

Interaction among financial information requirements, governance structure and socio-economic context: the case of the St. Anselme Foundry 1910-1995

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Agenda

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- Literature Review
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Introduction

- This research
 - Reviews the existing literature on linkages between a firm's information production choices, its governance structure and the socio-economic context in which the firm operates
 - Is based on Giddens' Structuration Theory (1976, 1979, and 1984)
- The main argument is that ST (Structuration Theory) can help researchers to understand financial accounting choices in a longitudinal historical case analysis setting

Introduction

- To support our argument
 - Longitudinal case study: St. Anselme foundry
 - In order to explore
 - the interactions among the financial information production choices
 - the numerous changes in its governance structure
 - the dramatic evolution of the socio-economic context in which it has operated over most of the 20th century



Research Question

What conceptualization of accounting are reflected in the annual financial statements of the St. Anselme Foundry over the 20th century and how has this conceptualization evolved in pace with the foundry's information production choices, its governance structure and the socio-economic context

Literature Review

- Growing number of research on conceptualization of accounting choices relies on Giddens' Structuration Theory (ST) which
 - Is rooted in sociology (Englund & al., 2011)
 - Is mainly the distinction between situated practices, i.e. what people say and do, and what generates such practices (patterns)
- Three specific approaches of conceptualization of accounting emerging from ST literature:
 - Structure, Artefact and Interplay between both

Literature Review

□ Structure

■ Most studies: Empirical case study

(Macintosh and Roberts, 1991; Jack, 2005; Lawrence and Doolin, 1997; Lawrence & Al., 1997)

■ Demonstrates how Giddens' theory help to understand

- how accounting systems are linked to social systems
- how accountants and their practice can be implicated in certain social reforms
- why some systems don't change or why new knowledge fails to become accepted or institutionalized

Literature Review

□ **Artefact**

■ **Focuses**

- on the accounting system as a computerized system
(Granlund, 2001; Hyvönen & al., 2006)
- on manuals, rules, reports and specific techniques
linked to such systems
(Barrett & al., 2005; Lauglin, 1990)

Literature Review

- **Interplay between Structure and Artefact**
 - Largest part of the literature
 - Studies demonstrate
 - how changes in accounting structure may lead to the need to change accounting system
(Alam & al., 2004; Gurd, 2008; Seal, 2003)
 - The opposite
(Dirmsmith & al., 1997; Roberts and Scapens, 1993; Conrad, 2005; Busco & al., 2006; Granlund, 2003; Uddin and Tsamenyi, 2005).

Literature Review

- Overall
 - Few papers are historical or longitudinal
 - No research has been conducted yet
 - on small firms
 - on the influence of shareholders-owners on accounting practices and control

Sample and Data Sources

- Private collection of financial statements from 1911 to 1995
- General ledgers (1911-1995)
- AGM reports and minutes (1944-1975)
- Trade and legal documentation
- Articles of incorporation produced by the foundry
- Transcripts of interviews with past owners and stakeholders

Methodology

- For each financial statement between 1911 and 1995
 - Recorded all details regarding
 - the corporate structure
 - the information provided to stakeholders (assets, long terms assets, liabilities and equity, profit and loss account, revenues, cost of goods sold, and expenses)
 - Identified the name of each auditor of the foundry along the years

Methodology

List of Auditors, 1911-1995

Auditor's	# Years	Location
J. Arthur Larue, CA	1911-1920	Québec
Sharp Milne & Co	1921-1953	Montreal (Head office in New York)
Roger Roy, CA	1954-1956	Lévis (St-Georges)
Ruel, Roy, Moreau & Cie	1957-1964	Lévis (St-Georges)
Ruel, Roy, Moreau & Associés	1965-1973	Lévis
Roy, Lachance, Marotte & Associés	1974	Québec
Honorius Paquet (CA)	1975-1978	St. Anselme
Jean-Yves Girard (CA)	1979	Québec
Lalonde, Angers & Girard	1980	Québec
Lalonde, Angers, Girard & Cloutier	1981	Ste-Foy, Québec
Audet, Beaudoin & Associés	1982-1983	Ste-Foy, Québec
Maheu Noiseux	1984-1986	Québec
KPMG	1987-1989	Québec
Samson, Bélair, Deloitte & Touche	1990-1991	Québec
Honorius Paquet (CA) & Syndic	1992-1995	St. Anselme

Source: Audited Financial Statements, St.Anselme Foundry, 1911-1995

Methodology

- Recorded the number of shareholders and identified major ones based on their # of shares
 - For examples:
 - Roy family (1910-1919)
 - Atkinson family (1920-1943)
 - A. Bégin (1944-1953)
 - Bouchard (1954-1974)
 - Baillargeon & Paquet (1975-1995)
- Identified other major stakeholders: Banks

Methodology

Conceptualization of Accounting	Key Aspect of Studies
1. Accounting as structure	Accounting is referred to as structuring properties of social systems (in terms of structures of signification, legitimation, and/or domination)
2. Accounting as artefact	Accounting is referred to as a formal system, including computerized systems, reports, formal rules, and/or specific techniques (e.g. an ABC system)
3. Accounting as interplay between structures and artefacts	Accounting is interchangeably referred to as structuring properties and formal system

Methodology

Structural dimensions	Key aspects of studies
1. Accounting as signification structure	
Perceptual lens	Accounting is modelled as cognitive scheme for interpreting reality
Constitutive lens	Accounting is modelled as a language through which reality is socially constructed
2. Accounting as legitimate structure	
Window-dressing device	Accounting is modelled as a means of reflecting organisational and societal expectations
Sanctioning device	Accounting is modelled as a means of sanctioning certain forms of (inter)actions
3. Accounting as domination structure	
Resource of domination	Accounting is modelled as a resource which may be drawn upon the exercise of power
Ideological mechanism	Accounting is modelled as an ideological mechanism which is embedded in, and constitutive of, social relations

Findings

- Over most of the studied period- majority of shareholders were external, non-managerial, investors
- A superficial look at FS produced by the foundry would lead one to conclude that accounting is an artefact, i.e. based only on a formal system of rules
 - Because the basic format of the financial statements has remained remarkably stable over close to a century

Findings

- A closer look at the FS preparation process suggests that crucial choices –auditor- may have been influenced
 - by the characteristics, and
 - thus the specific needs of the major shareholders
 - Refer to structure (as social system)
- Prior to 1954
 - Influence of the shareholder's nationality on the choice of an auditor

Findings

- Roy Family (1910-1919)
 - Auditor: *J. A. Larue*
 - Suggest a desire to legitimize the importance of the firm by using a recognized accountant
 - Convey a legitimate structure where accounting is modelled as a means of reflecting organisational and societal expectations
 - Obtain business world approval in the form of credit

Findings

- Atkinson family (1920-1943)
 - Auditor: *Sharp Milne & Co.* (for 30 years)
 - Auditor change suggests either
 - discontent with the past auditor's performance
 - or it provides support for accounting viewed as a strong ideological mechanism (a dimension of accounting structure as a domination mechanism used by owners to exert power over managers)
 - Change in bank
 - Canadian National Bank to Bank of Montreal

Findings

- In 1944, A. Bégin continued to rely on Sharp Milne & Co. for audits until 1953
 - System of rules was already well-established
 - The auditor choice reflected continuity
- Possible interpretations
 - French Canadian cultural connection between the new majority owner and the manager could explain why accounting continuity was preferable over change
 - Consistent with the constitutive lens (signification structure) dimension of accounting
 - Suggest that cultural alignment between owners and managers may reduce the need for accounting as a domination structure

Findings

- From 1954
 - French Canadian auditors
- From 1975
 - Auditor choices made by the accountant of the firm
 - e.g.: KPMG, Deloitte
 - Auditors rotated every 2-3 years
 - Accounting system = artefact
 - based on a structure system
 - comply with the CICA book (published in 1968) and not to exert control over any agent

Findings

- Financial reporting choices
 - Mix of artefact and structure, with alternate prominence resulting from various internal and external contextual forces
- Additional findings – also consistent with existing, more contemporary, literature
 - Prior to 1930: voluntary disclosure
 - Attract investors
 - Prior to 1975: Long-term auditor engagements
 - Benefit the foundry - auditor could bring expert knowledge informed by work at other clients

Conclusion

- This paper
 - Illustrates how Giddens' structuration theory can be used to better understand accounting choices
 - Shows that the foundry had a mix of structure and artefact accounting conceptualizations with evolving structural dimensions
- More specifically
 - Shows that structural dimensions of accounting conceptualizations may become more or less prominent because of ideological alignment or misalignment among stakeholders
 - When stakeholders are aligned around a common ideology (French Canadian ideology) accounting appears more likely to represent a domination structure used to perpetuate the ideology
 - Also true when ideologies vary among stakeholders (English)

Conclusion

- Findings could imply that only when ideologies among stakeholders are partially aligned can accounting become a legitimate structure or signification structure
- While more work is required to confirm this interpretation, it is anyhow interesting to note that
 - it is consistent with the fact that international financial reporting standards (IFRS) represent a compromise that prioritizes common standards throughout the world that may enable less domination than more developed local standards
 - while stakeholders become more global and exhibit an evolving blend of ideological homogeneity and heterogeneity at the same time

Conclusion

- Overall, this research, although limited to a specific case
 - Allows a better comprehension of a part of the Canadian foundry industry over the studied period
 - Allows us to add to the ST-based accounting literature
 - Highlights several research opportunities for future researchers from several disciplines