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ADAPTABILITY OF FAIR VALUE ACCOUNTING IN CHINA:
ASSESSMENT OF AN EMERGING ECONOMY CONVERGING WITH IFRS

This paper examines fair value accounting adoption and implementation, within the socioeconomic context of an emerging economy, China. As FVA is a major component of International Financial Reporting Standards (IFRS), the findings provide insights on global challenges to international accounting convergence.
ARE CANADIAN UNIVERSITIES READY FOR IFRS?\(^1\)

Introduction of IFRS presents Canadian accounting academics with significant pedagogical challenges. How will the new material be integrated into courses? Will professional requirements be met? Will students be prepared for post-graduation professional exams? This paper analyzes the results of a survey intended to determine the readiness of Canadian academics for the introduction of IFRS.

\(^{1}\) I would like to thank Ramona Dzinkowski and Melissa Gibson from Financial Executives International Canada for their assistance in completing the research survey.
EARNINGS MANAGEMENT AND TAX SHELTERING IN THE MIDDLE EAST

The aim of this paper was to study the extent and methods used in earnings management by Middle Eastern companies in order to reduce taxes. Jordan is used in this study as a proxy for other Middle Eastern companies. For the purpose of this study a questionnaire was developed from the previous literature and the opinions of academics and tax specialists in Jordan. The study found that Jordanian companies are engaged in earnings management, the primary reason for that was to lower the tax burden. This practice was aided by the flexibility in accounting regulation and institutional settings.
BACKDATING OF EMPLOYEE STOCK OPTIONS: SIGNALING EFFECTS FOR CORPORATE GOVERNANCE AND INTERNAL CONTROL DEFICIENCIES

Backdating occurs when a company retroactively changes option grant dates to dates when its stock was trading at a lower price. Backdating announcements have lead to adverse publicity from media and academics regarding the economic effects and motivation of those involved. This paper developed six explanations provide evidence why the market reacts to backdating that does not have cash-flow implications. The second issue examined is the motivators for management and boards to involve in backdating in the first place, as well as the characteristics of these firms. Finally, the estimated costs of backdating to the firm and its shareholders.

Our analysis shows that nearly 64 percent of backdating firms are in high-tech industry; 73.5 percent of firms restate the previous years’ financial statements, while the remaining firms concluded no restatement was necessary. In 52.2 percent of the cases the management was determined to have backdated intentionally. Conversely, the fact that almost 48 percent of firms are not involved in intentional backdating. This result indicates any observed market decline in response to a backdating announcement cannot be attributed solely to backdating itself. Rather, this suggests a signaling effect, expected economic costs related to uncertainty about the outcome of a backdating investigation and/or media bias in the coverage of backdating events might be significant contributors to the market reaction.

In comparison to a matched sample of non-backdating companies, backdating firms exhibit greater management entrenchment, have less effective corporate governance systems and fewer independent directors on their boards. Backdating firms also exhibit greater information asymmetry. The top management and board of directors of these firms own significantly more stock and the relative percentage of their total compensation accounted for by stock options is found to be significantly higher than that for the comparison group. This fact is consistent with the use of backdating to increase the private benefits to management. On the other hand, the relative percentage of options granted to top five executives is significantly lower compared to matching firms. Further, backdating firms have relatively higher employee growth rates. Taken together, these two results suggest that backdating may have been undertaken to increase employee morale and help retain valuable employees.

Logistic regression results suggest that an ineffective corporate governance structure, inefficient internal control systems over financial reporting and a higher degree of information asymmetry provide the environmental conditions that promote backdating practices. The stock price of backdating firms is found to drop an average of 3.75 percent during the three-day announcement period window. This decline represents an average, cumulative loss of $193 million dollars per firm. Furthermore, the average market value loss of $192.96 million is much higher than the average restatement amount of $82.372 million. These results are consistent with the Signaling/Corporate Governance and Internal Control hypothesis, the Media-Bias hypothesis and Economic-Costs-of-Backdating hypothesis as developed in this paper.
SELF PRESENTATION ON EMOTIONAL INTELLIGENCE TESTS

Emotional intelligence is increasingly being viewed as a necessary business skill. Some firms administer emotional intelligence tests as part of the recruitment process. Thus, the question of how effectively the tests measure what they purport to measure is important. We examine the ability of subjects to artificially alter their results on two of the most frequently used emotional intelligence tests: the EQ-i and the MSCEIT. We use two job descriptions, one for a job that requires a high degree of emotional intelligence and one that does not. We find that subjects can artificially increase or decrease their emotional intelligence score. The effect is in the appropriate direction for the EQ-i. However, subjects who originally scored high on the MSCEIT actually decreased their score based on the high emotional intelligence job description. We conclude that neither test would be an effective tool to use in the hiring process without some revisions.
REGULATORY INTERNAL CONTROL IMPLEMENTATION IN CANADIAN COMPANIES:
ACCOUNTING AND INFORMATION SYSTEMS PERSPECTIVES

This study examines the processes, as well as consequences, related to implementing regulatory controls, such as the Sarbanes-Oxley Act of 2002 and the corresponding Canadian securities regulations, from both the accounting and information systems [IS] perspectives. Data were collected through interviews of senior financial and IS executives in large and medium-sized public companies with major operations in Canada and the United States [US]. The study revealed several similarities in the approaches used by, and the factors important for, the financial and IS executives. However, there were also marked differences.

The financial and IS executives emphasized different aspects of controls and provided examples from their unique perspectives. The financial executives specifically described a need for resolving any existing structural and organizational deficiencies first. They also tended to view control documentation as a form of control in itself, whereas the IS executives considered it as a step or process in control implementation. As many companies already had established internal controls, the financial executives emphasized the principles of effective control. In many cases, implementing regulatory control requirements entailed automating and documenting the existing manual or spreadsheet controls with the help of the IS staff using new information technologies. As many controls may have been new to the IS staff, they felt a greater degree of uncertainty throughout the implementation processes and wished more detailed guidance from accountants and auditors. Control implementations were also impeded by the lack of experienced accounting and IS staff and by some ambiguity regarding the roles of various stakeholders. On the positive side, control implementations were facilitated by centralized accounting and Enterprise Resource Planning (ERP) systems, as well as by top management and peer support.

In general, the financial executives portrayed a more strategic role of controls, although the IS executives also discussed their control implementations as part of broader management initiatives. The financial executives emphasized the benefits associated with the strengthened roles of auditors and audit committees. These enhanced management and governance practices were considered to lead to improved accountability and governance and decreased risk for financial fraud and fraudulent financial reporting. The infrastructure and experience gained through SOX implementations were subsequently also used to improve management systems and reporting. On the other hand, the IS executives focused on the IT strategy, ensuring adequate systems technology and security, and worked with the financial and operations functions to find technical solutions to their control needs, which often entailed modifying existing systems or enhancing them with add-on applications. If the most desirable control tool was not feasible, mitigating or compensating control procedures were implemented instead. However, the participants also recognized that no amount of regulation, control, and auditing can detect, prevent, and eliminate all financial fraud.

The findings of this study can help the financial and IS professionals improve the existing systems and implement future collaborative projects, and academic researchers refine control theories.
EARNINGS MISREPORTING, THE SARBANES-OXLEY ACT AND CHANGES IN CEO COMPENSATION

This paper examines changes in executive compensation structures following restatements of prior period earnings, and whether the passage of the Sarbanes-Oxley Act (SOX) influences how firms react to accounting misreporting when they modify their CEO compensation contracts. Based on a sample of firms that restated their earnings for the period of 1997-2005 and a sample of matched control firms, we find that restatement firms significantly reduce their equity-based compensation awards to executives in a two-year or three-year period following the restatements, when compared with the control firms. The reduction is especially significant for restatements of a more severe nature. We also find that equity-based compensation has been significantly reduced for both the restatement and the non-restatement firms after the enactment of the SOX. Prior studies indicate the potential link between option-based CEO compensation and the propensity of misreporting. The findings from this study suggest that restatements are associated with subsequent decreases in the option-based components in executive contracts, thus highlighting the long term compensation consequence of earnings restatements for executives.
USE OF MANAGEMENT CONTROL SYSTEMS IN JVs: AN EMPIRICAL ASSESSMENT

This paper contributes to the discussion of management control systems in international joint ventures (Groot and Merchant, 2000). To answer the question of whether intensity of use of management control systems plays a role in perceived joint venture performance I used a contingent model to test data from 65 joint ventures in the motor and auto parts industry. The findings show that intensity of use of management control systems by joint ventures managers is a mediating variable between experience (with the local market and product/process technology) and joint venture performance. High performers use management control systems more intensively to overcome the two main sources of uncertainty in Galbraith’s (1973) terms faced by the joint venture: local market conditions and product/process technology (Lu and Hebert, 2005; Lu and Beamish, 2006).
HOW MANAGERS USE MANAGEMENT CONTROL SYSTEMS IN TURBULENT ENVIRONMENTS

This paper investigates the role that management control systems (MCS) play in the performance of the organizations operating under turbulent conditions. Two sets of companies are studied as turbulent conditions: international joint ventures (JVs) in the auto and motor industry and manufacturing companies located in a regional economy of a less developed country (LDC). Two surveys gathered data of 35 JVs and 45 industries in Cordoba (Argentina) that allowed testing a contingent framework. The results are concordant with the literature that holds that MCS helps to reduce uncertainty when the factors that generate it can be affected by the managerial decisions (Galbraith, 1973; Davila, 2000). Uncertainty is reduced by an appropriate use of MCS that implies a more intense use and a use orientated to coordinate rather than to control that in turn positively affects the organizational performance. Companies operating under turbulent conditions show that the use of MCS information improves their performance and is completely independent from factors not controllable by managers. The empirical study showed a clear association between previous exposure to a factor perceived as manageably and a high intensity of use of MCS with purposes of coordination to reduce the uncertainty understood as the difference between the information available and information needed to perform the task. The major limitations of this study are the lack of literature focused on the topic, testing of an ad-hoc contingent model, the small sample sizes and the measurement of latent variables through questionnaires based on perceptions.