charges indirectes ne cesse d'augmenter.

Il n'existe pas, à ce jour de formule générale de répartition que le gestionnaire adapterait en fonction de ses objectifs personnels. Toutes les règles existantes privilégient un critère particulier et apparaissent comme des solutions ponctuelles dont la rationalité réside dans la seule conviction de leur auteur. Par conséquent il demeure tout à fait vain de comparer les solutions de différents modèles, car elles ne sont, *à priori*, liées par aucune relation formelle.

L'objet de ce papier est de précisément pallier à cette insuffisance en présentant un *modèle général* de détermination des coûts, dans lequel les critères des décideurs apparaissent explicitement au travers de contraintes.

Nous nous proposons de définir dans un premier temps le problème de la répartition des charges indirectes au travers d'un modèle d'optimisation consistant à minimiser le carré résiduel entre la charge à affecter et celle effectivement affectée, sous contrainte d'égalité comptable. Dans un second temps, nous introduisons dans le modèle de base une nouvelle contrainte de comportement, relative au choix de la règle de répartition. Une première conclusion importante est que le nouveau modèle proposé permet de retrouver les règles classiques de répartition. Une seconde conclusion peut être formulée au travers de l'analyse de la structure de la solution. Celle-ci se trouve en effet être égale à celle du modèle de base, à laquelle est ajouté un membre relatif à la nouvelle contrainte introduite. Il est alors démontré que l'introduction de contraintes de comportement, associées à l'utilisation des règles d'allocation classiques, éloigne la solution de celle qui s'établit sans aucune restriction (le programme étant une minimisation quadratique et la valeur de la fonction objectif étant augmentée).

Enfin nous analysons les différentes solutions obtenues en les comparant les unes par rapport aux autres au travers d'une application.

L'apport du modèle général d'allocation se situe au niveau de la définition d'un cadre homogène dans lequel toute formulation de répartition des charges indirectes peut être introduite. Dans ce contexte, les différentes méthodes de répartition peuvent être comparées et l'impact des contraintes de comportement du décideur analysé.

**CONCURRENT SESSION 2A**

**Friday, June 11**  
2:45 p.m. - 4:15 p.m.

**Location: Minto Centre, Bell Theatre**



## **INFORMATION TECHNOLOGY AND MANAGEMENT ACCOUNTING: A SURVEY**

**Jim Fisher, John McCutcheon and Mort Nelson**  
Wilfrid Laurier University

The increasing adoption of information technology by companies is likely to herald both new demands and pressures on management accountants, and new opportunities for management accounting. A survey of management accountants in Canadian companies suggests that although management accountants are established users of information technology, and that their role in supporting management decision making has increased significantly in recent years, they require to take a more active role, embracing the future, adapting rapidly, and facilitating the adaptations of others.

Adoption of IT has produced gains in labour productivity for management accountants, which have often led to reductions in staff numbers. More positively, IT has helped improve the generation, timeliness, and presentation of information to management. These productivity gains from adopting IT should encourage management accountants to devote more time to decision support roles.

The results of the survey provide some support for the suggestion that management accountants have played an increasingly important role in management decision making in Canada over the last ten years. It is imperative that management accountants continue to be involved in the decision making process if Canadian companies are to exploit their full potential. The continued and increasing use of IT by management accountants will help to achieve this potential.

**CONCURRENT SESSION 2A**

**Friday, June 11**  
**2:45 p.m. - 4:15 p.m.**

**Location: Minto Centre, Bell Theatre**

## **MANAGEMENT CONTROL SYSTEMS IN EXCELLENT CANADIAN COMPANIES**

**Tupper Cawsey, Gene Deszca and Howard Teall**  
Wilfrid Laurier University

The objective of this research is to investigate the management control practices of excellent companies. We wished to discover if companies that we would classify as excellent had moved from a traditional, control oriented set of practices to new set based on decentralization of authority and empowerment of employees.

To minimize the effect of differences due to industries, two industry sectors were chosen those being the oil and gas sector and the financial services sector. Companies were classified as excellent if they consistently ranked in the top ten (by industry) from 1982 to 1989 on a variety of financial measures drawn from the FINPOST data base. Forty nine executives from ten excellent companies, five in the financial services sector and five in the oil and gas sector, were interviewed about the management control practices and systems in their organizations.

The primary mode of control in the excellent companies remained a centralized one. Companies used their information technology to decentralize accountability while maintaining centralized decision making. If decentralization existed, it was within narrowly defined boundaries. The culture of these organizations encouraged the acceptance of centralization and formed a significant barrier to change to a decentralized environment. Senior management was able to identify key risk areas and took particular care to control these areas centrally. The CEO played a key role in determining what was controlled and how control was implemented. Significant cultural or other change appeared to be associated with a change in CEO.

In summary, there was little or no evidence that excellent Canadian companies were moving from a reliance on centralized management control methods. Top management talked about such things as empowerment and decentralization but used traditional control methods.

### **CONCURRENT SESSION 2A**

**Friday, June 11**  
**2:45 p.m. - 4:15 p.m.**

**Location: Minto Centre, Bell Theatre**

## **REACTIONS TO THE AECC PROPOSALS BY A SAMPLE OF ACADEMIC ADMINISTRATORS**

**Martin R. Mathews**  
Massey University

**B.P. Budge and R.D. Evans**  
The University of Montana

This study reports on a survey of the chairpersons leading AACSB accredited accounting programs to obtain their reactions to proposals put forward by the Accounting Education Change Commission (AECC) for the reform of accounting education in the United States. The population of 93 was surveyed using a custom designed instrument containing twenty six statements, requiring responses to a five point Likert scale, and four open ended questions. The response rate was 71 percent (66 responses).

The data from all respondents and each statement was aggregated on an agree/neutral/disagree basis, and also partitioned between institutions which granted doctoral degrees in accounting and those which did not, Schools of Accountancy and other forms of academic organization such as Departments of Accountancy, the size of the academic unit (0-15 faculty and 16+ faculty), and the type of accreditation the program had received (undergraduate only or graduate). A number of hypotheses were developed relating to the partitioned data. Chi-square and Hotelling's T were used to test for statistical significance of differences between partitioned data.

The results indicated an overall favorable reaction towards the published work of the AECC, including an outline of the principles upon which accounting education should be based, and papers on the need to encourage a greater proportion of institutional resources into teaching and curriculum development and away from research, and a de-coupling of academic programs and professional examination programs. Significant differences were located between doctoral and non-doctoral granting institutions, particularly about the effects which the 150 semester hour accounting programs might have on smaller academic units without graduate programs. There was also some concern about the grant funded curriculum development programs expressed in the responses to open ended questions. With regard to issues which the AECC does not appear to have directly addressed, there was a measure of support for a "law school model", placing professional accounting preparation at the graduate level.

The overall picture was one of general satisfaction with the AECC project so far, but a limited number of issues need to be addressed. These are contained in the recommendations.

### **CONCURRENT SESSION 2B**

**Friday, June 11**  
**2:45 p.m. - 4:15 p.m.**

**Location: Steacie Building, Room 311**

## **A COMPARISON OF THE PERSONALITIES OF CANADIAN ACCOUNTING FACULTY AND PUBLIC ACCOUNTANTS**

**Ronald Davidson**  
Simon Fraser University

**J.T. Dalby**  
University of Calgary

This study is based on the objective included in the Accounting Education Change Commission's "Objectives of Education for Accountants: Position Statement Number One" that "Accounting graduates should identify with the profession..." This study assumes that one of the main sources of information available to students is their accounting instructors they have encountered in their studies. Using the personalities of accounting academics as the variable of interest, a comparison is made with the personalities of accountants in public accounting firms to determine if accounting academics are providing an accurate role models for accounting students to begin the process of identification with the profession. The findings indicate a large number of significant differences in personality traits between the two groups. The implication of this finding is that graduating accounting students will find it difficult to begin the process of identifying with the profession.

**CONCURRENT SESSION 2B**

**Friday, June 11**  
**2:45 p.m. - 4:15 p.m.**

**Location: Steacie Building, Room 311**

**LA RELATION ENTRE LA FORMATION UNIVERSITAIRE EN SCIENCES COMPTABLES  
ET LE PERFORMANCE À L'EXAMEN FINAL UNIFORME DE L'INSTITUT CANADIEN  
DES COMPTABLES AGRÉÉS**

**Julien Bilodeau, Guy Cucumel and Danielle Gagnon-Valotaire**  
Université du Québec à Montréal

Nous avons étudié la relation qui existe entre la performance universitaire de 1528 étudiants du programme de baccalauréat en sciences comptables de l'Université du Québec à Montréal et leur succès à l'Examen final uniforme (EFU) de l'Institut canadien des comptables agréés au cours de la période 1987 à 1991. Nos résultats indiquent que la performance à l'université n'explique qu'une faible portion de la performance à l'EFU. Ces résultats sont similaires à ceux obtenus dans d'autres études canadiennes (par exemple, Gibbins et Richardson, 1986). De plus, en moyenne, la performance à l'EFU d'environ un candidat sur quatre ne peut être correctement prédite sur la base de ses résultats à l'université. Nous avons également utilisé l'analyse de classification hiérarchique, une technique non-paramétrique multivariée, pour dresser un profil des étudiants qui réussissent de même que celui de ceux qui échouent l'EFU.

Les résultats que nous avons obtenus nous ont amené à nous interroger sur la nature de l'EFU et sur le rôle de la formation universitaire. D'une part, si on accepte l'hypothèse que l'EFU vise à mesurer les mêmes connaissances et habiletés que celles qui sont mesurées par les notes attribuées durant la formation universitaire, une corrélation relativement forte devrait être observée entre ces deux instruments de mesure. Or, les résultats de notre étude et ceux d'études similaires démontrent le contraire. Dans ce contexte, on pourrait peut-être s'interroger sur la qualité de l'un ou de l'autre de ces instruments de mesures. D'autre part, si on pose l'hypothèse que la formation universitaire et l'EFU représentent des étapes différentes dans la formation d'un expert comptable et qu'elles ne visent donc pas à mesurer la même chose, il nous semble plus raisonnable d'observer un niveau peu élevé de relation. Cependant, une telle situation soulève au moins deux nouvelles questions : quels objectifs devraient être poursuivis à chacune des étapes de la formation d'un expert comptable et quel rôle l'université devrait-elle jouer dans la préparation des candidats à l'EFU?

**CONCURRENT SESSION 2B**

**Friday, June 11**  
**2:45 p.m. - 4:15 p.m.**

**Location: Steacie Building, Room 311**

## CAPITAL MARKET EFFECTS OF AMERICAN-CANADIAN GAAP DIFFERENCES

Sati P. Bandyopadhyay, Douglas Hanna and Gordon Richardson  
University of Waterloo

This paper examines differences in reported earnings of a sample of Canadian companies resulting from the application of both American and Canadian generally accepted accounting principles (GAAP). These Canadian firms were cross-listed simultaneously on the Toronto Stock Exchange and the New York Stock Exchange or the American Stock Exchange during the 1983-1989 period and had to reconcile their Canadian GAAP earnings to their US GAAP earnings in their 10K filings. The impact on US investors of these Canadian-American GAAP differences is also examined.

Imposition of strict periodic disclosure rules by the SEC on all listed foreign firms, including the requirement that these firms reconcile foreign-GAAP income to U.S.-GAAP income, has been advanced as a major cause of a perceived lack of competitiveness of the NYSE for foreign equity. To remedy the situation, the SEC is examining, among others, a proposal (the reciprocal approach) whereby a prospectus of an issuer in its own domicile would be accepted as is, without the need for a reconciliation to U.S. GAAP, provided that reciprocal privileges are granted to U.S. firms.

The SEC's only reciprocal approach initiative is the multijurisdictional disclosure system (MJDS) involving the Ontario Securities Commission (OSC) in Canada. In July of 1991, the respective securities commissions adopted certain liberalized measures to improve access for US and Canadian firms to each other's equity markets. For example, the SEC waived the need for Canadian firms to provide reconciliations to U.S.-GAAP earnings for non-convertible investment grade debt and preferred stock, but not for equity issues. The requirement that equity issuers file reconciliations will be dropped, absent further action by the SEC, by July 1, 1993. However, based on the recent statement made by SEC Chairman Richard Breeden, it is not clear whether or not the SEC will require reconciliations to continue after July, 1993. This "wait and see" posture of the SEC regarding the sunset clause provides motivation for the current study.

This current study provides evidence that, contrary to popular belief, there are numerous US-Canadian GAAP differences, some of which could cause considerable difference between US-GAAP income and Canadian GAAP income. In other words, the US-Canada GAAP differences are potentially material. In terms of actual materiality (i.e., information content), empirical test results indicate that once reconciliations from Canadian GAAP income to US GAAP income are known to US investors, the US-Canada GAAP differences do not have information content. However, these findings do not necessarily imply that these reconciliations are not useful. Policy makers must consider various costs and benefits of reconciliation requirements which are beyond the scope of this study.

**CONCURRENT SESSION 2C**

**Friday, June 11**  
2:45 p.m. - 4:15 p.m.

**Location: Steacie Building, Room 312**

## **AN EXPERIMENTAL EXAMINATION OF THE EFFECT OF FORECAST BIAS ON THE DEMAND FOR AND USE OF FORECASTED INFORMATION**

**Lucy F. Ackert and Bryan K. Church**  
Wilfrid Laurier University

**Mohamed Shehata**  
McMaster University

Some recent findings suggest that analysts' forecasts are biased and overly optimistic. While these results have been interpreted as being inconsistent with economic rationality, such an interpretation may be incorrect. Analysts provide other valuable services to their clients which may provide them with incentives to make inaccurate forecasts. Furthermore, market participants may adjust for systematic biases that arise over time. If individuals use analysts' forecasts after adjusting for biases, the behavior of the market and professional analysts may be consistent with market efficiency.

In this paper, we investigate the demand for and use of analysts' forecasts. We conduct a series of laboratory experiments to assess how investment decisions are affected by the availability of forecasts that are costly. To enhance the generalizability of our study, we investigate different cases of forecast bias. We observe how investment decisions are affected by forecasts that are unbiased and those that are systematically biased upward. Based on the results of previous empirical studies, we examine two bias conditions: low bias and high bias.

Our results indicate that the demand for forecasted information is affected by the level of bias associated with the information: demand decreased as the level of bias increased. Our results also suggest that subjects who acquired forecasted information learned to successfully use the information. Subjects who acquired forecasted information generated greater trading profits than subjects who did not acquire forecasted information. Subjects' abilities to use biased information (i.e., being able to adjust for the bias), however, appear to be affected by the level of bias: subjects' trading profits decreased as the level of bias increased.

**CONCURRENT SESSION 2C**

**Friday, June 11**  
**2:45 p.m. - 4:15 p.m.**

**Location: Steacie Building, Room 312**

## **PREDICTING CORPORATE FAILURE USING A NEURAL NETWORK APPROACH**

**Efrim Boritz, Duanne Kennedy, and Augusto de Miranda e Albuquerque**  
University of Waterloo

This paper applies a classification technique based on Neural Network technology to the classification and subsequent prediction of business entities into failed and non-failed classes. The Optimal Estimation Training algorithm (Shepanski, 1988; da Silva et al. 1990) is used to develop a Neural Network model for use in bankruptcy prediction. The test data was drawn from Compustat data tapes representing a cross-section of industries. The results obtained with the Neural Network model are compared with other well known bankruptcy prediction techniques such as discriminant analysis, probit and logit, as well as against two well-known bankruptcy prediction models developed by Altman (1968) and Ohlson (1980). We controlled the degree of "disproportionate sampling" by creating "training" and "testing" populations with proportions of bankrupt firms ranging from 1% to 50%, respectively. For each population we applied each technique 50 times to determine stable accuracy rates in terms of Type I, Type II and Total Error.

The neural network solutions do not achieve the "magical" results that literature in this field often promises; however, since we tested only one type of neural network, it will be necessary to investigate potential improvements in neural network performance through systematic changes in neural network architecture.

### **CONCURRENT SESSION 2C**

**Friday, June 11**  
**2:45 p.m. - 4:15 p.m.**

**Location: Steacie Building, Room 312**



## **A NEW EDUCATIONAL SOFTWARE PACKAGE FOR INTRODUCTORY FINANCIAL ACCOUNTING**

**William J. Banks and Don B. Smith**  
Wilfrid Laurier University

The differences in the knowledge base of students enrolling in Introductory Financial Accounting at the university level has been a problem for educators for several years. This paper presents a method that will harmonize the knowledge base of the students. This harmonization will then permit the higher level of conceptual discussion in the classroom that is recommended by the Accounting Education Change Commission (AECC).

**CONCURRENT SESSION 3A**

**Saturday, June 12**  
**10:45 a.m. - 12:15 p.m.**

**Location: Steacie Building, Room 103**

## **A MICROCOMPUTER BASED WINDOWS 3.1, INTERACTIVE, MULTIMEDIA INTRODUCTION TO THE MECHANICS OF FINANCIAL ACCOUNTING**

**Donald Smith and William Banks**  
Wilfrid Laurier University

Students come in to their first University financial accounting course with widely different backgrounds. For those who have met the subject in high school, the mechanics would be repetitious. In addition, the Accounting Education Change Commission's Opinion # 2 suggests that mechanics should not be a classroom priority.

This paper describes a microcomputer based programmed learning approach to the mechanics of transaction entry, debit and credit, journals and creation of ensuing financial statements that can allow students to learn these aspects effectively on their own outside of the classroom.

The program will consist of a series of perhaps 10 lessons covering the mechanics from first principles through most of the topics in a typical first accounting course. It employs visuals and graphics as well as sound. The program provides sufficient information so most users can take the next step accurately most of the time. It then asks the user to make keyboard entries to the screen. Instant branched responses provide appropriate feedback which reacts to those entries. Help functions with more detailed information are available to the user on request.

About 25 students were watched through the first lesson, and remedial branches were introduced if more than two made the same error.

The first lesson is framed around a specific business situation, so all the interrelationships are apparent. The lesson tracks errors and "help" requests by transaction, and provides a score. The score can be downloaded to a database so an instructor can see what each user did and where the problems were.

If the program is delivered from a file server, it is possible to limit availability to appropriate students and to block progress to later lessons until the material in earlier lessons is mastered, as evidenced by the user's "score". Microcomputers could also be used to test students on their mastery of these mechanics.

The first lesson has been introduced into a course setting with good results. Students did not have trouble using it, said they liked it and appeared to learn from it.

The program requires a Windows 3.1 compatible microcomputer (386 or better with minimum 5 meg RAM) equipped with a VGA colour monitor, a reasonably fast videocard and a sound board. The sound files for the first lesson occupy 45 Megabytes of ROM. By extrapolation, ten lessons would require over 400 megabytes of ROM. Thus delivery will normally take place on a network from a server or by CD ROM.

### **CONCURRENT SESSION 3A**

**Saturday, June 12**  
**10:45 a.m. - 12:15 p.m.**

**Location: Steacie Building, Room 103**

## **TEACHING ACTIVITY-BASED MANAGEMENT - A TEAM-BASED PROBLEM SOLVING APPROACH USING STORYBOARDS**

**Howard M. Armitage**  
University of Waterloo

Activity-based management (ABM) is the process of using activity-based cost (ABC) information to focus the efforts of everyone in the organization on continuously improving quality, time and profitability. This workshop introduces accounting instructors to a methodology called "Storyboarding" - work spaces where information about activities is visually documented - that assists students to learn and implement ABM.

The approach is currently being used at the University of Waterloo and is based on techniques that have proven successful in a number of leading North American organizations. In class, students proceed through a simulation that describes several different but overlapping organizational functions. Based on the information in the simulation and working with storyboards, students identify activities; assign cost, time and quality metrics to the activities; specify customers/outputs and suppliers/inputs for each activity; identify root cause cost drivers; and, create process improvements through the use of cross functional teams that lead to cost, time and quality improvements.

This presentation will describe:

- how storyboarding sessions work in class
- how storyboarding assists students to understand ABM
- what materials instructors require to run the simulation at their own universities
- how to divide classes into functional teams and prepare students for the simulation
- how to guide student progress and evaluate results.

**CONCURRENT SESSION 3A**

**Saturday, June 12**  
10:45 a.m. - 12:15 p.m.

**Location: Steacie Building, Room 103**

## **FIRM AND COUNTRY CULTURES IN THE INTERNATIONAL ACCOUNTING PROFESSION: AN EXPLORATORY STUDY**

**Jeffrey Kantor**  
The University of Windsor

**David Sharp**  
The University of Western

This study extends our understanding of the culture of the international accounting profession (as represented by the "Big Six" firms) beyond the United States. We tested for differences between the cultures, defined as corporate values and practices, of the Big Six accounting firms in three countries whose national cultures differ markedly from that of the United States - Belgium, Zimbabwe and the Republic of South Africa. We first tested for differences in the values and practices in the firms. We then used Hofstede's (1980) four dimensions of culture to investigate the extent to which these measures of culture, originally identified in a study of cross-national culture differences, were also useful to the study of Big Six corporate cultures.

The study considered over 100 variables capturing two aspects of culture which have been shown to be relevant to the conduct and effectiveness of the audit function, namely values and practices pertaining to performance evaluation and rewards. Using ANOVA, we found significant differences in performance evaluation practices and work-related values between all four of the six firms for which data were available.

Inter-country differences within each firm were generally consistent with the findings of Hofstede (1980). Measures of culture in each firm in each country indicated that inter-firm differences in culture measures exhibited a consistent pattern across the three countries studied. For example, a map of four of the firms in each of the three countries on the Masculinity and Uncertainty Avoidance dimensions showed one firm to be consistently much higher than average on the masculinity index and slightly lower on the uncertainty avoidance index, another firm very close to average on both dimensions, and a third to be much lower than average on the masculinity dimension. The aggregated scores across firms also tentatively suggest a strong common professional culture; for example, the aggregate scores across firms in each country were much lower on Uncertainty Avoidance and much higher on Masculinity than the corresponding scores reported by Hofstede (1980) for IBM.

### **CONCURRENT SESSION 3B**

**Saturday, June 12**  
**10:45 a.m. - 12:15 p.m.**

**Location: Steacie Building, Room 311**

## **INTERNATIONAL FINANCIAL ACCOUNTING RESEARCH: A FRAMEWORK FOR UNDERSTANDING**

**Gary M. Entwistle**  
University of Saskatchewan  
(On leave at University of Western Ontario)

Capital investment is becoming increasingly global in its orientation, spurred on by recent advances in telecommunications, the gradual deregulation of national capital markets, the attractive returns and diversification benefits afforded by foreign securities, and the international market for corporate control (Choi 1991). This increased globalization has been accompanied by a corresponding increase in international financial accounting research, exploring such issues as the reasons for diversity in worldwide accounting practices, the benefits and limitations to harmonization of the practices, and the impact the diversity has upon the ability to make optimum investment decisions. This increased volume of research necessitates a structure within which the diverse writings can be placed, and their contributions and interrelationships better understood. Using an extensive literature review, a straightforward yet useful framework is developed which attempts to provide this structure.

The framework consists of three separate parts, or domains:

1. Identifying, Classifying and Explaining Accounting Diversity.
2. Reducing Accounting Diversity.
3. Living with Accounting Diversity.

Each domain consists of two or more streams of research. Through the use of selected studies within each stream, the contributions, highlights and suggestions for future research within each domain are identified.

With the extensive body of knowledge existing within the core domain, the paper suggests that the remaining two domains provide perhaps the greatest potential for future research. For example, in the second domain, empirical research is required to test the numerous contentions made in support of reducing accounting diversity. Also required is additional research investigating the interface between global capital markets and harmonization, the potential loss of information through restatement, and the costs and benefits to multinational corporations or stock exchanges of supporting the reduction of diversity. Finally, recognizing both the current diversity, and the possibility of continued long-term diversity due to impassable structural and conceptual barriers to harmonization, the final domain represents a critical and extremely fertile area for future research. In particular, further investigation into the effectiveness of actual coping strategies is required.

**CONCURRENT SESSION 3B**

**Saturday, June 12**  
10:45 a.m. - 12:15 p.m.

**Location: Steacie Building, Room 311**

**GLOBALIZATION OF ACCOUNTING PROFESSION:  
TOWARD DEVELOPMENT OF AN INTERNATIONAL ACCOUNTING  
CERTIFICATION/DESIGNATION**

**Ali M. Sedaghat and Sharon Levin**  
Loyola College In Maryland

The purpose of this study is to analyze the attitudes of accounting educators and practitioners, concerning certain conceptual and administrative issues associated with the establishment of an international accounting certification/ designation (IAC/D). This study suggests that there is a need for establishment of an IAC/D program. It is argued that the development of an IAC/D program can make a contribution toward the advancement of international accounting practice and training.

The need for an IAC/D program is justified based on the growing changes in international accounting which reflect the dynamic environment of international business and finance. An IAC/D will make a contribution to the advancement of knowledge and the training of professionals capable to meet the challenges of international accounting and reporting issues.

In order to study the attitude of the accounting community regarding the establishment of an IAC/D program, a sample of accounting educators (members of International Section of the American Accounting Association) were surveyed. The Survey results indicate that both US and non-US accounting professionals have positive attitude toward desirability of an initiating an international accounting certification/designation program. They also provided useful insights regarding the conceptual and administrative issues involved in establishing the program.

There is greater acceptance of the concept of an IAC/D by non-US respondents and by respondents who are more actively involved in international accounting issues. These respondents were more familiar with the international accounting institutions mentioned in the questionnaire. There seems to be a strong correlation between the acceptance of an IAC/D and the degree to which one is involved in international accounting issues. Many U.S. and non-US respondents, however, were skeptical that an IAC/D program could be easily implemented. Respondents frequently suggested that implementation of the IAC/D program should be regional at first and then expanded to the international level.

**CONCURRENT SESSION 3B**

**Saturday, June 12**  
10:45 a.m. - 12:15 p.m.

**Location: Steacie Building, Room 311**

**RECONSIDERING THE 'SOCIAL' IN POSITIVE ACCOUNTING THEORY:  
THE CASE OF SITE RESTORATION COSTS**

**Dean Neu and Cynthia Simmons**  
University of Calgary

This paper seeks to challenge the hegemony of positive accounting theory explanations of managerial behaviour. We argue that the decontextualized vocabulary of positive accounting theory is limiting and that changing the vocabulary offers more inclusive explanations of behaviour. Starting from the notion of social relations developed by Marx, we reinterpret positive theory variables as proxies for a *subset* of social relations that managers are embedded in. From this perspective, a more inclusive explanation of behaviour can be obtained by considering the *entire* web of social relations that influence behaviour.

To demonstrate the "cash value" of a social relations vocabulary, accounting for site restoration costs is used as an illustration. More specifically we examine whether, for a sample of 95 Canadian publicly-traded oil and gas firms, managers chose to retrospectively or prospectively apply the CICA's recently introduced standard on site restoration costs. The results are consistent with a social relations vocabulary.

**CONCURRENT SESSION 3C**

**Saturday, June 12**  
10:45 a.m. - 12:15 p.m.

## **ADDITIONAL FINDINGS REGARDING AUDIT EVIDENCE IN LIGHT OF THE BELIEF REVISION MODEL**

**Ronald Marden, Somnath Bhattacharya and Karen Hooks**  
University of South Florida

The process of audit opinion formulation is often viewed as a sequential process in which auditors accumulate evidence regarding financial statement assertions. Prior literature in auditing also indicates that auditors revise their beliefs or estimates of likelihood of misstatements based on the evidence accumulated. In making such revisions auditors frequently employ heuristics to make inferences about client assertions during the course of an audit. Given the limited and sampled information available to auditors, they are frequently subject to the same biases and distortions that afflict general judgment and result in systematic errors. Hence, this paper investigates the effect of the Anchor-and-Adjustment heuristic on auditors, as predicted by the Hogarth and Einhorn (1992) Belief Revision model.

This paper uses data from the Tubbs, Messier and Knechel (1990) study and analyzes it using the methodology employed by Ashton and Ashton (1988). It effects a synthesis of the two papers and lends additional support to Ashton and Ashton's (1988) findings. Specifically, we show that the Tubbs, Messier and Knechel (1990) data is in agreement with Ashton and Ashton's (1988) contention that smaller Anchors are revised upwards on the probability scale more by the same positive evidence than larger Anchors; and that larger Anchors are revised downwards more on the probability scale by the same negative evidence than smaller Anchors. Additional analyses include a test for the notion that the Confirming (Disconfirming) nature of audit evidence is in effect a function of the auditor's Anchor position, and therefore Confirming (Disconfirming) evidence is considered to be evidence that either confirms or disconfirms the auditor's hypothesis, based on his/her initial Anchor position. Our results also suggest that auditors are more influenced by Disconfirming evidence than by Confirming evidence at the three Anchor levels used in this study, and that the Recency effect is mitigated at the small and large Anchor positions.

We believe that the findings established in this paper are significant. Our additional analyses establish the dominance of Hogarth and Einhorn's (1992) Belief-Revision Model across both Ashton and Ashton (1988) and Tubbs, Messier and Knechel (1991). It is interesting to note that the model was in its early stages at the time Ashton and Ashton (1988) conducted their study. It was perhaps more complete at Tubbs, Messier and Knechel's (1991) time. And yet, the model seems robust across both studies, despite the obvious task, methodology and chronological differences between the two prior studies. This bodes well both for the Belief Revision model itself, and for its application in the audit domain.

### **CONCURRENT SESSION 3C**

**Saturday, June 12**  
10:45 a.m. - 12:15 p.m.

**Location: Steacie Building, Room 312**



## **DETERMINISTIC CHAOS: THE EVOLUTION OF AN INNOVATIVE RESEARCH METHODOLOGY**

**Robert E. Rosacker, Jon R. Carpenter and Richard W. Metcalf**  
University of South Dakota

Whether certain financial and economic time series are better described by linear stochastic models or are more appropriately characterized as deterministic chaos is a matter of considerable interest to researchers exploring substantive issues in the fields of economics, finance, and accounting. This interest has manifested itself through a growing, albeit still limited, body of insightful articles involving applications of the basic tenets of chaos theory in concert with empirical testing methodologies. To date, these investigations have produced mixed results and uncertainty regarding the applicability of chaos theory in modeling economic and financial data sets.

Indeed, while much has been accomplished, empirical research to detect the presence of deterministic chaos in economic and financial time series remains near infancy. Three reasons explicate this primal research level. First, chaos theory is still quite new and evolving, tracing its ancestry to the natural sciences. The knowledge base defining chaos theory, like a maturing child, is growing and expanding at an astonishing rate and researchers require time to evaluate and assimilate the new concepts. Second, the statistical tests available for evaluation of chaotic behavior in economic and financial data sets are unrefined (e.g., significant problems exist when small time series are utilized). Improved statistics are being developed, but this process is generally more evolutionary than revolutionary. Third, as with all imported multidisciplinary research methodologies, a significant learning curve exists. Often the erudition demanded presents an overwhelming task for potential researchers. This information overload phenomenon can induce investigators to avoid a new methodology thereby exacerbating the already limited research environment.

The primary purpose of this paper, therefore, is to address the information overload issue as it relates to research applying deterministic chaos theory in economics, finance, and accounting. Through an exhaustive search, cross-indexing, and review process, the seminal published empirical literature usufructing the tenets of chaos theory in conjunction with economic and financial data sets is identified, summarized, and reported. The result is a single authoritative source for chaos theory researchers. A corollary purpose, of considerable interest to the authors, is to provoke investigations involving issues of direct interest to accounting research. It is believed that a reshaping of the learning curve will foster a series of such endeavors in accounting emulating the successful importation of this new science into the literature of economics and finance.

**CONCURRENT SESSION 3C**

**Saturday, June 12**  
**10:45 a.m. - 12:15 p.m.**

**Location: Steacie Building, Room 312**