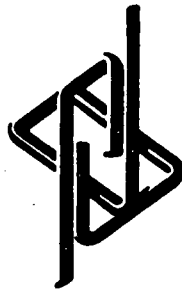


**PROGRAM
AND
COLLECTED ABSTRACTS
OF
THE CANADIAN ACADEMIC ACCOUNTING ASSOCIATION
ANNUAL CONFERENCE**



JUNE 16 to 18, 1994



Program Compliments of the Faculty of Management, The University of Calgary

1994 CAAA CONFERENCE PROGRAM

THEME: ACCOUNTING IN PRACTICE

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CANADIAN ACADEMIC ACCOUNTING ASSOCIATION

1994 CONFERENCE PROGRAM

Thursday, June 16

8:00 a.m. - 7:00 p.m.

REGISTRATION**Location:** Physical Education A 117 "Registration/Action Centre"

8:30 a.m. - 4:30 p.m.

EDUCATION WORKSHOP**Content:** Session 1

Howard Armitage, University of Waterloo
*Teaching Activity-Based Management: A Team-Based
Problem Solving Approach Using Storyboards*

Location: S.J. Chad Classroom (SH 274), Scurfield Hall

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

Lunch

Sponsored by Harcourt Brace & Company

Location: Nu West Common, 2nd Level, Scurfield Hall

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

Content: Session 2

Eldon Gardner, University of Lethbridge
*Approaches to Using Cases in the Accounting
Curriculum*

Location: S.J. Chad Classroom (SH 274), Scurfield Hall

Thursday, June 16

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

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

Chairpersons: David Cooper, University of Alberta, Editor, *Critical Perspectives on Accounting*
Michael Gibbins, University of Alberta, Editor, *Contemporary Accounting Research*

Content: *Demystifying Publishing*

Location: S.J. Chad Classroom (SH 274), Scurfield Hall

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

CAAA WELCOME RECEPTION

Sponsored by the Canadian Institute of Chartered Accountants

Location: Nickle Arts Museum

Friday, June 17

7:30 a.m. - 8:20 a.m.

BREAKFAST

Sponsored by Nelson Canada

Location: Oak Room and Board Room, 3rd Level, Scurfield Hall

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

REGISTRATION

Location: Physical Education A 117 "Registration/Action Centre"

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

***WELCOMING REMARKS**

Speakers: Dean Neu, Conference Committee
Vern Jones, Associate Dean (Planning and Development), The University of Calgary
Tricia O'Malley, CAAA President

Location: PF 162, Professional Building

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

***PLENARY SESSION 1: Education in Practice**

Speaker: Léo-Paul Lauzon, Université du Québec à Montréal,

Commentators: Irene Gordon, Simon Fraser University
Jean-Guy Rousseau, École des Hautes Études Commerciales

Content: The Canadian Accounting Professorate

Location: PF 162, Professional Building

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

Nutrition Break

Sponsored by Carswell/Thomson Professional Publishing

Location: Nu West Common, 2nd Level, Scurfield Hall

*Simultaneous translation will be provided for these sessions.

Friday, June 17

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

CONCURRENT SESSIONS 1A, 1B AND 1C

Session 1A: Capital Markets I

Chairperson: Michael Stein, The University of Calgary

Content: Joy Begley, University of British Columbia
Paul Fischer, University of Pennsylvania
Is There Information in an Earnings Announcement Delay?

Andreas Charitou, University of Cyprus
Tasos Falas, Research Assistant
The Association of Earnings and Cash Flows with Security Returns: Empirical Evidence in the Presence of Conflicting Signals

Toni Nelson, University of Lethbridge
The Effect of Accounting Policy Choices on the Relationship Between Earnings and Returns

Discussant: Ramy Elitzur, University of Toronto

Location: Texaco Theatre (SH 202), Scurfield Hall

Session 1B: Auditing/Regulation

Chairperson: Ron Davidson, Simon Fraser University

Content: Vaughan Radcliffe, University of Alberta
Knowing Efficiency: The Development and Practice of Efficiency Auditing

James Lampe, Texas Tech University
Steve Sutton, Arizona State University—West
Evaluating Quality in Internal Service Organizations: An Examination of the Internal Audit Function

Bruce La Rochelle, Wilfrid Laurier University
Conflicts on Matters of Subjective Judgement: Recessionary Contexts, Accounting Information Relevance and Financial Institution Regulation

Discussant: Bruce McConomy, Carleton University

Location: Mobil Theatre (SH 210), Scurfield Hall

Friday, June 17

Session 1C: Tax

Chairperson: Hussein Warsame, The University of Calgary

Content: Alexander Gelardi, Simon Fraser University
The Married Deduction and the Timing of Marriages:
The Influence on Taxpayer Behaviour

Ian Cudlipp, Ernst & Young
 Alan Macnaughton, University of Waterloo
Transferring Funds from a Pension Plan to an Eligible RRSP or RRIF: The New Opportunities

Discussant: Janet Denhamer, The University of Calgary

Location: AEC Theatre (SH 215), Scurfield Hall

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

CAAA PRESIDENT'S LUNCHEON

Sponsored by the Certified General Accountants' Association of Canada

Chairperson: Tricia O'Malley, President, CAAA

Speaker: Cheryl Lehman, Hofstra University
Mother Russia's Embrace: The Union of Accounting Women, and Markets

Location: University Club (South Side) - 4th Floor, MacEwan Student Centre

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

CONCURRENT SESSIONS 2A, 2B AND 2C

Session 2A: Capital Markets II

Chairperson: Alistair Murdoch, University of Manitoba

Content: Gerald Feltham, University of British Columbia
 James Ohlson, Columbia University
A No Arbitrage Model of the Relation Between Accounting Numbers and Market Values

David Cottrell, Brigham Young University
 Jonathan Wong, University of Regina
The Valuation Role of Fair Value Disclosures—Evidence from Debt Securities in the Insurance Industry

Friday, June 17

MunSoo Choi, University of Ottawa
 William Salatka, Wilfrid Laurier University
*The Effect of Dispersion of Analysts' Earnings Forecasts
 on Stock and Bond Prices*

Discussant: Dwayne O'Coin, University of Lethbridge

Location: Texaco Theatre (SH 202), Scurfield Hall

Session 2B: International Accounting & Pedagogy

Chairperson: Steven Salterio, University of Alberta

Content: John Friedlan, York University
*The Effects of Alternate Pedagogies on Students'
 Perceptions of the Skills Needed for Success in
 Accounting Courses and By Practicing Accountants*

Stephen Salter, Texas A&M University
 Jeffrey Kantor, University of Windsor
 Clare Roberts, University of Glasgow
*Free Trade and Financial Reporting: An Examination
 of Reporting Practices in Canada, the United States and
 Mexico*

Irene Herremans, The University of Calgary
 Michael Wright, The University of Calgary
*Global Trade is Blurring National Boundaries... Are
 Government Accountants Prepared?*

Discussant: Kathryn Pedwell, The University of Calgary

Location: Mobil Theatre (SH 210), Scurfield Hall

Session 2C: Accounting Ethics

Chairperson: Patrick Culhane, Society of Management Accountants

Content: Lois Etherington, Simon Fraser University
 Leah Schulting, B.C. Transit
*Ethical Development of Accountants: The Case of
 Canadian CMAs*

Friday, June 17

David Cooper, University of Alberta
 Alistair M. Preston, University of New Mexico
 Robert C. Chilton, Boston University
 D. Paul Scarbrough, Bentley College
*Transformations in the Code of Ethics of the U.S.
 Accounting Profession, 1917 and 1988: Changing
 Narratives of Legitimation*

Discussant: Alan Richardson, Queen's University

Location: AEC Theatre (SH 215), Scurfield Hall

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

Nutrition Break

Sponsored by the Institute of Chartered Accountants of Ontario

Location: Nu West Common, 2nd Level, Scurfield Hall

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

***CAAA ANNUAL MEETING**

Chairperson: Tricia O'Malley, CAAA President

**Attending by
 Invitation:** Gary Meek, AAA Representative

Location: PF 162, Professional Building

6:30 p.m. - 8:30 p.m.

CAAA MEMBERS' RECEPTION

Sponsored by John Wiley & Sons Canada, Ltd.

Location: Oak Room and Board Room, 3rd Level, Scurfield Hall

*Simultaneous translation will be provided for these sessions.

Saturday, June 18

7:30 a.m. - 8:20 a.m.

BREAKFAST

Sponsored by Irwin Dorsey

Location: Oak Room and Board Room, 3rd Level Scurfield Hall

8:30 a.m. - 10:15 a.m.

***PLENARY SESSION 2: Costing Health Care**

Chairperson: Cynthia Simmons, The University of Calgary

Speakers: Murray Glendining, Foothills Hospital
Nandini Kuehn, Foothills Hospital

Location: PF 162, Professional Building

10:15 a.m. - 10:30 a.m.

Nutrition Break

Sponsored by Prentice-Hall

Location: Nu West Common, 2nd Level, Scurfield Hall

10:30 a.m. - 12:00 noon

CONCURRENT SESSIONS 3A, 3B AND 3C

Session 3A: Management Accounting

Chairperson: Howard Teall, Wilfrid Laurier University

Content: Michael Shih, University of Toronto
Ad-Hoc Transfers and Long-Term Transfer Relationships: Are There Separate Pricing Mechanisms?

Yoon Suh, University of Illinois
Kyung Lee, Pennsylvania State University
Organizational Hierarchy, Subcontracting and Transfer Pricing

Norman Macintosh, Queen's University
John C. Moore, Queen's University
Psychological Types and the Budgetary Behavior of Managers: Some Preliminary Speculations

Discussant: Vasu Krishnamurthy, University of British Columbia

Location: Texaco Theatre (SH 202), Scurfield Hall

*Simultaneous translation will be provided for these sessions.

Saturday, June 18

Session 3B: Gender & Accounting

Chairperson: Dean Neu, The University of Calgary

Content: Ronald Burke, York University
Carol McKeen, Queen's University
Social-Sexual Behaviors Reported by Women CAs

Leslie Oakes, University of Alberta
Barbara Townley, University of Alberta
But It's What Counts...: Measurement, Knowledge, Accountability and Gender

Location: Mobil Theatre (SH 210), Scurfield Hall

Session 3C: Choice, Compensation & Efficiency

Chairperson: Heather Wier, University of Alberta

Content: Jacob Nelson, University of British Columbia
An Empirical Investigation of the Determinants of the Choice of Disclosure Form of Disclosure of Managers' Earnings Forecasts

Mary Margiotta, University of British Columbia
Executive Compensation and Corporate Ownership Structure: An Empirical Analysis

Irene Gordon, Simon Fraser University
The Use of Accounting-Based Efficiency Measures: A Critical Examination

Discussant: Tom Scott, University of Alberta

Location: AEC Theatre (SH 215), Scurfield Hall

12:15 p.m. - 1:45 p.m.

CAAA MEMBERS' LUNCHEON

Sponsored by the Society of Management Accountants of Canada

Chairperson: Duncan Green, The University of Calgary

Speaker: Ed McNally, President, Big Rock Brewery

Location: University Club (Southside), 4th Floor, MacEwan Student Centre

Saturday, June 18

2:00 p.m. - 4:00 p.m.

***PLENARY SESSION 3: Educational Initiatives**

Chairperson: Phil Beaulieu, The University of Calgary

Content: Michael Gibbins, University of Alberta
Lois Etherington, Simon Fraser University
Anne Fortin, Université du Québec à Montréal
A Discussion of the Results of the CAAA Education Project

Robert Jensen, Trinity University
The Paradigm Shift in Technology: Financial Reporting Will Never Be The Same

Location: PF 162, Professional Building

4:00 p.m. - 4:15 p.m.

***CONFERENCE CLOSING REMARKS**

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

ICE CREAM BREAK

Sponsored by Houghton Mifflin Canada Ltd.

Location: Nu West Common, 2nd Level, Scurfield Hall

4:45 p.m. - 10:00 p.m.

KANANASKIS WESTERN BARBECUE

Sponsored by the Alberta Accounting Education Foundation

Departure

Location: Parking lot in front of Scurfield Hall

In addition to the sponsorships noted in the program, the sponsorship of the Faculty of Management, The University of Calgary, is gratefully acknowledged.

*Simultaneous translation will be provided for these sessions.

Thank you for your support of the CAAA.

**Plan to attend next year's conference at the
Université du Québec à Montréal**

ABSTRACTS

IS THERE INFORMATION IN AN EARNINGS ANNOUNCEMENT DELAY?

Joy Begley
University of British Columbia

This paper examines the empirical implications of two factors hypothesized to impact the timing of earnings announcements. The first hypothesis is that big news earnings announcements tend to be made later than small news earnings announcements. This hypothesis is motivated by assumptions regarding the nature of litigation risk faced by auditors and management. The absolute value of cumulative abnormal stock returns, during the three months following fiscal year end, are used to proxy for the size of earnings news and are found to be positively related to the earnings announcement delay.

The second hypothesis is that good news earnings announcements tend to be made earlier than bad news announcements. Three stock return implications stemming from this hypothesis are tested. In contrast to the conclusions of previous studies covering periods during the 1970's, this study presents results, based upon earnings announcements from 1985-1989, that are inconsistent with the good news early, bad news late hypothesis. We conjecture that the difference between our results and the results of earlier studies is due to a perceived change in the litigation environment during the 1980's.

CONCURRENT SESSION 1A

Friday, June 17
10:45 a.m. - 12:15 p.m.

Location: Texaco Theatre (SH 202), Scurfield Hall

**THE ASSOCIATION OF EARNINGS AND CASH FLOWS WITH SECURITY RETURNS:
EMPIRICAL EVIDENCE IN THE PRESENCE OF CONFLICTING SIGNALS**

Dr. Andreas Charitou*
University of Cypress

Tasos Falas, Research Associate
University of Cypress

***and**
University of Toronto, Faculty of Management

This study extends the growing empirical literature on the association of earnings and cash flows with security returns. The assessment of earnings usefulness in returns studies has been on the forefront of the accounting research since the seminal work of Ball and Brown (1968). Several studies provided strong evidence to support the presence of positive association between earnings and security returns (Lev, 1989; Cho and Jung, 1991). The instability of the earnings response coefficients (ERC) in these studies, however, led researchers to a further examination of this issue. Empirical studies provided evidence that the ERC are affected by firm-specific, industry-specific, and economic factors, including firm size, industry classification, capital structure, and quality of earnings.

The earnings usefulness in returns studies has also been examined recently in conjunction with cash flows. Prior studies provided evidence supporting that cash flows are also associated with security returns, given operating earnings. Research on the assessment of earnings and cash flow usefulness in returns studies examined mainly aggregate data, assuming that the relationship between earnings, cash flows, and returns is homogeneous across firms. Lev (1989), and Cho and Jung (1991), however, argue that the underlying assumption in prior studies that investors react identically to earnings of all firms (implying constant response coefficient) is unrealistic. This study hypothesizes that the homogeneity across firms may not hold, due to firm-specific differences across firms, such as the effect of cash flows on the quality of earnings. The purpose of the present study is to provide additional evidence on the association of earnings and cash flows with security returns by examining the conflicting signals between earnings and cash flows. Conflicting signals exist whenever a positive (negative) change in earnings is associated with a negative (positive) change in cash flows.

A regression model is used to examine the association of earnings and cash flows with security returns for the ten-year period 1982-1991. Firms are partitioned according to a) the existence of positive (negative) change in earnings (cash flows) and b) the existence of negative (positive) change in earnings (cash flows). The aggregate results are consistent with prior empirical findings i.e., that earnings are strongly associated with security returns. When the data are examined from the perspective of conflicting signals, the results show that it is primarily the operating cash flows that influence security returns.

CONCURRENT SESSION 1A

Friday, June 17
10:45 a.m. - 12:15 p.m.

Location: Texaco Theatre (SH 202), Scurfield Hall

THE EFFECT OF ACCOUNTING POLICY CHOICES ON THE RELATIONSHIP BETWEEN EARNINGS AND RETURNS

Toni Lynne Nelson
University of Lethbridge

This study examines the effect of expensing research and development costs on the relationship between accounting earnings and market returns. The model developed by Choi and Salamon (1989) is extended to predict differences in ERCs across firms when accounting measurement rules require that investments in internally generated intangibles such as research and development be expensed. If such investments are valued in the market place, then expensing these investments biases earnings. If these investments are exogenously determined by the available opportunity set and success of current projects, the bias is not a known constant as modeled by Choi and Salamon, but rather a signal about future outcomes. The bias which the policy introduces reduces the information which can be obtained by observing earnings. The model predicts that ERCs will depend on the variance of cash flows from assets in place, the variance of R&D expenditures, the covariance between assets in place and growth opportunities, and the noise in earnings. The model is tested on samples drawn from three research intensive industries. The results are generally consistent with predictions derived from the model. The impact of increasing uncertainty with regard to assets in place is shown, generally, to be associated with increases in ERCs, a result that is consistent with previous research. As predicted by the model, increasing variance in research and development expenditure is shown to be associated with lower ERCs. These lower earnings response coefficients are consistent with the earnings of high intensity R&D firms providing information which the market considers to be less useful for predicting future cash flows. The existence of a special item included in earnings before extraordinary and discontinued items is used as one proxy for noise in earnings. The second proxy for noise and/or bias in earnings is the firm's choice of a set of accounting policies which differs from the industry preferred set. This variable attempts to control for noise or bias induced by other accounting policy choices. The evidence is fairly strong that special items add noise to earnings as a measure of future cash flows. However, the results with regard to accounting policy choices are mixed.

CONCURRENT SESSION 1A

Friday, June 17
10:45 a.m. - 12:15 p.m.

Location: Texaco Theatre (SH 202), Scurfield Hall

KNOWING EFFICIENCY: THE DEVELOPMENT AND PRACTICE OF EFFICIENCY AUDITING

Vaughan Radcliffe
University of Alberta

Government auditors in a variety of jurisdictions now conduct efficiency audits. Despite its prevalence, researchers know little about this new form of auditing. This paper presents ongoing Ph.D. dissertation research which starts from two basic questions: first, how did auditing come to be about efficiency, and second, how do auditors report on efficiency in practice?

In addressing these questions a conceptual framework is used to study links between wider political debates regarding efficiency, more detailed government programmes such as legislation, and the eventual operationalisation of these programmes through specific auditing technologies. The development of efficiency auditing in one jurisdiction is analysed to gain insight into how efficiency auditing arose. To understand how efficiency audits are conducted in practice, I studied three efficiency audits as they were conducted in the field. The paper presents an analysis of certain of the technologies that auditors use in reporting on efficiency.

Efficiency auditing is found to be strategic, in that auditors carefully studied the normative and social dynamics of a wide auditing environment, chose audit issues and approaches mindful of this environment, and purposively produced recommendations to encourage change. I conclude that these audit reports present a contingent efficiency influenced both by financial and administrative concerns, and by normative context.

Key Words:

Efficiency auditing, effectiveness, value for money, government, history, technologies, field work, Alberta, Canada.

CONCURRENT SESSION 1B

Friday, June 17
10:45 a.m. - 12:15 p.m.

Location: Mobil Theatre (SH 210), Scurfield Hall

**EVALUATING QUALITY IN INTERNAL SERVICE ORGANIZATIONS:
AN EXAMINATION OF THE INTERNAL AUDIT FUNCTION**

James Lampe
Texas Tech University

Steve Sutton
Arizona State University—West

The internal audit profession has experienced significant growth in size and importance at least partially due to growing corporate concerns over financial controls, organizational efficiency, and highly publicized frauds. However, in the current competitive global business environment with trends toward downsizing and organizational flattening, internal audit groups are being required to justify their existence by demonstrating measurable contributions to overall organizational goals. One means by which internal audit departments may demonstrate measurable cost savings for their organizations is performance of work that is judged, by external auditors, to be of sufficiently high quality to reduce their testing and associated fees. Another approach for internal audit departments to demonstrate positive contributions to organizational goals is to make recognizable value-added recommendations for operating improvements.

A model of internal audit quality, based on TQM concepts that have been successfully applied in other production and service areas, should help internal auditors to achieve continual audit process improvements that lead to the desired overall contributions to organizational goals. In this study, grounded theory approaches are coupled with nominal group techniques to form a model of internal audit service quality. Six different internal audit groups from a diverse set of organizations participated in intensive structured interviews during the first stage of this study. Results from the Phase I nominal group responses enabled formulation of a baseline model of internal audit quality. In the second major phase of the research, responses to a survey including the Phase I results were obtained from a random sample of IIA members. Results from analyses of 682 valid responses provided support for the validity and applicability of the internal audit quality evaluation model.

CONCURRENT SESSION 1B

Friday, June 17
10:45 a.m. - 12:15 p.m.

Location: Mobil Theatre (SH 210), Scurfield Hall

**CONFLICTS ON MATTERS OF SUBJECTIVE JUDGMENT:
RECESSIONARY CONTEXTS, ACCOUNTING INFORMATION RELEVANCE AND
FINANCIAL INSTITUTION REGULATION**

**Bruce La Rochelle
Wilfrid Laurier University**

This paper is based on a larger study of the failures of three Canadian financial institutions: the Canadian Commercial Bank, the Northland Bank and the Principal Group. There are three objectives in writing this paper. The first objective is to highlight the use of accounting representations, consequent upon loan valuation and income recognition positions taken by financial institution management, in the context of disputes with financial institution regulators. The second objective in writing the paper is to provide an overview, constrained by the submission context of the paper, of research into general regulatory behaviours considered to be relevant to the financial institution regulator-regulated relationship. The third objective is to provide conjectures or propositions relevant to other examinations of such relationships. Conjectures or propositions derived from this study (subject to a caveat as to temporal dependence) are (a) delays in closures of financial institutions by regulators or accountable legislators are in part due to legislative uncertainties and the degree of regulator or legislator requirement to justify actions in circumstances of such uncertainties; (b) accounting representations as to the financial health of a financial institution will be generally unchallenged by regulators in the absence of uncontroverted evidence of cash flow deficiencies on the part of a financial institution and (c) accounting information would appear to assume more of a symbolic than a substantive role in financial institution regulation.

CONCURRENT SESSION 1B

**Friday, June 17
10:45 a.m. - 12:15 p.m.**

Location: Mobil Theatre (SH 210), Scurfield Hall

THE MARRIED DEDUCTION AND THE TIMING OF MARRIAGES: THE INFLUENCE ON TAXPAYER BEHAVIOUR

Alexander M.G. Gelardi
Simon Fraser University

Often Parliament introduces a new tax law (or amends an existing provision) specifically to counteract a perceived problem. If the perceived problem exists in reality, then it would be reasonable to expect taxpayer behaviour to change. Therefore, it is important that taxpayer behaviour following a tax law change is investigated.

The law regarding the availability of the marriage deduction was amended in 1986. Prior to the change, when a couple married the higher income spouse could claim a deduction in calculating taxable income if the lower income spouse's income while married was below a threshold amount. This gave couples an incentive to marry late in the year so that the income while married of the lower income spouse would be very low or nil. The law was changed so that in the year of marriage the income of the lower income spouse was the income for the year and not just while married.

This paper reports on a study that examined whether there was a relationship between the change in the availability of the marriage deduction (now a tax credit) in the year of marriage and the number of marriages occurring in December. An short interrupted time series design was used. Several design features were added to strengthen the validity of the internal control. These included observing whether countries with similar cultures as Canada had changes in their December marriage rates at the time of the Canadian tax change and whether a country with a similar change in the law (but at a different time) had a change in its tax year end marriage rates.

There was a perceived significant drop in the number of marriages in December from before the change in the law to after the change in the law. The design allowed various alternative explanations for the decrease in December marriages to be eliminated. Thus the results were not inconstant with view that there was a relationship between the change in the law and the number of marriages that were performed in December in Canada.

From a policy point of view, this paper adds to the belief that social behaviour can be altered by changing the law in general and tax law in particular. This is useful for governments to know so that they can use changes in the law to prevent abusive behaviour or remove the incentives for such behaviour.

CONCURRENT SESSION 1C

Friday, June 17
10:45 a.m. - 12:15 p.m.

Location: AEC Theatre (SH 215), Scurfield Hall

TRANSFERRING FUNDS FROM A PENSION PLAN TO AN ELIGIBLE RRSP OR RRIF: THE NEW OPPORTUNITIES

Ian Cudlipp
Ernst & Young, Kitchener

Alan Macnaughton
University of Waterloo

This paper deals with a practical issue—employees' options on retirement with respect to their rights under a pension plan. Faculty members may have a personal interest in this issue. Even if a faculty member is far from retirement age, he or she may be interested in attending this presentation with a view to lobbying for changes in his or her pension plan.

Transferring funds from a pension plan to an RRSP or RRIF (Registered Retirement Income Fund) has become more attractive because of recent changes in pension law. Prior to these changes, such funds had to be used to purchase a life annuity by the end of the year in which he or she turned 71. Now, an annuity need not be purchased until the former pension plan member reaches age 80. This relaxation of the annuity-purchase rule is a result of the creation of a vehicle known as a Life Income Fund (LIF).

The paper identifies two key factors for retiring employees to consider concerning the transfer of funds from a pension plan to an RRSP or RRIF.

1) Tax deferral. If the employee leaves his or her funds in the pension, payments of a significant size will generally start immediately on retirement. If the employee does not need the income and instead intends to reinvest it, it is better to transfer the funds to an RRSP or RRIF in order to receive the benefits of tax-free compounding for a longer time.

Numerical simulations in the paper indicate that the value of the member's estate may be increased by an average of 85% by transferring out instead of taking a normal pension.

2) Potentially greater payment amounts. By transferring funds from the pension plan to an RRSP or RRIF, the employee can gain some control over the investments chosen and hence over the ultimate size of the payment amounts. If the RRSP or RRIF is self-directed, the employee can even choose the specific stocks or bonds to buy. However, the employee is undoubtedly taking a risk in taking over management of the pension plan funds, and hence perhaps endangering his or her future financial security.

CONCURRENT SESSION 1C

Friday, June 17
10:45 a.m. -12:15 p.m.

Location: AEC Theatre (SH 215), Scurfield Hall

A NO ARBITRAGE MODEL OF THE RELATION BETWEEN ACCOUNTING NUMBERS AND MARKET VALUES

Gerald A. Feltham
University of British Columbia

James A. Ohlson
Columbia University

Dividends represent the distribution of a firm's value to its equityholders. The theory of financial markets establishes that, assuming no arbitrage, the market value of a firm's equity at any given date can be expressed as a linear function of its future event-contingent dividends. Alternatively, one can express the market value of the firm as the net present value (based on the riskless interest rate) of the future risk-adjusted expected dividends. If preferences are time-additive and beliefs are homogeneous, then the risk adjustment is based on a valuation index that reflects aggregate consumption in the economy.

This paper shifts the basis for valuation from the distribution of value to the accumulation of value as reported by the accounting system. We impose no restrictions on the accounting system other than a *clean surplus requirement*, which specifies that all changes to the firm's equity are classified as either dividends (which include all direct transactions between the firm and its equityholders) or accounting earnings. Under the clean surplus requirement, the sum of future event-contingent dividends always equals the current book value plus the sum of future event-contingent accounting earnings.

In developing an accounting based market value model, we introduce *abnormal earnings*, which, for a given period, is defined to equal accounting earnings for that period minus the riskless spot rate times the book value of the equity, as determined at the start of the period. That is, abnormal earnings equal the accumulation of value in excess of a capital charge based on the opening book value. We establish that the market value of the firm's equity at any given date can be expressed as the sum of the current book value of the firm's equity plus a linear function of future event-contingent abnormal earnings. Alternatively, the market value can be expressed as the sum of the current book value plus the net present value (based on the riskless interest rate) of the future risk-adjusted expected abnormal earnings. Interestingly, the event-contingent weights and the valuation index used in the abnormal earnings based models are exactly the same as those used in the dividend based models.

The model is applied to settings in which a distinction is made between financial and operating assets, with mark-to-market accounting for the financial assets. We use this setting to demonstrate that the dividend policy has no impact on event-contingent abnormal earnings. Cash flow accounting for operating assets is demonstrated to be a special case in which the book value equals zero and event-contingent operating cash flows equal event-contingent abnormal earnings.

CONCURRENT SESSION 2A

Friday, June 17
2:45 p.m. - 4:15 p.m.

Location: Texaco Theatre (SH 202), Scurfield Hall

**THE VALUATION ROLE OF FAIR VALUE DISCLOSURES
- EVIDENCE FROM DEBT SECURITIES IN THE INSURANCE INDUSTRY**

David M. Cottrell
Brigham Young University

Jonathan W. Wong
University of Regina

The insurance industry holds over 50% of its assets (over one trillion dollars in 1990) in debt securities. Practitioners in the industry have historically opposed the disclosures of fair value information on debt securities arguing that such disclosures provide irrelevant data because insurance firms intend and usually have the ability to hold the debt securities to maturity. As the debt securities approach maturity, their fair value will converge to book value. Therefore, according to these practitioners, no relevant information is conveyed by the fair value disclosures. This argument of positive intent and ability-to-hold is used in SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, to justify reporting held-to-maturity debt securities investments at amortized cost, instead of fair value.

This study investigates whether fair value disclosures are relevant for valuing insurance firms' common stocks. It addresses the issue of whether fair value disclosures are consistent with the information set used by the market. Results from this study may help in assessing the usefulness of SFAS No. 107, *Disclosures about Fair Value of Financial Instruments*, and SFAS No. 115.

To test for valuation relevance, the valuation model derived in Ohlson [1991] is employed. This model allows for valuation relevant information that goes beyond earnings, book values and dividends. The findings suggest that fair value disclosures of debt securities are valuation-relevant. They possess incremental explanatory power over historical cost data in explaining security prices. The incremental explanatory power is reflected through the effect of fair value disclosures on the balance sheet. Fair value disclosures in the income statement do not appear to have consistent incremental explanatory power over historical cost data. These findings are consistent with the findings of Barth (1993) for the banking industry. The results are not sensitive to the way insurers are pooled in the sample. They also hold when interest rates and the combined ratios for property-liability insurers are taken into consideration, and when different deflators are used. It is important to note that such evidence of association can only be viewed as a necessary, but not sufficient, condition for fair value disclosures to have information useful to investors because such information might already be available to investors from other sources.

Key Words:

Debt securities, Disclosures, Fair value accounting, Insurance industry

CONCURRENT SESSION 2A

Friday, June 17
2:45 p.m. - 4:15 p.m.

Location: Texaco Theatre (SH 202), Scurfield Hall

THE EFFECT OF DISPERSION OF ANALYSTS' EARNINGS FORECASTS ON STOCK AND BOND PRICES

MunSoo Choi
University of Ottawa

William Salatka
Wilfrid Laurier University

This study examines whether the dispersion of analysts' forecasts of earnings is a proxy for uncertainty of a firm's future cash flows or noise in the financial reporting process. In effect, this study explores the role of accounting information (analysts' forecasts of earnings) in the pricing of bond versus the pricing of equity using the Black-Scholes option pricing model as a maintained hypotheses to predict price changes.

In recent years, accounting researchers have examined the effect of dispersion of analysts' earnings forecasts on firm value. Results of empirical studies are mixed on this issue. Using the Black-Scholes option pricing framework, Ajinkya and Gift (1985) and Daley, Senkow, and Vigeland (1988) demonstrate that results are consistent with the dispersion of analysts' forecasts of earnings being a proxy for uncertainty. In contrast, Imhoff and Lobo (1992) and Barry and Jennings (1992) present evidence that the dispersion of analysts' forecasts may be an unreliable proxy for uncertainty.

From these studies, it is not clear whether observed uncertainty in accounting earnings may be attributable to noise (garbling) in the earnings signal or to the fundamental uncertainty of expected future cash flows, or both. The controversy surrounding the use of dispersion of analysts' forecasts as a proxy for uncertainty motivates the further pursuit of this issue.

This paper makes several contributions to the literature. First, the methodology of using the most extreme change in forecast dispersion, confining forecasts to the most recent observations, and not carrying forward forecasts from previous months, serve to make these tests the most powerful tests possible, given the technology available. Second, by testing the effect of analysts' dispersion of forecasts using both stock returns and bond returns, this paper extends the previous work on the role of analysts' dispersion where only stock prices are tested. Third, this study is a direct test of the relationship between stock returns and bond returns as predicted by the Black-Scholes options pricing model. Such tests not only help to explore the pricing of debt, but also help in understanding how to apply and operationalize the Black-Scholes model in equilibrium pricing.

Overall, most of the test results are insignificant, but tend to be in the direction predicted. The lack of significance is consistent with dispersion of analysts' forecasts being a poor proxy for estimation risk as discussed by Barry and Jennings (1992), or being a proxy for noise rather than uncertainty as discussed by Imhoff and Lobo (1992).

CONCURRENT SESSION 2A

Friday, June 17
2:45 p.m. - 4:15 p.m.

Location: Texaco Theatre (SH 202), Scurfield Hall

**THE EFFECTS OF ALTERNATE PEDAGOGIES ON STUDENTS' PERCEPTIONS OF THE
SKILLS NEEDED FOR SUCCESS IN ACCOUNTING COURSES AND BY PRACTICING
ACCOUNTANTS**

John Friedlan
York University

This paper examines the effect that the teaching approach used in introductory financial accounting courses has on students' perceptions of the skills and abilities important for accounting courses and by accounting practitioners. Students enrolled in two courses that used different pedagogies were surveyed at the beginning and end of the courses. The results show that the pedagogy used in accounting courses has significant effects on students' perceptions. Students exposed to a non-traditional introductory financial accounting course that placed less emphasis on technical material, made extensive use of prescriptive minicases and other contextual materials, used classroom discussion and stressed critical thinking skills tend to have perceptions about the skills and abilities that are more consistent with those identified as necessary by the accounting profession than students exposed to a traditional course. In contrast, the perceptions of students enrolled in a course using the traditional pedagogy were either unaffected or adversely affected by the course.

The findings in the paper are important because the career choice that a student makes is based on the stereotypes formed about different careers. Since the results in this paper suggest that pedagogy affects students' perceptions, accounting courses are likely important sources of information for forming those stereotypes. Accounting courses that create realistic perceptions about the accounting profession are likely to cause more students with the qualities that are consistent with those perceptions to choose to become accountants.

CONCURRENT SESSION 2B

Friday, June 17
2:45 p.m. - 4:15 p.m.

Location: Mobil Theatre (SH 210), Scurfield Hall

**FREE TRADE AND FINANCIAL REPORTING: AN EXAMINATION OF REPORTING
PRACTICES IN CANADA, THE UNITED STATES AND MEXICO**

Stephen B. Salter
Texas A&M University

Jeffrey Kantor
University of Windsor

Clare B. Roberts
University of Glasgow

The objective of this study is twofold: (1) to describe the differences in financial reporting practices between Canada, the USA, and Mexico; and, (2) to offer explanations for the differences found. Data on accounting practices were obtained through a survey of international auditing firms in the three countries. The results indicate that few differences exist between the US and Canada, but a considerable number of differences exist between both of these countries and Mexico. The pattern of differences is consistent with Mexico's social, legal, and economic history.

CONCURRENT SESSION 2B

Friday, June 17
2:45 p.m. - 4:15 p.m.

Location: Mobil Theatre (SH 210), Scurfield Hall

**GLOBAL TRADE IS BLURRING NATIONAL
BOUNDARIES. . . ARE GOVERNMENT ACCOUNTANTS PREPARED?**

Irene Herremans
The University of Calgary

Michael Wright
The University of Calgary

Two statistics suggest that increased globalization is bound to impact the public sector:

(1) close to 50 percent of total Canadian country expenditures come from the public sector and (2) exports of goods and services are approaching 30 percent of gross national product (Bank of Canada, 1991). Such high dependence on international trade, along with high government expenditures, suggests an inevitable change in public sector positions and job duties. Since approximately one out of every ten persons are employed in the public sector, it is vital that any new educational needs be identified and met.

The current research study was undertaken to respond to the need for information about the education and training valuable to government accountants. Its mission is twofold: (1) to determine to what extent accountants in the government sector are associated with international transactions and (2) to determine the need for international accounting skills now and in the future.

The findings indicate that some public sector accountants are heavily involved in international transactions; but, more importantly, many see the need for international skills increasing in the future. Government accountants would like to prepare themselves through special continuing education courses. The respondents look to several sources for international accounting education especially professional organizations and universities for continuing education courses. Most respondents have a positive attitude toward acquiring skills in international accounting. They see their job duties changing quickly and find re-training a necessity. Even though some of the respondents did not see themselves using specific international skills on their jobs, they did indicate a general interest in the topic and a usefulness for a broad-based knowledge of international accounting.

CONCURRENT SESSION 2B

Friday, June 17
2:45 p.m. - 4:15 p.m.

Location: Mobil Theatre (SH 210), Scurfield Hall

**ETHICAL DEVELOPMENT OF ACCOUNTANTS:
THE CASE OF CANADIAN CMAs**

Lois Deane Etherington
Simon Fraser University

Leah Schulting
B.C. Transit

Previous research on accounting ethics has been largely focussed on public accountants and public practice. Research on the ethical development of public accountants has found that Canadian accountants in public practice have higher ethical reasoning than American public accountants. This study reports on the ethical development of Canadian Certified Management Accountants (CMAs).

Canadian accountants in management accounting, like Canadian accountants in public practice, were found to have significantly higher ethical development than American accountants in public practice as measured by the Defining Issues Test (DIT). There were no significant differences between Canadian management accountants and Canadian accountants in public practice. Women CMAs had marginally significantly higher ethical reasoning than their male counterparts. Ethical reasoning was not affected by level in the firm, nor was it found to increase as educational level increased.

Responses to questions on other ethical issues in the workplace of management accountants revealed that although 76 percent were employed in organizations of over 100 employees, 49 percent worked for companies that did not have a corporate code of conduct. The majority (66 percent) had been involved in or witnessed one or more ethical conflicts in their work in the past three years. Data on other ethical issues in the workplace is presented and discussed.

CONCURRENT SESSION 2C

Friday, June 17
2:45 p.m. - 4:15 p.m.

Location: AEC Theatre (SH 215), Scurfield Hall

**TRANSFORMATIONS IN THE CODE OF ETHICS OF THE U.S. ACCOUNTING
PROFESSION, 1917 AND 1988: CHANGING NARRATIVES OF LEGITIMATION**

David Cooper
University of Alberta

Robert C. Chilton
Boston University

Alistair M. Preston
University of New Mexico

D. Paul Scarbrough
Bentley College

While the accounting profession in the U.S. has claimed to be a moral or ethical body throughout the twentieth century, its moral schema and code of ethics have in fact undergone a number of transformations. This paper argues that the codes of ethics (or professional conduct), and the discourses surrounding them, are narratives through which the profession seeks to legitimize itself within the social realm. The paper explores two distinct periods, namely the turn of the century, during which time the first code was formulated and the 1980s when the current code was constructed. We demonstrate through a cultural history, that the transformations in the code and discourses are translations of both the political challenges to the legitimacy of accountants and wider transformation in the culture of American society.

CONCURRENT SESSION 2C

Friday, June 17
2:45 p.m. - 4:15 p.m.

Location: AEC Theatre (SH 215), Scurfield Hall

**AD-HOC TRANSFERS AND LONG-TERM TRANSFER RELATIONSHIPS:
ARE THERE SEPARATE PRICING MECHANISMS?**

Michael Shih
University of Toronto

Many empirical studies have reported a wide variety of transfer pricing practices among firms, but very little has been said about why such diversity occurs. It would seem that knowing the variables that systematically explain the diversity is of greater value and importance than being simply informed of the diversity in the broad context of understanding how firms make management accounting decisions.

The paper investigates the influence of one such variable: the tendency of a transfer to repeat itself or not. A transfer can be ad hoc in nature or it can be part of a long-term transfer relationship. Ad hoc transfers and long-term transfer relationships, in theory, should not be always priced by the same transfer pricing mechanism. Research on transfer pricing suggests that costs incurred by a profit center to fill an internal order and the variability of these costs with volume factor into how the transfer should be priced to achieve goal congruence between the profit center level and corporate level. Theory on cost behavior states that variability of costs with production volume is likely to be different from a short-term perspective and a long-term one. Together, these theories suggest that firms will find it advantageous to price ad hoc transfers and long-term transfer relationships using different mechanisms unless the cost of adopting such elaborate systems outweighs the benefit. Such considerations may in part explain the observed divergence among firms in transfer pricing practices.

To investigate, a large number of Canadian firms are surveyed and many indeed have separate pricing mechanisms for ad hoc transfers and long-term transfer relationships. It is found that variable cost is more likely to be the basis on which short-term, ad hoc transfers are priced than is the case with long-term, upstream-downstream transfer relationships. This is consistent with the notion that the distinction between variable costs and fixed costs exists only for short-term decisions.

Other insights are also gained from the survey. First, fixed cost of the selling profit center is often charged to the buying one as a flat fee, possibly to avoid alteration of perceived cost behavior and prevent sub-optimal marketing and production decisions at the downstream operations. Second, firms are more likely to use market-based pricing mechanisms for transfers to or from less than 100% owned profit centers, perhaps to protect the minority shareholders.

CONCURRENT SESSION 3A

Saturday, June 18
10:30 a.m. - 12:00 noon

Location: Texaco Theatre (SH 202), Scurfield Hall

ORGANIZATIONAL HIERARCHY, SUBCONTRACTING AND TRANSFER PRICING

Yoon S. Suh

University of Illinois at Urbana-Champaign

Kyung T. Lee

Pennsylvania State University

Transfer pricing is one of the unique characteristics of decentralized organization in which responsibility centers trade among themselves. The role of transfer pricing in a decentralized organization has been a very important, yet quite unresolved issue in managerial accounting literature. Most analytical researches on transfer pricing have limited their studies on the characteristics of transfer pricing without addressing why transfer pricing should exist to begin with.

The purpose of this paper is to develop a formal model in which the value of transfer pricing is endogenously derived, and to derive the optimal transfer pricing schemes that are widely observed in practice.

We analyze transfer pricing in a firm consisting of one central headquarters and two sequential divisions; an intermediate and a final product division. The intermediate product division produces intermediate products which are used by the final product division to generate revenues. We develop a simple agency model where the cost of intermediate products is not observed by the central headquarters. We view transfer pricing as subcontracting between two divisions in an organization hierarchy where the central headquarters delegates to the final division manager the subcontracting responsibility.

First, we show that a demand for transfer pricing endogenously arises in the model. The value of the transfer pricing originates from the final division manager's ability to observe the intermediate product cost and thus to design transfer price as a function of the intermediate product cost. Second, we show that the optimal transfer pricing scheme is consistent with the observed practice.

Kaplan and Atkinson [1989] show that the most popular transfer price surveyed is the cost-based transfer pricing schemes: 57 % of the sample firms in Canada and 69 % of the sample in U.S. use the cost-based transfer prices. In his survey, Vancil[1979] also categorizes cost-based transfer pricing schemes into pure cost-based, cost plus shared-profit, and negotiated prices and shows that 16.7 % of the sample firms use a cost plus shared-profit type transfer price.

We show that the optimal transfer pricing scheme is generally cost-based, sometimes taking a form of cost plus markup when the intermediate division manager is not subject to moral hazard.

When there exists an incentive problem for the intermediate division manager, however, the optimal transfer price depends revenue as well as cost. Thus, the optimal transfer price scheme is still cost-based but also includes a profit-sharing component.

The contribution of this paper can be summarized as follows: First, we establish the value of transfer pricing in a formal model. Second, we derive the optimal transfer pricing schemes that are widely observed in practice. Third, we analyzed both administered and negotiated transfer pricing depending on whether the transfer pricing scheme is observable by the central headquarters.

CONCURRENT SESSION 3A

Saturday, June 18

10:30 a.m. - 12:00 noon

Location: Texaco Theatre (SH 202), Scurfield Hall

**PSYCHOLOGICAL TYPES AND THE BUDGETARY BEHAVIOR OF MANAGERS:
SOME PRELIMINARY SPECULATIONS**

Norman B. Macintosh
Queen's University

John C. Moore
Queen's University

Budgets are one of the most pervasive and important control devices used today in both public and private sector organizations. Yet research indicates that individual managers seem to respond to and make use of them in quite different ways. There are suggestions in the literature, however, that these differences may be accounted for, at least in part, by differences in personality types. This study reports the results of an empirical study of over 300 managers in a variety of public and private organizations designed to test for variations in budgetary behavior due to Jungian personality differences. The results suggest that Jung's introversion-extraversion attitude construct does make a difference in terms of a manager's budgetary behavior.

A second purpose of the research is to assess the potential of Jung's theory for future behavioral accounting studies. This assessment indicates that some of the previous literature combines Jung's four personality functions in ways that distort the theory. It also points out that the roles of the unconscious and auxiliary general attitudes and functions play an important part in Jung's theory and yet have been ignored in previous studies. Finally, it concludes that the methodology of clinical psychology may be a much better way to investigate managers' behavior with respect to budgeting systems than the usual cross-sectional questionnaire approach.

CONCURRENT SESSION 3A

Saturday, June 18
10:30 a.m. - 12:00 noon

Location: Texaco Theatre (SH 202), Scurfield Hall

SOCIAL-SEXUAL BEHAVIORS REPORTED BY WOMEN CAs

Ronald J. Burke
York University

Carol McKeen
Queen's University

This study examined the antecedents and consequences of the occurrence of social sexual behaviours and sexual harassment in the work places of women CAs. Data were collected from 49 female business graduates of a Canadian Business School using questionnaires.

The findings that workplace social-sexual behaviour is common and that less serious forms are more frequent than more serious harassing behaviours are consistent with others' work. The women demonstrated a high degree of agreement on what kinds of behaviours constituted sexual harassment, and 30% of them reported experiencing some behaviour constituting sexual harassment. The frequency of experienced social sexual behaviours was associated with lower job satisfaction and commitment to the organization. Implications for women CAs and their employees are offered.

CONCURRENT SESSION 3B

Saturday, June 18
10:30 a.m. - 12:00 noon

Location: Mobil Theatre (SH 210), Scurfield Hall

**BUT IT'S WHAT COUNTS....: MEASUREMENT, KNOWLEDGE,
ACCOUNTABILITY AND GENDER**

Leslie Oakes
University of Alberta

Barbara Townley
University of Alberta

This paper presents the preliminary stages of research which examines the rationalization of organizational experience. It examines the extent to which counting and numerical representation has become a dominant form of accounting for time, activity and experience in many facets of our organizational, and organized, life. Presenting counting as an organizational practice the paper examines how it is used to justify and substantiate actions, grant activities existence and define the boundaries of entities, including time and space. The organizational practices of counting also function to articulate concepts of self, rendering the individual accountable not only to the organizational hierarchy but also to themselves. Counting constitutes part of a wider rationalization which becomes absorbed into modern constructions of self, what it is to be and to act.

This experience is critiqued in the light of recent feminist work. Drawing on the work of Keller, Harding and Foucauldian feminists, these practices are examined for their privileging of the visible (simultaneously excluding or rendering invisible aspects of experience), and their reinforcement of separation, ordinal ordering and hierarchy. The implications of this privileged way of knowing, identified in the feminist literature as being at the heart of masculine ways of being, are critiqued for the type of rationality they construct and perpetuate and are contrasted with an alternative understanding of organizing.

CONCURRENT SESSION 3B

Saturday, June 18
10:30 a.m. - 12:00 noon

Location: Mobil Theatre (SH 210), Scurfield Hall

AN EMPIRICAL INVESTIGATION OF THE DETERMINANTS OF THE CHOICE OF DISCLOSURE FORM OF DISCLOSURE OF MANAGERS' EARNINGS FORECASTS

Jacob Nelson
University of British Columbia

In this study, I investigate potential determinants of managers' choice of the form of voluntary disclosures of earnings forecasts. While there has been much empirical research which has investigated properties of managers' forecasts of firm earnings (distributional properties of unexpected earnings, stock price responses to forecasts release, revisions by analysts' forecasts subsequent to forecast release), only recently has there been a concerted attempt at understanding managers' incentives for making such forecasts.

Managers make trade-offs between the costs of making such disclosures (e.g., the release of proprietary information, the potential for litigation in the event a forecast proves to be incorrect (ex-post) and the costs of not disclosing (potential for litigation if it can be proven that managers were in possession of material non-public information, adverse effects in the market for the firm's shares - decreased liquidity). Such trade-offs determine managers decisions as to whether or not to make a disclosure, as well as the choice of disclosure form.

The choice of disclosure form is likely the outcome of a constrained optimization problem: managers attempt to maximize the benefits of disclosure while minimizing the costs of disclosure. Benefits of disclosure may include revealing proprietary information, and exposure to litigation in the event realized earnings fall short of forecasts. Expected litigation costs (potential costs faced by the firm in the event of unrealized forecasts) may be higher for firms with greater earnings volatility.

I investigate the association between the choice of disclosure form and several firm-characteristics, as well as characteristics of the information disclosed (i.e., good or bad news, and the magnitude of the news in the disclosure). I model this choice as a multinomial logistic regression. The multinomial logit model is an extension of the binary logit model in which the choice among several discrete alternatives is modelled as a function of the explanatory variables. In this model, there is no assumption of structure i.e., the partitions are not successive. This study reveals several interesting associations between the quality of managers' information at the time of disclosure, proprietary costs, the type of news to be announced (good or bad news), and the form of disclosure. There is also some evidence that earnings volatility affects the choice of disclosure form.

CONCURRENT SESSION 3C

Saturday, June 18
10:30 a.m. - 12:00 noon

Location: AEC Theatre (SH 215), Scurfield Hall

EXECUTIVE COMPENSATION AND CORPORATE OWNERSHIP STRUCTURE: AN EMPIRICAL ANALYSIS

Mary Margiotta
University of British Columbia

This paper examines the role that ownership structure plays in determining both executive compensation and performance of large publicly traded firms. In particular, I examine the effect that large outside blocks (blocks of 5% of common stock not held by individuals with a close connection to the firm), management stock holdings and institutional holding have upon the form and amount of CEO compensation and stock market performance.

Large outside ownership has two potential effects. First, since a larger fraction of the returns from monitoring accrues to owners of large blocks, monitoring of management is more likely to be undertaken. Secondly, large blocks may be considered to hold investments in the firm. The existence of such blocks make it easier and cheaper for a raider to acquire a firm that is poorly managed. Thus managers in firms with such blocks have incentive to manage the firm in a manner that maximizes the shareholders' welfare. Thus we should expect to see that the agency problems are reduced in firms that have large outside ownership. The efficient contract offered to managers in this case would have lower average compensation since the risk premium that needs to be paid in order to induce proper effort would be reduced. Further, compensation would have less variability and be less sensitive to performance. The effect on stock market returns is less clear. It is assumed that in firms without large blocks the agency problem is addressed through efficient contracts alone. These contracts may encourage managers to maximize the value of the firm and thus we may not observe any difference in the profitability of the firms across ownership structures. To the extent that the efficient contracts do not perfectly align the interests of managers with those of shareholders, performance may be lower in firms without large outside investors.

These hypotheses are tested on a sample of 150 Fortune 250 firms from the late 1980s. It is found that, in firms in which common equity ownership is concentrated in large blocks of at least 5%, CEO compensation is considerably lower. It was also found that the variance of the compensation in firms without large shareholders was greater than the variance in those firms with large shareholders. This is evidence that firms with large shareholders impose less risk upon their chief executives. Finally it is found that firms with concentrated ownership are less profitable and have lower excess returns than firms without concentrated ownership. This result is not compatible with agency theory. Future work will examine this result more closely.

CONCURRENT SESSION 3C

Saturday, June 18
10:30 a.m. - 12:00 noon

Location: AEC Theatre (SH 215), Scurfield Hall

**THE USE OF ACCOUNTING-BASED EFFICIENCY MEASURES:
A CRITICAL EXAMINATION**

Irene Gordon
Simon Fraser University

This paper examines the use of accounting-based efficiency measures. Using a sample of 53 studies that found privately-owned outperformed publicly-owned enterprises, the types of measures employed in those studies are presented and discussed. Two criticisms are raised concerning the measures: the problem of exclusion of externalities in efficiency measures and the failure to make effectiveness comparisons. For studies purporting to make efficiency comparisons when externalities exist, the effect of assuming a motivation to maximize profits and presuming the existence of an economic equilibrium is critically examined. It is argued that the use of efficiency measures only makes sense in a market equilibrium setting. As well, evidence on the social and corporate objectives of two government owned enterprises is examined to provide support for the argument that organizational objectives and goals may require comparisons of effectiveness measures. Finally, reasons why academic accountants should criticize the use of accounting-based efficiency measures for policy-making decisions are presented.

CONCURRENT SESSION 3C

Saturday, June 18
10:30 a.m. - 12:00 noon

Location: AEC Theatre (SH 215), Scurfield Hall