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Abstract

Purpose – This paper is the third in a trilogy of papers to explore the use of accounting as a fundamental element in senior management's narrative regarding the privatization of a major transportation enterprise, Canadian National Railway (CN). The paper aims to examine how two accounting performance benchmarks (the operating ratio, and free cash flow) were deployed to help sustain a rhetoric of post-privatization success. The aptness (and the danger) of accounting language in strategic narrative is highlighted.

Design/methodology/approach – The paper describes the importance of senior management discourse in the aftermath of a privatization. A narrative perspective is adopted, in which an imagined future post-privatization era initially articulated in accounting language is then told and re-told as the post-privatization years unfold. Accounting performance measures highlighted in the story of success of the privatization in the Annual Letters to Shareholders by the CEOs of CN in the ten years following privatization in 1995, and celebrated in the Annual Report, are examined critically.

Findings – The results emphasize the important features and role of accounting language and accounting-based performance benchmark measures in the narrative construction of the success of a privatization by corporate leaders.

Research limitations/implications – Case studies possess the strength of specific instance detail and interpretation, and the ostensible weakness of interpretation of a sample of one. But such research can provide for a reframing of conceptual perspectives and stimulate additional efforts to interrogate the role of accounting language in events of major social change.

Practical implications – The paper strongly endorses the adoption of a critical analytical perspective by those affected by a major social change (such as a privatization) in which the role of accounting language is subtle, but nonetheless persuasive and enduring.

Originality/value – The paper examines a case study in which the narrative framing of success is made rhetorically potent by deploying accounting performance measures. The paper reinforces the view that accounting is not an innocent bystander in the political and narrative manoeuvrings associated with a privatization. Accounting does not axiomatically provide an objective measure of some underlying financial truth, but is part of an arsenal of rhetoric to achieve political ends.

Keywords Accounting, Privatization, Canada, Railways, Narratives, Company performance

Paper type Research paper

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Motivation, scope and aims

Irrespective of whether we conceive accounting narrowly as a means of financial representation or more broadly as a language of accountability, we should acknowledge that accounting helps us to render the world and how we (mis)interpret it. In this paper, we focus on one such rendering: on how accounting is implicated, over time, in the narrative expression of the success story of a major privatization.

This is the final paper, in a trilogy of papers, in which we analyze the role of financial accounting before, during, and after, one of the most significant events in the commercial history of Canada: the privatization of Canadian National Railway (CN) in November 1995 (Craig and Amernic, 2004, 2006). CN, formerly a large Crown corporation and now a shareholder-owned and traded corporation, has been an important social and economic institution in Canada for several decades. Since CNs privatization in 1995, a significant portion of its reported revenues and profits have been generated in the USA as CN complemented its traditional east-west rail network across Canada with an extensive north-south presence which has extended through the USA to the Gulf of Mexico.

Our interest in the privatization of CN was aroused because it was alleged to be "a seminal example of how to sell state-owned assets" (Critchley, 1995), because little in the way of critical debate occurred before, during, or since the privatization, and more generally because of Shaoul's (1997, p. 382) admonition that accounting scholarship has contributed little to the debate on "the relative merits of private v. public sector provision of service." Our concurrence with the view that "privatization is a language game" (Miller and Simmons, 1998, p. 529), suggested that financial accounting language was potentially a significant discourse choice in the creation and furtherance of a privatization mentality and of the sustenance of a post-privatization discourse.

The overriding objective of this, and our two prior papers, is to improve understanding of the at-times implicit, but nonetheless significant role of accounting in the "language game" of a privatization and its aftermath. In our first paper (Craig and Amernic, 2004), we focused on how accounting language, concepts and information were deployed by the then-CEO of CN, Paul Tellier, in his articles published in the then-Crown corporation's monthly internal employee newspaper prior to the formal announcement that CN was to be privatized. We argued that the CEO constructed a privatization mentality to persuade employees to accept a change in the orientation and culture of CN, and concluded that he appeared to use the language and technical features of accounting to help sustain the alleged economic wisdom of the decision to privatize[1]. In our second paper (Craig and Amernic, 2006), we explored how accounting language, concepts and information were used in the prospectus issued by CN in support of its initial public offering (IPO) of shares on November 17, 1995. We highlighted the potential for technical aspects of accounting to be used as rhetorical devices to construct persuasive arguments to win support for the privatization; and we suggested that the vagaries of measurement and recognition in accounting were exploited to help sustain a self-fulfilling prophecy of success.

In this final paper, we focus on the role of accounting language after the privatization of CN[2]. But in so doing we reflect upon the full chronology of the privatization of CN as an on-going story that began in earnest with the engagement of Paul Tellier as CEO of CN in 1992, three years prior to the privatization. We examine, with emphasis on the *post-privatization* phase, how the story of success of the privatization has been narrated by CN and its CEOs using the language of accounting – a language whose use seemed to make the narration more forceful. Such examination of accounting is one step in assessing the widely-accepted conclusion (for example, by the Canadian public, business press and Harry Bruce's 1997 panegyric book, *The Pig That Flew*) that the privatization was an outstanding success. Such scrutiny of the role of accounting seems important because opponents of the privatization have been marginalised by the widespread hype engendered by the massive oversubscription of the IPO in 1995 and by the subsequent strong post-IPO share market trading performance of CN. In the *post-privatization* phase we contend that accounting performance measures, such as the operating ratio (OR) and free cash flow (FCF), and accounting language generally, have been invoked to show that the vision of the promoters of the privatization has been achieved, and that the decision to privatize was a sagacious one [3].

The alleged success of the privatization has been couched significantly in terms of accounting language and measures. For example, in early 2006, in commemoration of the tenth anniversary of the privatization, CN published its Annual Report for 2005. This began with a 13-page section (extracts from which are reproduced in the Appendix to this paper) titled, A Great Run, A Great Future. Impressive changes in five performance measures were highlighted very prominently, with two full pages devoted to each measure: OR, diluted earnings per share, market capitalization, FCF, and dividend increases. This visual celebration of announced success followed the assertion in the 2004 Annual Report in the year previous that four performance measures (revenues, adjusted OR, FCF, and CN stock performance) constituted "the scorecard" (Appendix).

We begin by outlining the analytical and theoretical ideas which have influenced our examination of CN's post-privatization use of accounting – ideas based upon a narrative perspective. Accounting seems especially useful in facilitating a post-privatization narrative of "success". We analyze this narrative by focussing on two accounting benchmark indicators highlighted by CN, the OR and FCF. In the concluding section, we reflect on the privatization of CN, and advance some theoretical propositions, grounded in the analysis, for discussion. But before we proceed further, we clarify how we regard the notion of rhetoric in conjunction with our examination of CN's accounting narrative.

Our analysis is consistent with Lanham's (1993) view of rhetoric. He contends that:

> [. . .] [i]n a society based upon information, the chief scarce commodity would presumably be information, not goods. But we are drowning in information, not suffering a dearth of it [. . .] In such a society, the scarcest commodity turns out to be not information but the human attention needed to cope with it (Lanham, 1993, p. 227).

Lanham (1993, p. 227) thus defines rhetoric in the following way:

> We have in the West a venerable tradition of studying how human attention is created and allocated: the "art of persuasion" which the Greeks called rhetoric. A better definition of rhetoric, in fact, might be "the economics of human attention-structures," for whenever we "persuade" someone, we do so by getting that person to "look at things from our point of view," share our attention-structure. It is in the nature of human life that attention should be in short supply, but in an information economy it becomes the crucial scarce commodity. Just as economics has been the study of how we allocate scarce resources in a goods economy, we now use a variety of rhetoric as the "economics" of human attention-structures.

Thus, our interest in this paper centres upon the use of financial accounting language in a privatization narrative as a means of sharing, or rather imposing, human attention-structure. Such a perspective is made more complete for our purposes if we attend to Thompson (1991) "qualified yes" in response to his question "Is accounting rhetorical?".

It is yes in as much as that accounting is arguing and persuading like any other discourse. The qualification is raised because, of itself, this answer is not terribly useful. It has been suggested that the terms of a rhetoric are extra-discursive or linguistic. They are institutionally set and the specification of that institutional matrix, its form and consequences, remains the critical analytical problem. What is said, how it is said, and why it is said [. . .] while clearly an affect of language, needs to be "placed" in its contingent institutional context before the "reasons" for all of this an be properly identified.

Imposing human attention-structure therefore requires context. Accounting's role in CNs privatization discourse is a rhetoric of place and power. Accounting does not exist in a vacuum detached from either a specific time and place – nor is it detached from the larger discourses of which it is a part. Accounting, as a discourse of privatization more generally, and as particular instantiations of that discourse (in the form of performance measures and their entrenchment in the life world of CN) is thus unavoidably social. Accounting serves as an interpretive scheme. It mediates the "communicative action" of an entity (here CN) and the subjective meanings individuals attach to those communicative situations – and that, in turn, orient the actions of individuals (Heracleous and Barrett, 2001, p. 758).

Analytical and theoretical perspectives

Most people who engage with financial accounting seem to regard it largely in terms of the conduit metaphor of communication (Reddy, 1993) in which they maintain that "information is merely the mirror on which the world is reflected . . . [and]. . . language merely represents an objectivelystate of affairs. . . " (Tsoukas, 1997, p. 836). However, some (but not many) business scholars (for example, in accounting, Hines, 1988) have argued persuasively that "[t]he language we use to refer to the world does not merely represent it but also helps *constitute* it. . . " (Tsoukas, 1997, p. 836, italics in original).

Scholars in related disciplines are also alert to the constitutive nature of language, including accounting language (Alvesson and Karreman, 2000; Putnam and Fairhurst, 2001). Delaney (1994), for example, in the sociology literature, examines financial accounting as a means of creating what he evocatively terms "*portraits* of a corporation." Nonetheless, the view that language "represents" an objectively-given state of affairs still holds sway. It remains "one of the pillars upon which the current notion of information is based" (Tsoukas, 1997, p. 836). And indeed such a view provides a foundation for literature recently published by accounting standard-setters (IASB and FASB 2006). Interrogating the accounting that is deployed to tell "a" (or rather "the"?) story about CNs (alleged) post-privatization success within such an orthodox socially-sanctioned representational perspective, is a main theme that we pursue.

Our focus is on the way accounting language is implicated in the third phase of CNs on-going narrative. We draw upon the contextualization provided by the two prior phases because the temporal coherence of narrative is an important feature of a compelling story. The accounting language deployed in the pre-privatization phase (Craig and Amernic, 2004) is regarded as part of a process of naturalization, in which:

> [. . .] reported happenings are generally represented as categorical truths – facts . . . [which] support a view of the world as transparent – as if it signalled its own meanings to any observer, without the need for interpretation or representation (Fairclough, 1989, p. 129).

In this vein, CN's pre-privatization discourse about poor profits, losses, and an OR that was too-high, served a dual purpose by helping to fashion a deficient present during the pre-privatization period, 1992-1995. It raised the semiotic possibilities of an imagined future in which the things that were a seemingly natural part of the extant discourse (such as accounting performance measures) could be made whole: that is, they could be realized at levels more consonant with "success"[4]. Dunmire (1997, p. 248), a communications scholar, regards naturalization as having a discursive dimension which:

> [. . .] involves constructing accounts such that the interpretative processes underlying them are suppressed, disguised, or omitted from the discourse [. . .] Such accounts are rhetorically powerful because they transform what were originally interested accounts into seemingly objective accounts that appear to merely reflect social reality.

Thus, once the discourse of accounting became an influential means of damning the then-government-owned status of CN prior to its privatization and, at the same time, also provided the language for imagining CN's bright, privatized, future, the discourse ground rules of the post-privatization narrative were established firmly. To help buttress this privatization "language game" (Miller and Simmons, 1998), targets based upon accounting performance measures, especially the OR, were embedded in CN's short-term and long-term executive compensation plans at the time of privatization (Craig and Amernic, 2006). This helped to ensure that the story to be told in accounting terms was much more than merely a mechanism of financial expression; it also helped determine the compensation of CNs executive corps.

The beginning 13 pages of CNs 2005 Annual Report, titled A Great Run, a Great Future (Appendix for an excerpt), provide a coherent celebratory narrative ending – at least up to the tenth anniversary following the privatization. In this annual report, the future articulated for the (then imagined) privatized CN back in the early and mid-1990 s by means of an ostensibly natural accounting discourse, had seemingly come to pass. (The complete 2005 Annual Report is accessible at www.cn.ca; last accessed July 26, 2006.) The text of the sole paragraph highlighted on page 1 of this celebratory report for 2005 is instructive:

> *It's been a great run.* As the first true scheduled railroad with a string of other industry-leading initiatives – innovative service improvements, interline routing protocols, unique labor agreements and more – CN has proven in its first decade as a public company that unconventional thinking and relentless focus on execution can bring unprecedented performance. We now intend to prove something else: We really have only begun to leverage the innovative model we have created.

What was imagined and promised by the privatization endeavour of the early to mid-1990 s is thus claimed to be wholly justified. This arouses interest in the roles played by accounting language in this narrative justification. How was this extended and complex project of persuasion "told" over the ten years following the privatization? That is, our interest lies in assessing the telling, and the re-telling over time, of a "good tale," as a means of imposing attention-structure (Lanham, 1993).

We use the expression "a good tale" to mean a narrative that establishes (so-called) "facts." Guerin (2003, pp. 264-265) claims that stories have the potential to be persuasive since "we have a history of hearing stories in which the problem is solved and everything works out well"; because "telling a story takes the responsibility for the influence off the speaker … it is though the story itself becomes responsible… ”; and, because stories can be long, if their truth is to be disputed then readers "must challenge a significant amount of material… ". A post-privatization story of success, told in accounting language, over many years, seems a good candidate for depiction as "a good tale." Such a perspective is consistent with the view that narratives have "… constitutive power … both in configuring the past and in anticipating the future" (Llewellyn, 1999, p. 223). CNs anticipated future and its configured past were stories constructed significantly in particular accounting terms. And it was (and is) senior corporate leaders who are the main tellers of CN's tale.

Generally, senior corporate leaders are well aware of their role as corporate narrators, and have been for many years. For example, in a speech at The Empire Club of Canada on February 10, 1949, the President of the US-based Burroughs Adding Machine Company said: "The management of each of the business enterprises in this country and in the United States must tell the story of its own company… " (Coleman, 1949). Generally, the narration of corporate leaders is largely, though not exclusively, framed in financial language. Poulos (2003) shows this vividly when describing an "all-company meeting" he attended:

> A man walks up the stairs to the podium, taps the microphone, turns on the slide projector, and says, "O.K. Let's look at the numbers […]" He is the president of the smaller child of the parent corporation, the company we all work for, and the assumption is that the audience knows who he is. No introductions, no fanfare – just a matter-of-fact beginning of a standardized speech about the financial situation of the organization. Here, is a speech that occurs every year, year after year, and it begins in this same way every time it is produced.
>
> The president's talk is all numbers; clearly, his expression engenders a form of discursive closure, wherein official talk is financial talk. Thus, the president's official signification of the organization is a reductionistic formula that fits nicely within the formula laid out by the parent company: What matters is the money. There is no organization without or beyond the money. All is reduced to a monetary scale. Further, we (the organization) are "good" if we are profitable, and we (the organization) are "disappointing" if not […] The central narrative – performed ritualistically in this setting at least once each year, and repeated throughout the year in the language used in the hallways and meeting rooms, in the memos issued, and in the regular written reports of the company's financial health – is a financial narrative. The financial narrative takes on an icy tone.
>
> These are the numbers; the numbers do not lie. The numbers speak […].

A good tale, including a good corporate financial tale, includes the following elements: narrator, narrative medium, hero, villain, audience, plot, crisis, and means of expression (Bruner, 1991; Franzosi, 1998; Llewellyn, 1999). Below, we elaborate briefly on each of these elements in the context of the privatization tale of CN. For the post-privatization discourse to be uncontested, each of these elements must be socially potent, and cohere with the other elements and wider social discourses.

CNs post-privatization story has been told and re-told, modified and elaborated by narrators who are, variously, executives of CN, the railroad industry, financial analysts, the press, and others (including academics). Many of these narrators are simultaneously themselves audiences for CNs story as well (Weick, 1995). We focus on the most powerful narrators of the post-privatization story of CN, the company's CEOs. Corporate CEOs are often very powerful both within the corporation and without (Jaques, 2002).

One of their main duties is to articulate the company's story effectively (Cuno, 2005). As Hardy *et al.* (2000, p. 1230) observe: "Within strategic discourse, some subjects – senior managers … have a clear mandate … while other actors are unheard and invisible" (Barry and Elmes, 1997). Thus, we centre much of our attention on the post-privatization story of CN that was narrated by Paul Tellier (CEO from 1992 to 2002) and E. Hunter Harrison (CEO from 2002 onward). Focusing on the CEOs as company narrators is important because of their potential social influence, and because their written discourse has potential to reveal how they view the world and their company within it (Amernic and Craig, 2006, 2006)[5].

CEOs tell the story of their corporation in a variety of formal and informal narrative mediums, including chance meetings with company employees, press releases, earnings release conference calls, speeches, and financial reporting (including financial statements, the MD&A, etc.)[6]. The principal narrative medium we focus on in the post-privatization phase is the letter to shareholders signed by the CEO of CN, and published in the company's annual reports. A CEO's letter is an annual accountability narrative which provides CEO storytellers with an important, highly public, annual textual ritual that is largely unconstrained by law, regulation, and GAAP. CEO letters to shareholders permit a CEO-narrator to tell the company's story by selectively constructing narrative elements, usually of the CEO's own choice (Amernic and Craig, 2000).

The importance of CEO letters has been illustrated by Kendall (1993), Fiol (1989), and Palmer *et al.* (2004); and by consultants such as Rittenhouse (web site: http://andbeyondcom.com). As an example, Palmer *et al.* (2004, p. 593), have analyzed the corpus of the general electric company's long-serving CEO Jack Welch's letters using speech act theory to investigate how Welch's "change conversations" were used "to reassure shareholders and reduce their uncertainty around the expected outcomes of GE's transformational changes … " Indeed, the social importance of CEO letters is made more evident by major professional groups, such as the Canadian Institute of Chartered Accountants, who now include evaluation of such letters in their determination of annual awards for outstanding corporate reporting (http://cica.ca).

Elements of the "good tale" of privatization success exist at several levels. The heroes of the tale of CNs privatization, at a macro-level, are market forces, the socially beneficial outcomes of a pursuit of profit, and capitalism generally. At a micro-level, the heroes include the CEOs and senior managers of CN, and the politicians who made the decision to privatize. The villain in this story, at a macro-level, is government bureaucracy and inefficiency, and mis-guided economic policy which placed government business entities in competitive markets but burdened them with community service obligations. At a micro-level, the villains are entrenched and inefficient work practices, employees who have a poor work ethic, and ineffective operating systems. The audience, at a macro-level, includes the Canadian public, and (more importantly from CNs perspective) the international investment community. At a micro-level, the audience includes the shareholders, employees and other immediate stakeholders in CN – and (as mentioned above) the CEOs themselves.

The *plot* of this "good tale" of privatization can be parodied as the plot of a Hollywood western film. There was a crisis. The "bad guys" (the pre-Tellier executives of CN; the legal status of CN as a Crown corporation) were in control of CN Town. They tolerated operating and financial inefficiency, and were making a mess of things.

They were not running CN Town in the best interests of townsfolk or the broader community. Further, even "good guys" would have had their hands tied by the Crown corporation legal status of CN. (The development of the *plot* to this point was the subject of our first paper.) But a town councillor (the then Canadian Finance Minister, Paul Martin) has a bright idea. Why not bring in some "good guys" to run the "bad guys" out of town? Let us conduct the town in a better and more economically efficient way. So, in ride the good guys, led by Sherriff (new CEO) Paul Tellier. (The further development of the *plot* to this point was the subject of our second paper.) They win the hearts of the people (the investment community, many employees), run the bad guys out of town, luxuriate in their success and everyone lives happily ever after[7]. (The continuation of the *plot* to this point is the subject of this paper).

With this analytical framework in mind, we review the post-privatization narrative of CN, focusing on accounting language as the means of expression. In doing so, we reflect on aspects of the full privatization story since 1992. In essence, we see a story – a narrative – of the corporation's success as imagined in the CEO discourse of the pre-privatization and during-privatization phases (Craig and Amernic, 2004, 2006). This story is then told and re-told year-by-year in the subsequent post-privatization phase, using the language of financial accounting and its attendant embedded ideology. Mouck (2004) captures this role of financial accounting as an all-encompassing means of expression. He argues that accounting has:

> [. . .] played a huge role in the production of "designer environments" (by which he means the financial worlds of budgets, costs, profit centres, and so on) in which most of us spend our working lives.

Accounting language in the pre-privatization and during-privatization phases conjured a future imagined success, and the same language was instrumental in narrating a story, year-by-year, of realized success in the post-privatization period (1996 to the present).

By regarding the roles of financial accounting in privatization from a narrative perspective, we emphasize discourse as a strategic resource, consistent with Hardy *et al.* (2000, p. 1234). In particular, such a perspective emphasizes financial accounting's role in creating "social reality" through the production of concepts, objects and subject positions, which Hardy *et al.* describe as follows:

> First, discourse produces concepts – categories, relationships and theories – through which we understand the world and relate to one another [. . .] Second, when concepts are brought into play to make sense of social relations or physical objects, they help to constitute objects by making the material world meaningful [. . .] Third, subject positions arise as subjects acquire rights to speak in particular discourses [. . .].

Thus, CNs "good tale" is told, and re-told, as time goes by using accounting as a narrative means of expression, the OR and FCF as accounting performance measures, and the relationships and theories explicit and implicit that travel with such measures. But the apparent success story parlayed by CN is suspect, for reasons we outline in following sections. The "good tale" failed to compare like with like before and after the privatization; did not query reasons for the significant increase in CNs post-privatization share price; and was based upon malleable OR calculations and changing performance measures.

Performance benchmarks and CNs narrative of "success"

The basis of calculation of the OR was changed by CN from Canadian GAAP to US GAAP in 1998[8]. Then, in 2002, the OR was supplemented by a measure of FCF. A plausible reason for these changes was the realization that the asymptotic nature of the OR over time (see below) would make it difficult to sustain a hyped-up rhetoric of success as the reported OR moved ever lower. We show how CEO Paul Tellier changed in 1998 from reliance on Canadian GAAP to US GAAP in reviewing CNs performance in his letters to shareholders. (We refer to this as the "Tellier change"). The resulting calculations of accounting-based performance measures seemed more amenable to CNs rhetorical purpose. Subsequently, in 2002, CNs then-new CEO, E. Hunter Harrison, adopted FCF as an important supplementary performance indicator to help sustain the rhetoric of CN's post-privatization financial success. (We refer to this as the "Harrison change"). Additionally, FCF replaced OR in CN's compensation plan for executives.

We critique the two major post-privatization indicators of financial success embraced by CN: the OR (in its various guises) and FCF. We do so, mindful of the view that accounting generally, and accounting performance measures particularly, are not "objective" (Megill, 1994, p. 246), and "[f]ar from being neutral devices for mirroring the social world, the calculative technologies of accountancy are complex machines for representing and intervening in social and economic life." Accordingly, we focus on the more subtle, but lingering, accounting-assisted perception-fashioning rhetoric that has emerged after the privatization. This after-story has been abetted by the reification of the two broad accounting-based performance measures mentioned above – the OR (in its various guises) and FCF. The OR, in particular, has been used by CN since the IPO in 1995 to promote belief that the decision to privatize was sagacious and a successful post-privatization outcome.

Our prime (but not exclusive) focus is on the ten letters to shareholders of the CEOs of CN, included in CNs Annual Reports for the financial years 1996-2005. We highlight the financial benchmark indicators which are given rhetorical prominence as integral means of narrative expression, and draw attention to the asymptotic nature of the OR over time. We explore the possible influence of this on CNs decision to move from OR calculated using Canadian GAAP to OR calculated according to US GAAP, and thence to FCF.

Financial accounting leaves ample scope for management to fashion the accounting picture it wishes to portray – including the picture portrayed by the benchmark OR that is used extensively for evaluating and comparing operating performance in the railroad industry. Accordingly, assessments of CNs performance after privatization (which were based strongly on the decomposition of earnings into "operating expenses" and "operating revenues" in the OR), should be viewed very cautiously. And when the specific accounting measures thus engaged start to misbehave in their narrative role (that is, resist the narrator's intent), accounting is sufficiently malleable that it is able to continue to be deployed, because its specific forms can be fashioned more in tune with the narrator's goals (Burchell *et al.*, 1980).

Concerns about the privatization have been muted and isolated. This is understandable in the face of the ensuing, unremitting hyperbole about the success of the privatization and the transformational effect of the privatization on CN. As an example of this, a self-described Canadian "public policy think tank", the Frontier Centre for Public Policy (FCPP), concluded that CN, the "sad sack of continental railroading" had "jump[ed] onto the success track" to become "one of the most efficient railroads in North America ... [and to be] regarded as one of the most successful privatizations in Canadian history" (FCPP, 2000). According to the FCPP, the accounting-related numbers (which at that time featured the OR prominently) "tell the tale" of the success of the privatization. But is there something wrong with this apparent success story? As we illustrate below, the privatization of CN has been written about in a financial accounting language that depicts an after story that is so obviously glorious and superior to the before story that it ought to prompt us to view the "success" story very sceptically. A good part of the problem arises from ignoring that we are comparing two dramatically different companies: the before company (a Crown corporation with public transportation and other government-imposed social obligation policy mandates); and the after company, a so-called "free market" company without such mandates.

An investor who purchased one CN share in the 1995 IPO and held it through to May 2005, would have received an additional share in a 2-for-1 share split in 1999, and a further share in a 3-for-2 share split in 2004, and would then own 3 CN shares. So, after outlaying \$US 20 for one share in November 1995, that investor could have sold the three shares subsequently for \$US 60 each in May, 2005, a return on investment nine times the original outlay. And this does not take into account the cash dividends of approximately \$US 10.80 that would have been received for each initial acquired share held over this period.

Curiously, the strong demand for shares, the rocketing share price, and the spectacular returns to investors, have not raised strong concerns that something might be amiss – that perhaps CN shares had been grossly underpriced for the IPO and, in effect, sold at fire sale prices. Why stronger concerns were not raised about the apparent underpricing of CN shares is puzzling, and in contrast to recent privatization experience in the UK. Perhaps, this is a reflection of Canada being more wedded to capital markets ideology – of the stoic nature and uncomplaining character of most Canadians?[9]

Operating ratio and adjusted operating ratio

The OR was a central, pervasive and ubiquitous (accounting) measure of financial performance relied upon by CN, before its privatization, to win support for a view that privatization was necessary. This was unsurprising because the OR is a benchmark indicator of operating performance that is used extensively for comparing the performance of railroad companies throughout the world. Consistent with industry practice, the OR is defined by CN as "total rail operating expenses as a percentage of total rail revenues" (CN, 2002 Annual Information Form, April 22, 2003, p. 22).

Much of the debate in the before privatization and during privatization phases, in support of a decision to privatize CN, was articulated in terms of the likely impact on the privatized railway's ability to reduce its OR. And so, whether the privatization of CN was a success or not was benchmarked largely in terms of CNs performance in attaining lower OR targets. Indeed, the OR had become an integral part of the life world of CNs managers, especially its senior managers, since it was entrenched in the new, post-privatization compensation policy adopted immediately following the IPO in November 1995. The Offering Prospectus described the new compensation policy as follows.

New CN compensation policy

In 1995, in the context of the Company's goal of creating a competitive market-oriented railroad with performance levels more comparable to major US railroads, the Company has adopted a new compensation policy whereby a significant proportion of annual and long-term compensation of all non-union employees is variable and tied directly to the financial performance of the Company and the enhancement of shareholder value.

The first element of this new policy consists of annual variable incentive compensation in the form of cash bonuses based on the achievement of key financial targets, including targets based on the OR, pre-tax rail income and total operating expense reductions.

The second element of the compensation policy is intended to align executive compensation with the interests of shareholders and the enhancement of shareholder value. Stock options to be granted to executive officers, at an exercise price equal to the IPO, will create a direct linkage between executive rewards and shareholder value as the benefit of this compensation element will not be realized unless stock appreciation occurs over a number of years.

Management matching offer

In connection with the offerings, the company is implementing a one-time management share participation plan whereby approximately 200 management employees will have the opportunity to purchase common shares from the company at the public offering price [. . .] with financial assistance from the company and to receive a certain number of matched shares from the company for a nominal amount.

Management stock option plan

[. . .] Under the Option Plan, managers of the Company eligible for the Management Matching Offer will be granted options to acquire Common Shares at a price equal to the IPO price of the Common Shares [. . .] One-third of the options will vest over four years if manager remains with the Company[. . .] and two-thirds will vest only if additional conditions in the form of the attainment by the Company of OR targets decreasing from 85.6 to 82.0 percent in the period from 1996 to 2000 are met (the "Performance Options"). If the OR for any particular year is within 0.5 percent of the target established in the Option Plan for that year, then the manager may exercise up to 75 percent of the Performance Options which could otherwise be exercised [. . .] (Excerpts from October 1995 Prospectus).

Notice that the OR is embedded in both the short-term annual cash bonus element of the incentive plan and also in the long-term stock option element of the plan. Further, the long-term Management Stock Option Plan described in the offering prospectus required that OR targets "decreasing from 85.6 to 82.0 percent in the period from 1996 to 2000" be attained before a substantial portion of the stock options could be exercised. Since, the OR targets set out in the offering prospectus had been exceeded by 1997 – well ahead of the year 2000-CN set new targets in 1997, as described in the following excerpt from the management proxy circular for fiscal 1997 (dated March 24, 1998).

Amendment to management long-term incentive plan

[. . .] the Company established at the time of its IPO, a Management Stock Option Plan [. . .] Under the IPO Plan, two thirds of the options granted to executives only vested if the Company met what were considered at the time ambitious improvements to its OR. Specifically, these options were to vest only if the Company were to gradually improve its OR from 85.6 percent in 1996 to 82.0 percent in 2000. In fact, the Company has bettered these targets by a significant margin: the OR of the Company for the years 1996 and 1997 have been 85.3 and 81.5 percent, respectively, bettering in both cases the targets of 85.6 and 83.0 percent set under the IPO Plan and bettering the original 2000 target in 1997..Management and the Board of Directors believe that the incentives provided by the options granted under the IPO

> Plan and the Management Long-Term Incentive Plan have played a significant role in achieving these strong results, ahead of the original schedule, which have translated into substantial enhancement of shareholder value [. . .]
>
> It is anticipated that in 1999 [. . .] the Board of Directors will consider the allocation of new options to key managers [. . .] It is currently contemplated that, while a minimum of those options will be conventional, i.e. that they will vest with the passage of time, the bulk of the options to be attributed at that time will be "performance based" with specific and ambitious improvement of the Operating Ratio [. . .] from 76 percent (US GAAP) [. . .] in 1998 to an Operating Ratio of below 70 percent (US GAAP) in the year 2001[. . .] (p. 18).

So, the new OR targets were significantly lower than the original targets, and were set in US GAAP. These amendments to the Management Long-Term Incentive Plan were explained by CN in the same 1997 Management Proxy Circular as follows:

> In February 1998, the Company announced an agreement to merge with Illinois Central Corporation ("IC"). The merger is subject to the approval of the U.S. Surface Transportation Board (the "STB"), the regulatory body having jurisdiction. STB approval is expected in the first half of 1999. The successful integration of the two companies sets new challenges for the Company and will require extensive and long-term commitment from a larger number of senior executives of both the Company and IC, which will form the senior management of the merged entity. One of the challenges facing the Company is the retention of key IC senior executives (p. 17).

Thus, not only was a reduction in OR apparently attainable more easily using US GAAP (Table I), but CN itself was by early 1998 becoming more of an American company than it had previously been, and so management's contention regarding comparability seems to be a plausible factor in conversion to US GAAP. Also, as the above excerpt from the 1997 Management Proxy Circular notes, senior executives from the former Illinois Central Corporation had to integrate into the CN incentive plan, so employing US GAAP would presumably be more familiar to them than Canadian GAAP.

Since privatization, CNs top management and a wide variety of CNs stakeholders have emphasized the central role that the OR occupies as an indicator of performance. Some examples, drawn from a variety of sources, are provided in the following sub-section.

Since 1998, CN has adjusted its operating expenses and operating revenue (and hence its OR) to take account of the effects of adopting US GAAP as its basis of calculation, and to exclude special charges. The most frequent special charge for CN has been workforce reduction costs, such as severance payments. But, as CNs Annual Report for 1997 noted (at p. 22), it has also recorded special charges in connection with the "costs to redeem, repurchase or defease long-term debt", and for "asset impairment write-downs." In a note to each set of accounts in which adjustments have been made, CN provides the following statement:

> The Company makes reference to non-GAAP measures in this Annual Report that do not have any standardized meaning prescribed by US GAAP and are, therefore, not necessarily comparable to similar measures presented by other companies and, as such, should not be considered in isolation. Management believes that non-GAAP measures such as *adjusted* net income and the resulting adjusted performance measures for such items as operating income, *operating ratio* and per share data are useful measures of performance that *can facilitate period-to-period comparisons as they exclude items that do not arise as part of the normal day-to-day operations or that could potentially distort the analysis of trends in business performance.* The exclusion of specified items in the adjusted measures does not imply that they are necessarily non-recurring (CN Annual Report, 2004, p. 130, italic applied).

Table I. Canadian national railway OR and FCF, 1990-2004

(1) Year ended 31 December	(2) OR (exc. special charges) per Canadian GAAP percent	(3) OR (exc. special charges) per US GAAP percent	(4) OR (inc. special charges) per Canadian GAAP percent	(5) OR (inc. special charges) per US GAAP percent	(6) FCF ($CDN mill)
Ronald E. lawless incumbent CEO					
1990	98.2	98.0	98.2	98.0	n.d.
1991	96.8	96.8	96.8	96.8	n.d.
Paul M. Tellier appointed CEO					
1992	97.1	97.3	121.5	121.7	n.d.
1993	94.9	95.1	96.1	96.4	n.d.
1994	*89.4*	89.6	89.4	89.6	n.d.
1995	*89.3*	n.d.	n.d.	n.d.	n.d.
1996	*85.3*	84.7	n.d.	n.d.	n.d.
1997	*81.5*	78.4	n.d.	n.d.	n.d.
1998	79.6	*75.3*	n.d.	n.d.	228
1999	76.6	*72.0*	n.d.	n.d.	276
2000	74.6	*69.6*	n.d.	n.d.	386
2001	74.1	*68.5*	n.d.	n.d.	443
E. Hunter Harrison appointed CEO					
2002	75.2/75.5	*69.4*	82.0	76.0	*513*
2003	76.8	*69.8*	76.8	69.8	*578*
2004	n.d.	*66.9*	65.9	66.9	*1,025*
2005	n.d.	*63.8*	n.d.	n.d.	*1,301*

Notes: n.d. – not disclosed; italicisation indicates that this figure was mentioned in the CEO’s letter to shareholders
Source: CNs Annual Reports, 1990-2005

The typical effect of making such adjustments for US GAAP is to lower the reported OR. As an example, in 2002, management removed a $120 million "workforce reduction charge" and a $281 million "personal injury charge" from railroad operating expenses, thereby causing that year's adjusted OR to be 69.4 percent, whereas the year's OR (based on Canadian GAAP) had been much higher (75.5 percent). In the pre-privatization period 1992-1995, when it suited CNs rhetorical purpose to paint a gloomy picture of OR performance, it included special charges to reinforce its rhetorical position, as Craig and Amernic (2004) note:

> Tellier [CN's then-CEO] seemed to relish in highlighting the total reported 1992 loss of $1,005 million [. . .] it suited his "privatization-positioning" rhetorical agenda nicely. He appeared to revel in drawing attention to the developing trend in reported profits: a profit of $8 million in 1990; a $14 million loss in 1991, and the record 1992 loss. But, in doing so, Tellier seems to have been a tad mischievous. Most of the reported "bottom line loss" of $1005 million is taken up with "one off" "special charges" and a substantial extraordinary item, vitiating any proper comparison with 1991 results.
>
> Tellier persistently compared measures of "bottom line" profit that had been calculated and reported, from year to year, using different accounting methods [. . .] The comparisons he made were with profit figures unadjusted for the effects of intervening changes in accounting policy or for the effects of "one-off" "special charges." Such behaviour is anathema to accountants who have made determined efforts to attain and maintain the qualitative characteristics of comparability, consistency and freedom from bias in accounting measurements.
>
> The "workforce reduction costs" tallying approximately $900 million were, according to CN's comptroller, McGrath "front-loaded [. . .] into the financials right away [. . .]" (Bruce, 1997, p. 32). But for there to be any semblance of measuring the operating performance of CN by "matching cost and revenues" or of accruing operating expenses to the period in which they were incurred, these atypical and material costs should not have been "dumped" in this way [. . .]

The OR as a measure of privatization success

CN's practice in the post-privatization period has been to objectify the OR and to place it prominently in the annual report CEO letter to shareholders, usually at or near the front of the letter. Extracts from the CEO letters to shareholders in CNs Annual Reports 1999-2001, are insightful. In 1999, CEO Paul Tellier writes that ". . . our *operating ratio* was the best of all Class I railroads at 72.0 percent, an improvement of 3.1 points from our *operating ratio* of 75.1 in 1998" (emphasis applied). Thus, OR was a key way that CN benchmarked itself against its competition. In 2000, Tellier began his letter by reinforcing the importance of the OR as a fundamental measure of achievement for CN management:

> On November 17, 2000, CN celebrated the fifth anniversary of its IPO. It was a moment for all of us to pause and reflect on our accomplishments – *the most successful privatization in Canadian history; going from worst to first among railroads in operating ratio* and other performance measures [. . .] (emphasis added).

In 2001, CEO Tellier writes that:

> [. . .] despite the challenges presented by a significantly weaker economy, we continued to improve our *operating ratio*, reaching 68.5 percent, excluding the workforce adjustment charge. This was 1.1 points better than the 69.6 figure we achieved in 2000" (emphasis applied).

And in CNs January 28, 2004 press release announcing its financial results for the fourth quarter of 2003, headline prominence is given to CN's OR:

> CN Reports Q4-2003 performance, record operating ratio of 66.1 per cent.

In this press release, CEO E. Hunter Harrison draws upon this result to claim that CNs:

> [. . .] record fourth-quarter *operating ratio* of just over 66 per cent [. . .] and strong *free cash flow* [. . .] [demonstrated] the value of CN's proven business model focused on service, cost control, asset utilization, safety and people (emphasis applied).

The rhetorical success of the OR depends on its use as a key performance measure for those inside CN (such as its CEOs, Tellier and Harrison), and those outside CN. To what extent have those outside CN adopted the (accounting) language favoured by the corporation? Two articles in the financial press at the time of CNs privatization in 1995 both suggest the social success of OR rhetoric. Tamburn (1995), for example, wrote:

> The Canadian House of Commons is expected to approve legislation this week authorizing the government to sell Canadian National Railway Co [. . .] CN has a lot of room for improvement... Its costs as a percentage of revenue, known as *operating ratio*, total about 90 percent; the average among US railroads is 84 percent [. . .] (emphasis applied).

Similarly, Holman (2006) wrote that ". . . the performance gap between US and Canadian railroads remains large, as shown by respective *operating ratios* . . . (emphasis applied).

But the rhetorical success of the *OR* extends well-beyond the boundaries of CN itself and the more pliant sections of the financial press. This is well-illustrated in the following two examples. First, is a letter dated September 25, 2002, written by Ross B. Capon (Executive Director of the National Association of Railroad Passengers) to the Honorable C.W. Young (Chairman of the Committee on Appropriations, US House of Representatives), seeking $US 1.2 billion in financial support for Amtrak (the American passenger railway company) in fiscal year 2003. Capon argues strongly that the *OR* is a much better "measure of economic efficiency" than subsidy per passenger. Second, is a press release, dated August 13, 2003, in which the President of British Columbia's Federation of Labour, Jim Sinclair, supports BC Rail's application for the *Railway Age* magazine's "Regional Railroad of the Year Award." A key reason Sinclair gives for his support is that "BC Rail and the workers were able to reduce the *OR* of the Crown Corporation from 91 percent to 71 percent – one of the best in the industry" (emphasis applied). These two examples laud the OR from the perspectives of railway passengers and unionized railway workers, respectively. So, even groups removed from CN management (and the centre of conventional capitalism) make arguments in terms of the accounting-related language of the OR. When groups such as associations of railway passengers and unionized railway workers adopt such corporate financial language, rhetorical success for accounting as a means of post-privatization narrative expression is shown to enjoy widespread social endorsement. The extent of the rhetorical force of the *OR* is evident too in the entry for "Canadian National Railway" in the online encyclopaedia, Wikipedia. That entry mentions the OR in the context of assessing the performance of "CN Today". It says that "CN has been touted in recent years within North American rail industry circles as being the *most-improved railroad* in terms of productivity and the *lowering of its operating ratio*" (http://en.wikipedia.org/wiki/Canadian_National: last accessed August 25, 2005. Italics in original, emphasis applied).

Critique of the OR

Seemingly, the OR is a simple technical measure. But its calculation conceals many accounting and operating choices that must be made by management. There is significant scope for equivocality regarding the items to include in its numerator (total operating expenses) and its denominator (total operating revenues). As well, the OR does not take into consideration interest expenses on borrowed money, income taxes, and the carrier's capital investment base (Marion, 2003, p. 1); and management must choose how to account for capital assets (such as track, railroad engines), accounts receivables (including those transferred to other companies), pensions and other post-employment benefits, and many other accounting items. For example, the major US railroad company, CSX Corporation, derived its "Operating Ratio, as adjusted" in its 2001 Annual Report by, at various times, excluding a net loss on its international container-shipper sale, excluding surface transportation workforce reduction costs, and excluding a litigation provision (CSX Corporation, 2001 Annual Report, p. 18).

Thus, OR of different railroad companies may not be strictly comparable cross-sectionally. A professional financial analyst, quoted in a Canadian Press article dated January 16, 2006, observed that "It's very dangerous to compare operating ratios . . . a better metric is the rate of improvement in operating ratio . . . " (Norris, 2006). The analyst also observed that raw OR numbers can be misleading since they reflect the products carried, the density of delivery points along rail lines, and other factors unrelated to management and workforce efficiency. Thus, many choices must be made in the construction of the OR, including (by a railroad company such as CN that operates extensively in both Canada and the USA), which set of GAAP to use in the ratio's accounting inputs.

CN styles itself as "North America's Railroad": that is, as a company operating extensively in Canada and the USA. So, should Canadian GAAP or US GAAP be used as the basis for the calculation of OR? This is a non-trivial choice. Measurement of the OR has at least four guises:

(1) OR calculated per Canadian GAAP;

(2) OR calculated per US GAAP;

(3) OR calculated per Canadian GAAP as adjusted; and

(4) OR calculated per US GAAP as adjusted[10].

In 1998, CN began reporting OR based on US GAAP to facilitate benchmark comparisons with US railroad companies. As we have seen above, CN has striven for a declining OR over time and a lower OR than that of its peers at any point in time.

There are many differences between Canadian GAAP and US GAAP. For example, Canadian GAAP required companies to record an expense for any share options included in management compensation before this was a requirement in the USA[11]. To appreciate the potential impact of the differences, CN's Canadian GAAP net income for 2003 was reported as $CDN 734 million, while its US GAAP net income for the same year was $CDN 1,014 million. (Source: CNs 2003 audited financial statements, issued January 27, 2004). Even though the external auditing of a company's financial statements is subject to constraints imposed by GAAP and legislative reforms in a post-Enron world (such as the Sarbanes-Oxley Act 2002 in the USA), management has substantial control over many decisions that fashion financial statements and the measures constructed from them, such as the OR. For example, management decides how to interpret various notoriously elastic GAAP and how to apply them once interpreted. Management also decides whether to abide by, or to stigmatize, the resulting accounting numbers. It can do so by, for example, proffering so-called adjusted numbers.

The OR has potential to induce manipulative behaviour by management. There are ample opportunities for games playing through managerial prerogative to determine the revenue and the expense of any reporting period. Clearly, a liberal definition of revenue and a conservative definition of expense would make CNs OR targets easier to achieve (Craig and Amernic, 2006). Given the equivocality surrounding the construction of the OR, managers subject to control by it (assuming they act in short-term self-interest) have incentive to engage in games play in both accounting and business decisions to construct a given OR outcome. And clearly, CN management had incentives to focus on the calculation of earnings and the OR – their compensation bonuses and ability to exercise performance share option arrangements were linked to their success in reducing CNs OR to desired target levels[12].

Free cash flow

FCF measures how much cash a company has after paying for its ongoing activities and growth. FCF is often calculated as equal to "Cash Flow from Operations less Capital Expenditures." (An alternative calculation is "Net income + Depreciation/Amortization – Change in Working Capital – Capital Expenditure"). CN claims that FCF is a "useful measure of performance as it demonstrates the Company's ability to generate cash after the payment of capital expenditures and dividends" (CN Annual Report, 2004, p. 130). Investors often look favourably on the FCF as a measure of value:

> Growing FCF are frequently a prelude to increased earnings. Companies that experience surging FCF – due to revenue growth, efficiency improvements, cost reductions, share buy backs, dividend distributions or debt elimination – can reward investors tomorrow [. . .] When a firm's share price is low and FCF is on the rise, the odds are that earnings and share value will be on the up.
>
> By contrast, shrinking FCF signals trouble ahead. In the absence of decent FCF, companies are unable to sustain earnings growth. An insufficient FCF for earnings growth can force a company to boost its debt levels. Even worse, a company without enough FCF may not have the liquidity to stay in business (www.investopedia.com, last accessed August 25, 2005).

As with the OR, the calculation of FCF is equivocal and problematic. There is no accounting or regulatory standard governing the calculation of FCF, and so there is frequent disagreement:

> [. . .] on exactly which items should and should not be treated as capital expenditures. [. . .] Companies can also temporarily boost *FCF* by stretching out their payments, tightening payment collection policies and depleting inventories" (www.investopedia.com, last accessed August 25, 2005).

Major railroad companies appear to employ different definitions for FCF. For example, CSX Corporation employs a construct it terms modified free cash flow (MCF) "as the primary performance target" in its long-term incentive plan, according to that company's proxy statement for fiscal year 2005 (p. 26). CSXs MCF is defined by the company as:

> [...] operating income, plus depreciation, minus certain capital expenditures. *MCF* [does] not include cash flows from business unit sales, real estate sales, taxes, and working capital. In evaluating performance [...] the Committee excluded discretionary capital spending for supplemental locomotive purchases to meet new demand and also excluded recoverable costs associated with Hurricane Katrina in excess of the insurance deductible (p. 27).

Canadian Pacific Railway, in its 2005 Annual Report, used the term "Free Cash," and defined it as follows: "cash provided by operating activities, less cash used in investing activities and dividends" (p. 29).

Changing between financial performance indicators to sustain a rhetoric of success

Table I (columns 2 to 5) shows the available data for the OR (in four of its guises, outlined earlier) and the FCF that have been reported in CNs Annual Reports, 1990-2005.

But only the OR figures shown in bold in columns 2 and 3, and the FCF figures shown in bold in column 6, have been cited in the CEO's letters to shareholders, 1990-2005. One rhetorically-adept feature of CN's reliance on OR excluding special charges (such as special charges for workforce reduction costs), shown in columns 2 and 3, is that such reliance will yield lower ORs than if special charges were included. This can be seen from the OR data for 1992, 1993 and 2002. For each year, compare column 2 data with those in column 4; and compare column 3 data with those in column 5. For example, in 2002 the OR excluding special charges per US GAAP was 69.4 percent (column 3) but when special charges were included the comparable OR was 76.0 percent. Note that the OR has been mentioned in every year's CEO letter since privatization in 1995.

The Tellier change, 1998

The variety of OR relied upon in CEO letters to shareholders changed in 1998 from OR excluding special charges per Canadian GAAP to OR excluding special charges per US GAAP. The announced reason for the change was that it would facilitate comparison with Class 1 US railroads, who calculated their ORs according to US GAAP. One would expect to find in the CEO Letters a regular comparison, of CN's OR (based on US GAAP) with the ORs of Class 1 US railroads in the years 1998-2005. But only in 1999 and 2000 is there any comparison with Class 1 US railroads – and then only in terms of "Our OR was the best of all Class 1 Railroads," without any comparative figures cited. In each year, comparisons are drawn with CNs previous year's performance. While speculation regarding the "real" reason for the change to US GAAP is intriguing, our main interest is in its facilitative importance in helping to sustain CN's narrative of success.

The Harrison change, 2002

In 2002, E. Hunter Harrison introduced the measure FCF, to supplement the long-term benchmark, OR excluding special charges per US GAAP. To understand why CN might want to supplement the OR ratio, it is important to appreciate some of the characteristics of the OR as an measure of performance.

From the discourse surrounding the OR (see earlier) it seems that the following condition is (rhetorically) desirable:

$$OR_{\mathrm{CN,year}\ \ i+1} < \mathrm{OR}_{\mathrm{CN,}\ \ \mathrm{year}\ \ i}$$

That is, CN seems to have as a goal the year-by-year decline of its reported OR.

Also, it seems desirable that:

$$OR_{CN,\ year\ i+1} < OR_{All\ other\ classI\ railroad\ companies,\ year\ i+1}$$

That is, CN seems to have as a goal that its reported OR be below all other Class I railroads at any point in time.

Given the business ethos of CN, it seems that the company has sought to drive its OR as low as possible. But the extent to which that is possible is a function of the context in which the company operates, including the current technology in-use, the type of freight carried, and the nature of the terrain over which the track passes. An ultimate goal of an OR equal to zero is infeasible. Even a low OR (say 40 percent, if that were achievable) of a highly public company subject to considerable scrutiny, would expose it to substantial political costs – for example, accusations of price gouging by rail shippers, requests for price controls, demands for wage increases by employees, and the possible entry of new competitors. One wonders whether CN is approaching the onset of such political costs. In 2004, CEO Harrison announced that one of CN's "new vision targets" was to achieve the "ambitious goal" of an OR "of less than 65 per cent." (News Release, "CN's New Business Vision Aims to Sharpen Company's Competitive Edge," May 25, 2004, www.cn.ca, last accessed August 29, 2005). This goal implies an operating profit of 35 cents for each 65 cents expended in operating costs – or an operating profit margin over operating costs of $(35/65) \times 100 = 53.8$ percent.

There is likely to be a minimum achievable level of OR (we will call it OR_{MIN}), for a given mix of technology, organization relationships and contracts (e.g. collective bargaining agreements), and markets. OR_{MIN} might change frequently, perhaps driven down through the effects of technology advances and competitive forces. But, for a company which has been in business for a long period and which is making determined efforts to reduce OR, its "actual" OR will be likely to approach OR_{MIN} asymptotically. In the case of CN, OR_{MIN} seems plausibly to be in the range 55 to 65 percent[13]. What this means is that large reductions in OR become increasingly difficult to sustain repeatedly over time as the OR_{MIN} is approached asymptotically – assuming no breakthroughs in the application of technology or in other factors (such as the abandonment of relatively high-cost rail lines). When this situation occurs (as may be the case with CN, although see the information regarding the third-quarter 2006 news release in note 14, which is consistent with CNs OR_{MIN} shifting downward), the rhetorical appeal of the OR is diminished greatly. This is because it becomes increasingly difficult to claim large percentage reductions in OR from year-to-year. Figure 1 shows some of the features of the OR rhetorical limitations.

OR_{MIN} is the *OR* that results if management uses the existing factors of production in the most efficient manner. But this ignores that OR is a financial accounting construct, dependent upon myriad measurements and subject to social construction (Hines, 1988). OR is also subject to the vagaries of GAAP and does not evoke any guarantee of reasonable measures, consistent with reality – even in the absence of behavioural and social influences.

CNs OR figures since 1990 evidence large reductions from the high 1990 s down to the low 1960 s (and below: see note 14). It is plausible that OR_{MIN} was being approached at times between 1995 and the early 2000 s such that the potential to achieve further large reductions in OR would have been diminished greatly; and that this may have helped prompt E. Hunter Harrison into introduce in his CEO letter of

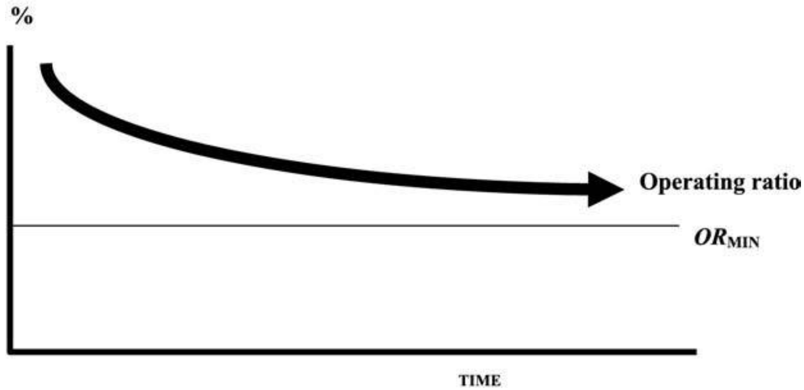

Figure 1.

2002 (when the OR was reported to be 69.4 percent, Table I) another accounting-related performance benchmark (FCF). The advantages of the FCF were that he could claim large percentage increases from year-to-year, and that was a measure with no upper-bound – in contrast to the lower-bound (OR_{MIN}) for the OR. Indeed, even OR_{MIN} itself cannot be driven down without any limit to zero. From the perspective of narrative efficacy during the early years after CNs privatization in 1995, achieving and proclaiming large year-to-year reductions in whatever OR was being reported made a good story. But, as Table I suggests, as time went by and relatively easy reductions in OR were achieved, a plateau was reached in the early 2000 s.

Harrison's introduction of the FCF measure in 2002 is rhetorically dynamic. FCF is given prominence in the first sentence of Harrison's 2002 CEO letter (CN delivered growth and generated record free cash flow . . .) and in a dedicated and highlighted sidebar quote in his 2003 letter (CN has maintained the industry's . . . best free cash flow performance in 2003). There is no such highlighting of the OR. The silence is revealing. CN seems to have the following rhetorical problem: OR as an indicator of efficiency is touted widely in the public discourse of railroading, but CNs OR (however measured) – with its apparent approach to OR_{MIN} in the early 2000 s – seemed no longer to be serviceable rhetorically for CN as it had been previously. Nor was the OR as serviceable as previously for CNs executive compensation incentive plan. Therefore, CN "solved" this rhetorical and otherwise practical problem by shifting rhetorical emphasis to another, unbounded, measure, FCF, as noted in the 2002 CEO letter. But since the public discourse of railroading incorporates widespread talk of the OR, rhetorical acknowledgement of this accounting measure must not be ignored, as shown in the following excerpt from CNs 2004 CEO letter signed by E. Hunter Harrison:

> It was a banner year for CN [. . .]
>
> Our *Operating ratio* for the year was a record 66.9 per cent. Driven by our ability to absorb volume growth at low incremental cost, performance in this key measure improved 2.9 percentage points when compared with the 69.8 *Operating ratio* we reported for 2003.
>
> Perhaps, the most dramatic yardstick for CN financial performance in 2004 was in the area of *free cash flow*. Here, our business model and success in executing it delivered powerful

results: record *free cash flow* in 2004 of $1,025 million, a significant increase over the $578 million we generated in 2003 (emphasis added).

CEO Harrison acknowledges the OR, and indeed lauds it (at least the version of the OR he mentions) as "a record", and reminds readers (and himself) that it is a "key measure" – at least in the public discourse to which he must pay homage. But his reference to the FCF measure is much more potent, rhetorically. This measure is said by CEO Harrison to be "the most dramatic yardstick for CN financial performance in 2004." Indeed, 2004 showed that there was not only a "record" FCF, but also "a significant increase" over the prior year. The OR results, while lauded in the CEO letter, are said to be due to operational factors "our ability to absorb volume growth at low incremental cost." In contrast, the FCF results were alleged to be due to more strategic factors "our business model and success in delivering it." Insofar as strategic management success is more valued in an advanced capitalist environment than operating management success, this shift in measures and the rhetoric within which it is embedded, is a potent means of telling CN's post-privatization narrative.

However, the FCF for 2004 and its comparison with prior years contains a curiosity. This is revealed in CN's disclosure of the FCFs basis of calculation (see except shown in Figure 2):

This excerpt from the 2004 Annual Report shows that FCF for 2004 ($1.025 billion) and for 2001 ($0.443 billion), are constructed by adding back the cost of major subsidiary acquisitions in those years. Indeed, as note (2) of the above table says, "Significant acquisitions [. . .] are excluded [. . .] as they are not indicative of normal day-to-day investments in the Company's

	2000	2001	2002	2003	2004
Cash provided from operating activities	$1,506	$1,621	$1,612	$1,976	$2,139
Less:					
Investing activities	(981)	(2,173)	(924)	(1,075)	(2,411)
Dividends paid	(136)	(150)	(170)	(191)	(222)
Cash provided (used) before financing activities	**389**	**(702)**	**518**	**710**	**(494)**
Adjustments:					
Change in accounts receivable sold [a]	(3)	(133)	(5)	(132)	(12)
Acquisitions [b]	--	1,278	--	--	1,531
Free cash flow	**$386**	**$443**	**$513**	**$578**	**$1,025**

Notes: [a] Changes in the level of accounts receivable sold under the Company's accounts receivable securitization program are considered a financing activity. [b] Significant acquisitions, WC in 2001 and BC Rail and GLT in 2004, are excluded as they are not indicative of normal day-to-day investments in the Company's asset base.

Source: CN's Annual Report (2004, p. 131)

Figure 2.
"Free cash flow 2000-2004"

asset base." So, the FCF numbers for 2004 and 2001 are hypothetical; the significant add-back amounts in each of those years are due to the identification of the year in question as the year of acquisition for a major purchase. Perhaps, a more defensible approach in calculating annual FCF estimates would be to smooth such large acquisition costs over several years. But then the resulting trend in FCF would not be the monotonically-increasing result that CN reported.

Discussion

Endeavour of whatever type (business, government, private) is motivated by an individual's or an entity's ultimate rhetorical (or persuasive) purpose. Such purpose may be a selfish one (e.g. personal aggrandisement, personal wealth generation, personal career advancement) or be more altruistic (making the world a fairer, better, more environmentally sustainable place). In seeking to attain such a purpose, rhetors (such as CEOs of large corporations like CN) are narrators who draw upon rhetorical devices or implements.

One such set of implements includes the narrative means of expression from the domain of accounting. That domain provides ostensible measures of wealth, financial performance and ability to access cash with which to pay financial obligations. It also draws upon components of the output of accounting (e.g. operating revenue and operating expenses) to calculate benchmark indicators of financial performance (such as the OR). Further, it exploits the entailments of accounting–related metaphor (e.g. profit IS the bottom line; financial statements ARE a lens or a mirror to observe and monitor financial health) to achieve narrative success as a means of imposing attention-structures (Lanham, 1993). Accounting lends itself to all of this because it comes packaged in an aura of inviolability provided by its cocoon of professionally-sanctioned GAAP, and the imprimatur of an unqualified audit report.

But, accounting and the elements of accounting are unavoidably malleable (Burchell *et al.*, 1980) in the quest to attain an overarching rhetorical goal. Thus, accounting policies, bases of calculation, performance benchmarks, and explanatory language, can often be changed at will to help fashion and re-fashion a narrative world and suit desired rhetorical outcomes. Accounting is not so much a quest for measurement truth, or the best measure of wealth or financial performance, but rather is utilitarian and a means to a rhetorical end. Accounting provides a smorgasbord of potential performance measures that can be drawn upon selectively, and in an expedient and pragmatic manner, to achieve a rhetorical purpose.

And so, in our first paper (Craig and Amernic, 2004), we saw how CEO Tellier accounted for special charges (by including special charges for future years in current year results) to make the financial performance of CN seem worse in order to obtain employee support for his privatization agenda. But later, post-privatization, when CN wanted to make its financial performance look better rather than worse, the practice of including similar charges in calculations of current income in the OR was dispensed with – such practice no longer had rhetorical utility. Similarly, in our second paper (Craig and Amernic, 2006), we saw how the bases of calculation of financial measures were altered. Such alteration was not made because better measures of financial variables would necessarily arise. They were made for rhetorical purpose – to sustain a self-fulfilling prophecy of success.

As we noted earlier in this paper, narrative involves choosing such elements as narrator, narrative medium, hero, villain, audience, plot, crisis, and means of expression;

and all these elements must cohere for a socially-powerful story to result. But the means of expression in CNs tale of privatization – financial accounting language and the particular technical (but malleable) elaboration of that language – is particularly powerful. We need to be alert to this feature, for, as narrative theorist Martin (1986, p. 15) writes: "By changing the definition of what is being studied, we change what we see." If the means of narrative expression of the story of the aftermath of CNs privatization is defined as financial accounting language, then the tale is told, studied, and seen through such language. And if, like accounting, such language is sufficiently malleable, changes in "what we see" may be accomplished subtly.

Accounting is thus utilitarian in more ways than perhaps traditionally contemplated. It is deployed by rhetors, as narrators, with remarkably more discretion than we acknowledge. It is not an objective, precise reporter of a financial outcome that cannot be varied, changed, manipulated, or distorted by narrators. Corporate storytellers, such as CEOs, can draw upon a very flexible framework of GAAP, and upon the pliability of some accountants and auditors, to use accounting largely as they will. The accounting methods, policies, and performance indicators they elect to use are determined, at least in part, by their narrative and rhetorical purpose. Once the particular accounting implements and language they elect to use are helpful no longer, they can be dispensed with and replaced by other implements and language with greater rhetorical utility – as with the "Tellier Change" and the "Harrison Change" described here. And importantly, accounting is utilitarian in a further, more subtle, sense: it facilitates narrative, and narrative "organizes the structure of human experience" (Bruner, 1991, p. 21)[14].

The accounting calculations leading to CNs OR and FCF are not objective and incontestable reflections of CNs performance in some sort of "apparently neutral mirror" (Roberts, 2001, p. 117). They should be viewed with awareness of "the crucial role that power and strategy play in creating the financial portrait of the firm" (Delaney, 1994, p. 514); and with awareness that often the accounting measures relied upon by managements are "analytically imperfect [and] biased . . . [but nevertheless] stimulate forceful, sustained, self-validating action" that has public and socially-influential character (Swieringa and Weick, 1987, p. 294). The role that accounting measures (such as CNs OR) play in sustaining the wisdom of a privatization merits examination because (as with CN) "the role of accounting has been central in facilitating and legitimating important transformations in business" (Espeland and Hirsch, 1990, p. 93). Importantly, we need to recognize that financial accounting measures and language are special. They have an unusually strong social influence due to the symbolic and social power of the institutions (e.g. auditors, accounting standards boards) that underwrite financial accounting. Financial accounting measures and language should be recognised as especially powerful means of telling (and re-telling) a story of privatization over time: that is, as a means of the narrative expression of success.

The politics of meaning are expressed through the power to impose definition, and financial accounting language is involved intimately in such expression (Schiappa, 2003). The interaction of arbitrary GAAP with the self-interest, cognitive, ideological, and psycho-social limitations of human beings needs stronger public scrutiny. CN and its post-privatization infatuation with one-dimensional quantitative measures, especially the OR, is a strong case in point.

Indeed, if strategy, as a management practice, can be conceptualized as narrative (Barry and Elmes (1997, p. 432), "then such a view stresses how language is used to construct meaning." The CN case suggests that fashioning strategic narrative by means of accounting language is plausibly a potent means of gaining "acceptance, approval, and adoption" of strategy (Barry and Elmes, 1997, p. 433), and of the retrospective interpretation of strategy in an ongoing narrative of success, through telling and re-telling year-after-year. The two narrative elements of the CEO as narrator, and accounting (including the institutions underlying it) as the means of narrative expression, and the interaction of these two elements, seem worthy of further study.

Where does this leave those members of the academic accounting community who contend that accounting is non-objective, socially-constructed, rhetorical, and the stuff of narrative complexity? Where does it leave those who subscribe to Morgan (1988) contention that:

> The myth of objectivity disguises the true nature of accounting and creates many operational problems, because as every practising accountant knows, it is pretty well impossible to defend one's objectivity under close attack from people who have a detailed knowledge of the situations to which the accountant's statements relate?

Accounting standard-setters seem to be immune to such contention. Members of the practising accounting profession-at-large display immunity as well, perhaps because they are the product of a highly objectivist accounting education. Nonetheless, academics are left with perhaps the most important constituency of all to whom they should tell their tale regarding accounting and its narrative potential – university students whom they teach. Reform of accounting education, possibly by using case studies (such as CN) that emphasize the rhetorical, narrative quality of financial accounting, seems appropriate. Accounting educators should seek to contribute to a more socially-serviceable and principled accounting (Waddock, 2005) by prescribing case studies which explore the way financial accounting language narratives effect a rhetorical potency before, during, and after major social changes (such as the privatization of a national railroad).

Indeed, a pedagogy inspired by the rhetorical potential of accounting seems utterly consistent with the argument that there are "many routine ways in which organizations alter their financial biographies" (Delaney, 1994, p. 512). Such "routine ways" take advantage of the narrativity of financial accounting, such as in the tales of CN management about a privatization and its successful aftermath. Indeed, Delaney's use of the term "biographies" evokes the narrativity of accounting, and highlights its amenability for expressing such corporate "life stories." There is a strong need to appreciate how "the idiosyncratic, political, rhetorical, ideological and non-objective nature of accounting" (Amernic and Craig, 2004, p. 343) is used to construct the narratives of corporations' "financial biographies," including their tales about privatization.

We remain hopeful that we have engendered a better appreciation of the amenability of accounting to deployment as a means of shaping corporate narrative over time. We conclude in positive vein by contending that the assertion that "the power of accounting lies in its role in shaping the discourse of performance" (Power, 2004, p. 778) will be more convincing because of the arguments presented in our trilogy of papers.

Notes

1. Such a privatization mentality, in which accounting is used as evidence of poor results prior to privatization, is consistent with the World Bank's Co-financing and Financial Advisory Services' 1993 report, "Best Methods of Railway Restructuring and Privatization" (Kopicki and Thompson, 1993, p. 1) which concluded: "As the case studies in this report demonstrate,

a fiscal 'crisis' usually opens the door to state-owned railway restructuring . . . A fiscal crisis demonstrates the futility of 'business as usual' and allows radical alternatives to be considered."

2. The process of privatizing a publicly owned entity is conceptualized here (Craig and Amernic, 2004, 2006) to involve three phases: the before privatization phase (where prominence is given to successful privatizations elsewhere); the during privatization phase (in which a specific campaign to pursue privatization is launched, and enabling legislation is introduced and passed); and the post privatization phase (the period after the Canadian Government's IPO of CN shares on November 17, 1995).
3. Accounting language is important in telling the tale of privatization. Of particular importance are the specific constructs in that language – the accounting measures used to help construct the tale, give it a coursing thread through time, and generate rhetorical appeal. But, we should recognize also that a wide range of potential non-accounting performance measures could have been used by CN to assess the success of the privatization. These include many measures of social costs and benefits that economists, sociologists, Western Canadian grain farmers, "downsized" CN employees, abandoned spur-line communities, and others, would be interested into capture the before and after story of CNs privatization. CN could have conducted a wide-ranging analysis of the "winners" and "losers" of the privatization, possibly extending to the preparation of a social balance sheet to indicate the stakeholders who benefited from the privatization and those who did not. Such analysis could have highlighted, for example, that in share trading in the first few days after the IPO, "the ownership of CN switched from being 60-40 in favour of the Canadians to 60-40 for the foreigners. Within weeks, it was 65-35 for the foreigners" (Bruce, 1997, p. 147). Railway-savvy investors in the US own the majority of CN shares – the proceeds of CNs privatization had largely been exported (Stanford, 1999, p. C7). Further, there has been little assessment of the equity with which the success of the privatization has been shared between employees and managers and has led to socially-beneficial changes in CNs operations and/or economically efficient changes for Canadian society. Whilst such a broader, social assessment of the CN privatization is a worthy endeavour, in this paper (as in our previous two papers) we focus on the role of accounting language and accounting performance measures.
4. We do not draw attention here to the "correctness" of the accounting performance measures thus used (Craig and Amernic, 2004). Rather, the use of accounting language itself is the issue.
5. Bruner (1991, pp. 5-6) claims that "narrative as text . . . operates as an instrument of mind in the construction of reality." Thus, as they fashion the post-privatization narrative, the narrator/CEOs might also be seduced by the same stories they are telling (Bruner, 1991, p. 9, on "narrative seduction;" and Weick, 1995).
6. CEOs may "tell" their corporate stories by other, non-textual, means as well: for example, they may signify "informality" by dressing casually.
7. We have drawn attention to the privileging of accounting: in the discourse of corporate leadership regarding this "good tale" (Craig and Amernic, 2004); in the discourse articulating corporate strategic goals in terms of targeted accounting performance measures (Craig and Amernic, 2006); and in the linking of executive compensation to accounting performance measures (Craig and Amernic, 2006).
8. There are substantive differences in the ways that an identical transaction is accounted for under the two systems.
9. We have searched unsuccessfully for "dissenting voices" on this matter in the archives of major Canadian newspapers, the Canadian Broadcasting Corporation, and using wed-based browsers such as Google. Some criticism of CN's use of the OR as a performance measure

appeared in 2006 Norris (2006), Craig (2006), but not in the specific context of debate about whether the OR should be used to sustain the wisdom of the decision to privatize CN. Those who wish to develop ideas on why resistance to discourse is at times more difficult (or successful) should consult Knights and Collinson (1987) and Ezzamel (1994).

10. In actuality, the OR – as derived from accounting – has more than four guises, since it is far from unambiguous what should be included in the "as adjusted" category. For example, one material item never included as an adjustment by CN is the difference between actual and expected return on the assets in CN's defined benefit pension plans.
11. Stafitement of Financial Accounting Standards No. 123R, which requires the expensing of such stock option compensation, has had its effective date postponed by the US Financial Accounting Standards Board.
12. As noted in the text, if the privatized CN reduced the OR from 82 to 65.6 percent between 1996 and 2000 these options could be exercised at $CDN 27. About 75 percent of these performance options could be exercised "if the operating ratio for any particular year is within 0.5 percent of the target established in the Option Plan for that year" (Canadian National Railway, 1995, p. 57).
13. On October 19, 2006, CN announced its 2006 third-quarter results, in which it reported "a record quarterly operating ratio of 57.4 per cent" (CN news releases are posted on the CN web site, *www.cn.ca*, last accessed December 23, 2006). In the same press release, the OR for the first nine months of fiscal 2006 was reported as 60.6 percent.
14. Turner (1996, p. v) claims that "Story is a basic principle of mind . . . ," and that "[m]ost of our experience, our knowledge, and our thinking is organized as stories. The mental scope of story is magnified by projection – one story helps us make sense of another." Thus, the celebratory financial accounting narrative that CN produced in its 2005 annual report (Appendix to this article), in which the change since privatization in a limited set of mainly accounting indicators is reported by showing schematically the "good" current (2005) number as big, and the "bad" 1995 number as small, even when the "bad" 1995 number is numerically greater than the "good" 2005 number (as for the OR), seems consistent with our everyday, personal notions that "big" is better than "small."

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(The Appendix follows overleaf.)

Appendix

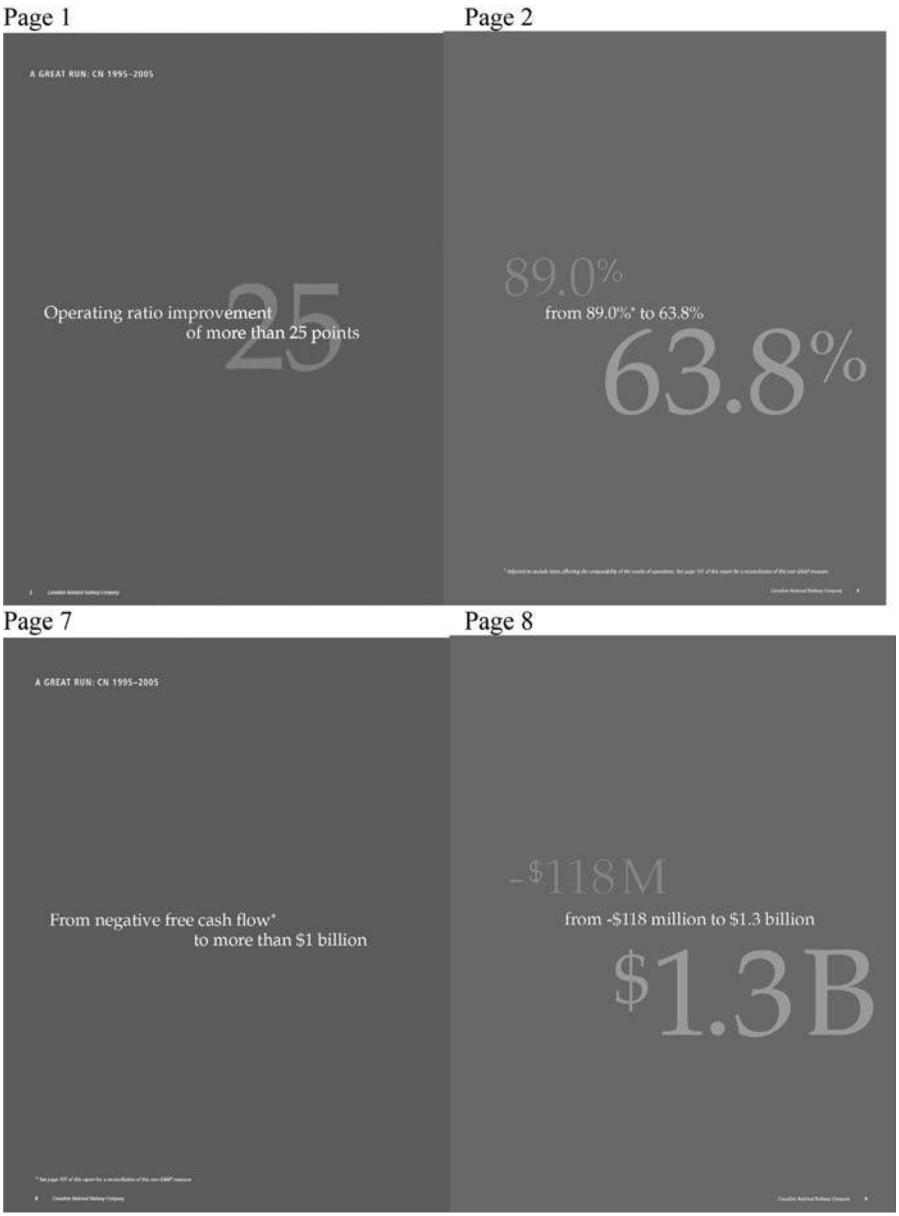
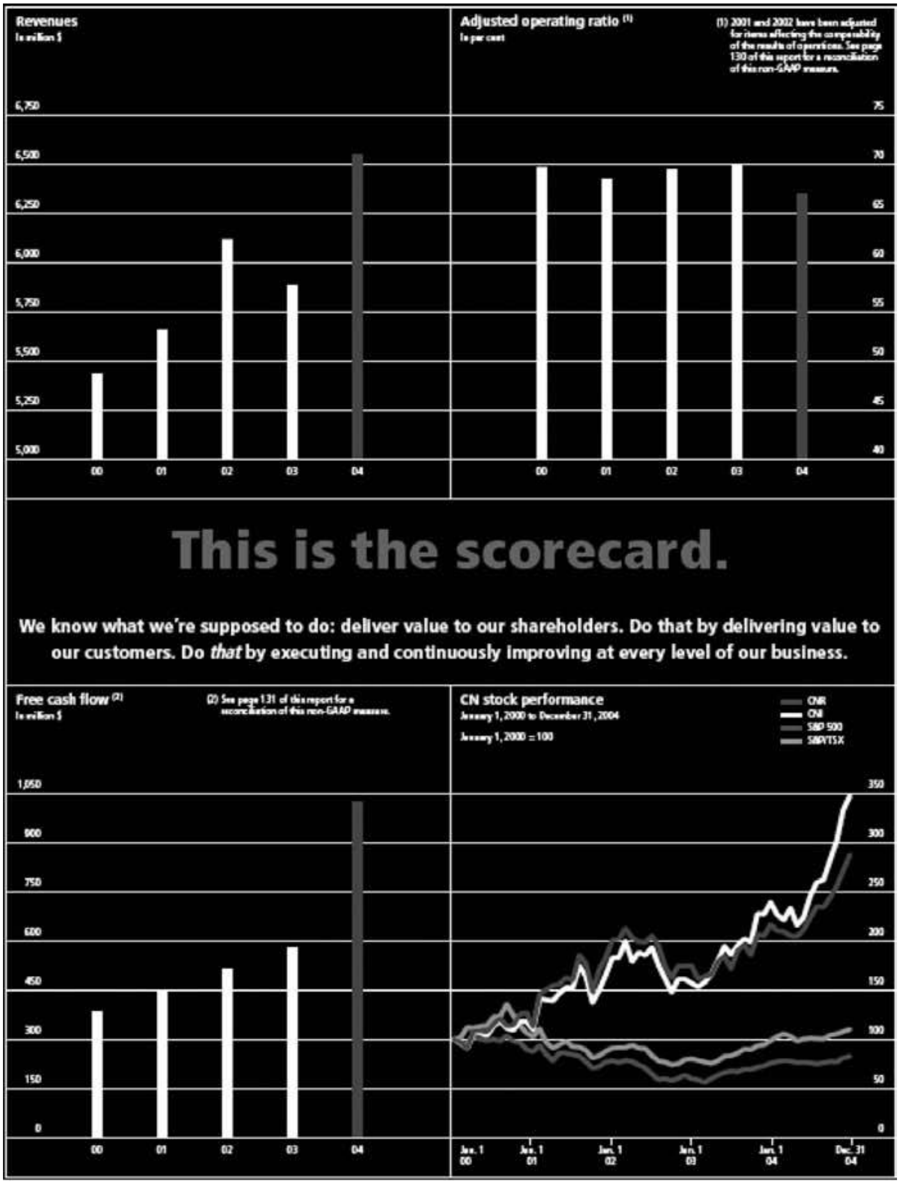


Figure A1.
Rhetorical prominence given to the operating ratio and FCF in the celebration of CNs post-privatization success (CNs 2005 Annual Report)



Source: CNs (2004 Annual Report, p. 5)

Figure A2.
Rhetorical prominence given to "This is the scorecard"

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