# The "Generalized Other" or How to Make its Voice Heard in an Audit Committee

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# *The "Generalized Other" or How to Make its Voice Heard in an Audit Committee**

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**Résumé**
Cet article cherche à déterminer dans quelle mesure et dans quel contexte les administrateurs d'un comité d'audit expriment leurs préférences et leurs points de vue à la direction financière ainsi qu'aux auditeurs inernes et externes, de manière à exercer une influence sur la qualité des états financiers ou la robustesse du controle interne de l'entreprise. Ce travail se fonde sur une approche compréhensive avec 27 entretiens menés auprès de membres des comités d'audit d'entreprises cotées au CAC 40. Il apparaît qu'au sein d'un comité d'audit, deux types de collaboration sont possibles : une "collégialité contrainte" ou une "culture de collaboration" (Hargreaves, 1994). La "collégialité contrainte" semble être la configuration de travail initiale d'un comité d'audit. Elle conduit à une situation de défiance et ne permet pas aux administrateurs de s'exprimer de manière audible. Le président du comité d'audit joue alors un rôle majeur dans la transition d'une situation de "collégialité contrainte" à celle d'une "culture de collaboration". Il provoque des réunions informelles, montre sa réceptivité et permet ainsi aux membres du comité d'audit de s'exprimer et d'être entendus. Cette "culture de collaboration" implique que les administrateurs ont un pouvoir de suggestion, pouvoir efficace car ayant une influence sur "l'autrui généralisé" (Mead, 1934) des autres membres du comité. "L'autrui généralisé" agit alors comme un censeur.

**Mots clés:** processus du comité d'audit, voix des administrateurs, collégialité contrainte, autrui généralisé.

***Abstract***
*This article endeavours to determine in which extent and in which context the audit committee directors express their preferences and their points of view to the financial team members and to external and internal auditors, in order that they can have an influence on the quality of financial statements or on the robustness of firm's internal control. This work follows a comprehensive approach from the analysis of 27 interviews led with some attendees of the audit committee meetings of CAC 40 companies (Paris Stock Exchange). Two types of collaboration are possible between the attendees: a "contrived collegiality" or a "culture of collaboration" (Hargreaves, 1994). The "contrived collegiality" seems to be the start situation of an audit committee working. This "contrived collegiality" leads to mistrust such as it does not allow the directors to express themselves in an audible manner. The audit committee chairman plays the major role in the passage from a "contrived collegiality" to a "culture of collaboration". It is the chairman who creates informal meetings and shows his receptiveness. It allows the audit committee to have a possible way to express itself and to be heard. Nevertheless this "culture of collaboration" implies that the directors have only a power of suggesting. The suggestion can be effective because it has an influence on the "generalized other" (Mead, 1934) of others attendees. "The generalized other" acts as a censor.*

**Key words:** audit committee process, directors' voice, contrived collegiality, generalized other.

* We appreciate the comments of Michael Power.

## INTRODUCTION

Even if the audit committee is a corporate governance institution established in Europe for fifteen years, we know little about the working of these committees. We know the number of meetings, the charge of attendees which is communicated through the financial statements but no minutes are disclosed. The question about how audit committees work remains entire. The *European Directive of 17 may 2006 on statutory audits of accounts* states the topics the audit committees have to tackle. Nevertheless the European Directive does not explain how the directors do for tackling these topics. The assignments given by the European Directive to directors are these ones: a) monitoring the financial reporting process; b) monitoring the effectiveness of the company's internal control, internal audit where applicable, and risk management systems; c) monitoring the statutory audit of the annual and consolidated accounts; d) reviewing and monitoring the independence of the statutory auditor or audit firm, and in particular the provision of additional services to the audited entity.

What does “monitoring” or “reviewing” mean concretely? What do exactly the directors? If we refer to the corporate governance codes used in France – codes which have a legal enforcement with the institutionalization of the “comply or explain” principle – the audit committee “has to assume two of the main missions of the board of directors: the management monitoring and the checking of the reliability and the clarity of information which will be given to shareholders and to financial markets” (Bouton, 2002). So the audit committee has to “monitor”, to “check” and to “review” the topics which concern the audit committee. The question about what the directors do actually to “monitor”, to “check” and to “review” remains entire. The external auditors have also a mission of monitoring and of reviewing. By the way of concluding their mission, external auditors write an audit report which expresses their opinions about the quality of company's financial statements. Such as the external auditor with his audit report, the audit committee chairman gives audit committee's conclusions during the meetings of the board of directors. Nevertheless as regards the external auditor the audit report is not the only moment for expressing his opinions, he can express also these throughout the audit process. Indeed the audit process has been described as a relational process (Richard, 2006) in the course of which the auditors express their opinions to company's financial team. This situation involves the existence of negotiations between external auditors and company's management (Beattie and al., 2000; Beattie and al., 2001; Gibbins and al., 2001; Gibbins and al., 2005). Is it the same way for the audit committee directors? Do they express their opinions or their disagreements to the financial management or to the internal and external auditors? The terms "review" or "check" which are used for describing the audit committee missions do not allow us to suppose that the audit committee expresses itself. The previous research works which were interested in the understanding of the audit committee process (Spira, 2002; Spira, 2006; Gendron et al., 2004; Gendron and Bédard, 2006; Turley and Zaman, 2007) had not really asked the issue of the expression of the audit committee directors. Even if these research works show an expression of the audit committee directors, they only show that the audit committee directors ask some questions to the management. This issue is central since it is a matter of determining if the audit committee is a passive corporate governance institution which is satisfied with perusing issues and with informing the board of directors about these issues (it "checks" and it "reviews") or if the audit committee is a corporate governance institution which could disagree, ask some changes and give some orientations to the management about the issues it is aware (it "monitors"). In order to determine in which extent the directors express themselves and to understand the way they use to do that, we conducted 27 interviews with audit committee directors, CFOs and external and internal auditors of French companies listed on the CAC 40 index of the Paris

Stock Exchange. We find the directors express themselves beyond asking questions even if the context of expression is not favourable for them. Nevertheless this expression appears only in the course of a conversation. Because directors' opinion is not expected by the management or by the auditors, the directors cannot express their opinions in a strong manner. They rather suggest, they rather get over some messages they consider as important in the course of conversations. These conversations do not necessarily take place during the formal audit committee meetings. Informal meetings occur, between the audit committee chairman and the management team or the auditors.

The next parts are devoted to a literature review on the audit committee process (1), then to a description of our interviews-based method (2) and finally to the presentation of our results on the way to express yourself when you are a director in an audit committee (3).

## 1. THE AUDIT COMMITTEE PROCESS

This research work will be situated inside the audit committee research area and a particular attention will be given to the definition of our research subject: the audit committee process (1.1). Finally the studies able to help us to give some start responses to our research question will be presented and discussed (1.2).

### *1.1. The audit committee: formal and informal processes*

Two literature reviews are mainly quoted by researchers: the one of DeZoort and al. (2002) and the one of Turley and Zaman (2004). Turley and Zaman (2004) suggest to classify different research on audit committees according to the nature of identified effects audit committees could have: effects on agency costs, effects on auditing, effects on financial statements quality, and effects on corporate governance quality. As DeZoort and al. (2002), they suggest to classifying works on audit committees' effectiveness according to audit committees characteristics that explain this effectiveness: composition, resources, authority and process.

In this framework, Gendron and Bédard (2008) suggest a synthesis of these two classifications: they consider the three characteristics of audit committees described by DeZoort and al. (composition, resources and authority) as they express themselves during the audit committee process. The presence of the audit committee could have several effects that Gendron and Bédard have identified.

[Insert Graph 1 Here]

Our research paper mainly tries to understand the audit committees' process, that is to say the way they are working. We are keeping in mind this process has consequences on auditing, on financial statements. We are also keeping in mind that this process is dependent of audit committee's composition, resources and authority. Nevertheless these specified characteristics do not constitute our main research object.

Few works define really the audit committee process. DeZoort and al. (2002) consider the audit committee process as a whole of procedures directors implement. Turley and Zaman (2007) differentiate the formal process, which corresponds to the audit committee meetings, to the informal process, which corresponds to the whole of contacts between the directors and the other attendees outside formal meetings. As Spira (2002) highlights, some documents are prepared before the formal audit committee meetings. As these documents have the only goal to be presented to the directors, their preparation is considered as a stage in itself of the audit committee process. This preparatory stage, which takes place before the formal meetings, is the time of the construction of documents and presentations that will be done during the audit committee meetings. It includes also the informal meetings that occur between the audit committee directors (represented by its chairman the most of the time) and the other attendees. These informal meetings constitute what Turley and Zaman (2007) call the informal process, that is to say conversations in the course of which the directors could be led to give their points of view about various topics. Some of them could be held without the presence of any directors, as Gendron and Bédard (2008) describe. After this preparatory stage, a formal meetings stage comes, what Turley and Zaman (2007) call the formal process. During this formal meetings stage, some presentations are given to the directors. These last ones try to form their own opinion both about the presentations that are proposed and the people who make these presentations. Some questions can be asked and give rise to answers. A discussion, sometimes an argument, then starts and the directors can be led to express their points of view. Finally a conclusion stage follows the formal meetings stage. During this conclusion stage the audit committee chairman gives a report about the audit committee meetings to the board of directors, the minutes are distributed.

As the audit committee process is defined and the process stages in the course of which the directors express themselves are identified, it is time to take an interest in the previous research works which can bring a light to our research question: the issue of an opinion expression by the directors to others audit committee meetings attendees.

### *1.2. The questions and answers game*

Through the descriptions about the audit committee working, a way of expressing used by directors is especially highlighted: asking questions. During the audit committee meetings and during informal meetings between the audit committee chairman and some of others formal meetings attendees too, a "questions and answers game", as Spira (2002) calls, appears. This questions and answers game lasts as long as an answer seems satisfying the director in his opinion. The directors begin the game and decide when they want the game stops. Spira (2003) distinguishes three levels of questions. The first level corresponds to foreseen questions for which written answers have been prepared. The second level corresponds to foreseen questions for which no answers have been prepared. And the third level corresponds to not foreseen questions. Acting and answering favourably to a third level question make feeling more comfortable the participants to the “questions / answers game”. The good answer constitutes a proof of the audit committee effectiveness, more precisely of the ceremonial effectiveness. As Gendron and Bédard (2006) underline it, the existence of questions asked by the audit committee members and the recognition of the abilities of the directors to ask the good questions – that is to say the questions which hurt – constitute a shared sign about the well-working of the audit committee. So it seems that all questions have not the only purpose to be informed. These questions aim some tacit messages on audit committee effectiveness too.

Nevertheless Spira (2006) underlines that one of the important rules for the audit committee working is to operate in a consensual manner. In order a board of directors or an audit committee works well, a consensus does necessarily exist. Indeed the tension which could exist between attendees could harm the good working, the good processing of the audit committee. This need to keep a consensus is clearly in competition with the need to ask questions.

These research studies seem to show that the directors express themselves in a certain extent, but only in a certain extent. It remains to explore the specific context of the audit committee as the space of directors’ expression and to determine in which extent the directors express themselves beyond asking questions. The next part will be devoted to the description of the qualitative method we have used.

## 2. METHODOLOGY

After having discussed the French case (2.1), we present the qualitative method used for the data collection and give the way we analyse the speeches (2.2).

### *2.1. Audit committees in France*

According to the UK Cadbury Code (1992), French people have a corporate governance code: the Viénot report (1995). This report led to the emergence of the audit committees in France (Piot, 2004), since it recommends its establishment. The “concept” of audit committee from this Viénot report (1995) is directly imported from the Anglo-Saxon reflections. The codes of good governance that followed (Viénot 2, 1999; Bouton, 2002; Combined Code, 2003) have reinforced the Anglo-Saxon filiation. However, until the transposition of the 8th directive, in December 2008, which legalizes the existence of audit committees, the establishment of an audit committee wasn’t mandatory. More, it came into conflict with the Article 230 of the Companies act[1]. The establishment of an Audit Committee was simply recommended by the codes of good governance from professional organizations and AMF. In practice, almost all of the listed companies had already established such an audit committee at the end of 2008 (AMF, 2008). The decree of the 8th December 2008, under the DDAC law (2008) mandating the establishment of the audit committees for the listed companies, has only endorsed an already strong practice.

The essence of Anglo-Saxon requirements for audit committees is unquestionable: the emphasis is on the structure (composition: independence and financial expertise, etc.) rather than the process, few pieces of information are given on the content of mission assigned to the

[1] This section prohibits the communication between external auditors and a small group of administrators for ethical reasons. The auditors could not speak before the Board as a whole. Professional secrecy of the external auditors was not raised in respect of the Audit Committee. In practice, boards of directors, however, have lifted the obligation of external auditors.

audit committee. Few divergences exist, for example concerning the sustainability of the audit committee. It has to be composed in 2/3 of independent directors. The independence is defined similarly to the Anglo-Saxon world apart for the fact that the quality of independence is lost after twelve years and not after ten as it is recommended by the Higgs report (2003). In parallel, by the application of the LSF (2003), the rotation of audit partners is every six years, that is the statutory audit mandate. However, the rotation rule is not uniformly respected, including the CAC 40 companies.

### *2.2. The data collection*

The study aims to analyze the expression of an opinion from the directors to the other participants of the audit committee process. So such a study has the ambition to contribute to open the audit committee « black box ». The best way to access to this reality is the direct observation. Though this “black box” remains also strongly impenetrable for the researchers. Indeed the access to the audit committee meetings did turned out impossible because of some confidentiality reasons. As for the access to the informal meetings, it is impossible to observe these meetings because they are confidential by nature, the interest of these meetings lying in the fact that they take place without the presence of an external glance, even researcher’s glance. So as the audit committee working remains unobservable for the researcher, this research work relies on the speeches of attendees who are: the audit committee directors, the external auditors, the internal auditors and the CFOs. The speeches collection has been done through interviews with attendees of the audit committee meetings of CAC 40 companies (CAC 40 is the Paris Stock Exchange). The interview partly can catch the lived facts and collect a first interpretation of the actors who live the audit committee experience as Blanchet and Gotman (1992) underline it: « The survey by interviews is the preferential tool of exploring the facts of which the speech is the principal vector. These facts concern representation systems (constructed thinking) and the social practices (experienced facts) ». So the research approach used here is interpretative and comprehensive in the sense of Weber (1965). The CAC 40 companies are the first ones in France which have created an audit committee, following the recommendations of the Viénot report in 1995 (Piot, 2004) because of their greater exposure. These companies have a relatively old practice about the audit committee. So we can assume that they will have richer practices.

Twenty-seven semi-directive interviews have been led with eight external auditors, with eight audit committee directors who have an independent status and whose four are the audit committee chairman, with four CFOs and finally with seven people in charge of the internal audit function (summary table of interviews is available in appendix 1). On these twenty-seven interviews we have the permission to register twenty-two. These twenty-two interviews are also transcribed in entire and sent to interviewees in order that they control the contents. As regards the fifth interviews that cannot have been registered and transcribed, some notes have been made during the interview. Because of the absence of transcription, these interviews cannot have been the object of a meticulous content analysis but they have contributed to feed our reflexion.

The analysis approach has been in several stages. First the interviews have been analyzed individually in order to identify the main themes and especially the themes that are common to the different interviews. Then a transversal and thematic analysis has been led with a manual encoding. The chosen unit for the encoding has been the paragraph of sense. This process, as Miles and Huberman (1994) underline, has allowed to produce a used volume of data in excluding the paragraphs that did not concern the research question. Finally a second analysis, interview by interview, has been made to comprehend the construction of interviewees' speeches and to bring to light the contradictions that can exist during the speech (Bardin, 1993).

The interpretation of the speeches is based on the works of two different researchers: Hargreaves (1994) who is an education sociologist and Mead (1934) who is the founder of the social psychology. Their respective works allow us to interpret the audit committee process as a “contrived collegiality” (Hargreaves, 1994) and to understand the directors have to be able to internalize the “ generalized other”, i.e. conventions and expectations emanating from participants with whom they interact (Mead, 1934).

## 3. HOW TO MAKE ITS VOICE HEARD: THE ROLE OF THE DIRECTORS IN AN AUDIT COMMITTEE

The audit committee does not constitute an easy place for the directors to express themselves because the audit committees can work as a “contrived collegiality” (3.1). So the directors have to create relationships favourable to the development of a “culture of collaboration” which favours directors’ possibilities of expressing themselves (3.2). In this space for expression, directors contribute to construct the “generalized other” (Mead, 1934) and, on this basis, suggest rather than impose (3.3).

### *3.1. A contrived collegiality*

The internal and external auditors and the financial team members meet a lot throughout the year. They have a close relationship as between peers, a relationship based on confidence (Richard, 2006). So these people do not wait the audit committee meetings to collaborate or to exchange their points of view. They do that when the issues arise throughout the year. On the contrary the contact with the directors is not continuous. The audit committee meetings constitute the reserved place for exchanging the points of view between the auditors and the financial management on the one hand and the directors on the other hand. Nevertheless exchanges of opinion are not automatic; it depends on attendees' wishes. Indeed the external auditors are not in a situation such as they are accountable to the audit committee directors. They do not lead their missions in aid of the directors but in aid of the public interest. So they have not to consider directors' opinions as relevant to their missions. As regards relationships between the financial management and the directors, it exists a clear demarcation between management's mission that is managing and directors' one that is monitoring. The management team could see a too strong expression from the directors about certain issues as interference in its own mission: managing. Consequently directors' expression and the acceptance of this expression are possible only if a sharing and collaboration atmosphere exists; everybody must be aware to hear the others. The question about the collaboration and the understanding is also stresses: Are the directors and the other attendees able to speak and to hear themselves about the subjects that an audit committee has to monitor? The analysis of interviewees' speeches let to think that an important risk for the audit committee is that it works as a "contrived collegiality" in the sense of Hargreaves (1994).

Hargreaves (1994) describes the "contrived collegiality" with several characteristics: it is an imposed collegiality, not voluntary, sometimes compulsory; it has a specific aim which is known in advance and the tackled subjects are determined outside, not by the participants; the collegiality is limited in the time and in the space; finally, the result of this collegiality is also known in advance. Hargreaves shows that this contrived collegiality is indeed a travesty of collegiality. The participants do not really participate; they reject it.

Hargreaves' work constitutes a good analysis model of the audit committee working as a context for the directors' expression. It seems that the audit committee starts to work as a "contrived collegiality" and this contrived collegiality let few place for directors to express themselves. Indeed certain contrived collegiality characteristics are met during the formal audit committee meetings. The first of these characteristics is that the meetings are limited in time and in space. They have a planed duration that has to be respected. The meeting begins at an exactly time and finishes at an exactly time too, only letting a short meeting duration – most of time two or three hours – as an external says us:

*« It begins at 1: 30 pm, and it finishes at 3: 30 pm, not 29, not 31. »* (A3 – F4)

The fact that these meetings spend a short time constitutes in attendees' eyes a constraint for the good discussion working by limiting the discussion depth. This lack of meeting time flexibility avoids the sharing of points of view between the directors and the other attendees and avoids a real collaboration as the same external auditor underlines:

*« Finally, people meet two hours, so, two hours from time to time, well. If we want to have a technical discussion, it won't be two hours, so... We will take a day or an afternoon. »* (A3 – F4)

A second of contrived collegiality's characteristics is met in the audit committee working. It is the fact that the topics which are the object of discussion are not determined in function of attendees' need. There are not the attendees who determine the discussed issues in order to obtain directors' point of view for example. The discussed issues are more determined in an institutional manner. Especially the accounts constitute the main conversation object for the audit committees. And so the accounts take a significant time of these meetings. It cannot really let time for others subjects which can be chosen by meetings attendees. It is this idea that we find in the speech of a chief of internal audit:

*« But inside, it is necessary to be realistic… I would say that two thirds of subjects are almost dictated by reglementary duties: the cut off options we would want to do before the end of year, the annual statements, the biannual statements… […] So, it is… we have a lot of duties which are dictated. »* (F8)

These few elements added to the fact that quoted companies have the legal or institutional obligation (because of the good corporate governance criteria asked by financial markets) to settle an audit committee explain the fact that these audit committees work as a contrived collegiality. The audit committees also work as a travesty of collegiality, as a ceremony in the sense of Spira (2002). It involves that the audit committees are playacting where only a few place exist for the sharing and so for the expression of the audit committee directors about their preferences and their expectations. The fact that the audit committees work as a contrived collegiality involves the negative effects highlighted by Hargreaves (1994), that is to say the appearance of a mistrust between the directors and the other audit committee meetings attendees, even the appearance of a rejection of directors' points of view by the other attendees. Indeed company management members cannot trust directors who finally meddle in the company's management. A fear to lose the control on their missions for the benefit of the directors can appear in management's mind as a chief of internal audit underlines:

> *« The audit committee, it is credible when it plays its audit committee role, not when it takes itself for the management. »* (F8)

This same fear exists for the external auditor. The external auditors role is to challenge the financial management when it takes some doubtful accounting choices. This role is not directors' one. So we find this fear to lose the control on their missions and so on their status in this external auditor's sentiments:

> *« For example, we have a little debate with F4, about technical, complicated subjects, we have to discuss. They don't like we speak about that in front of the audit committee because they are always afraid that people, badly informed, begin to contradict some decisions, some issues about which, nevertheless, we, auditors and company, we agreed. Because they don't understand well, because, I don't know, because they find that it isn't the proper way. That, that is a little bit boring because… It seems to me that we have to feel, both sides, company and auditors, if at some point we handled a complicated issue and we found a satisfactory technical solution, we have to fell sufficiently strong... We could have this paradox. The audit committee gives itself some rights superior to auditor's ones in a sense since it supervises, oversees our activity. And as a result, they say to us « I don't understand why you said yes to the company ». And so there, so there, we would be in a little complicated situation. »* (A3 – F4)

That lets to think that the formal audit committee meetings constitute a difficult context for directors to express themselves. As this last interview extract lets to think, the audit committee meetings attendees other than the directors could be in a position as they reject the possible collegiality or collaboration. It involves that the expression of points of view by the directors can be lived as an intrusion in their personal territories. If this intrusion is really felt, as it seems the case in the company F4 which is the subject of the interview extract above, the company management as the auditors would try to forget to disclose some subjects during audit committee meetings, avoiding that the directors give their points of view or their preferences or the directors ask questions.

So this contrived collegiality situation can has as consequence to withdraw all the matters which could be objects for the collaboration. The directors can be in a situation such as they are not conscious of the main company issues, issues about which they would want to express themselves if they knew. Directors' voice cannot be heard, because they do not know the issues. As Turley and Zaman (2007) underline, the audit committee directors depend of the information the other attendees want to show him in a certain extent.

Nevertheless this situation has limits as regards the internal auditors. Indeed the internal auditors can be hierarchically accountable to the directors on the contrary to the financial management members and the external auditors. So giving an account and giving informations they have is a part of their missions as an audit committee chairman says:

> *« And so, I think that the person in charge of internal audit has a double responsibility. He is accountable, of course, to the management, to report to the management the whole of his recording. But he is accountable to the audit committee in the same way. »* (F3)

The fact that internal auditors are accountable to the audit committee directors let these last ones express their opinion about the presented issues in a more favourable context. Then they have a greater freedom of tone – a freedom to make biting remarks – comparing with the financial management members or with the external auditors. It is what an external auditor says:

> *« If it is about the audit, it* [the audit committee] *goes rather far. I want to say that… the internal audit, in the sense that it isn't rare that they say « On such point, your way of*

*seeing things seems to me insufficient. Our experience, etc. It is necessary to see that again. » »* (F10)

As regards the financial management or the external auditors, the directors cannot express themselves without the existence of attendees' will to collaborate, since the directors depend on others to obtain relevant information (Turley and Zaman, 2007). As such, they cannot allow themselves to bully the external auditors or the financial management members. It is what says an external auditor in a prudent manner:

> *« So, it is the question of, the audit committee intervention is enough, enough complex because that is, that is a question of proportions between..., to where to go too far and, to where to go not enough far. That's right it is rather difficult for audit committees. »* (A3-1)

As the audit committee meetings have tendency to work as a contrived collegiality, the possibilities of the audit committee directors to express themselves in an audible manner are small. So in order to give a real role to the audit committee and to have a real possibility of expressing themselves, the directors have to create an atmosphere and a collaboration such as they have relevant information on the one hand and they have a possibility of expressing themselves in the other hand.

### *3.2. A culture of collaboration*

In order to have more possibilities to express themselves the directors, have to make the audit committee evolves to a "culture of collaboration" (Hargreaves, 1994).

In opposition to the contrived collegiality, Hargreaves (1994) describes another type of collegiality or collaboration: the "culture of collaboration". He defines this "culture of collaboration" with several characteristics which are opposed to the "contrived collegiality" ones: this collaboration is spontaneous and voluntary because the participants recognize an interest in that; it is more informal, not fixed in the time and the space, according to the participants' needs; people choose themselves the subjects of this collaboration; finally, the results of this collaboration are not known in advance. In a context of “culture collaboration” all attendees are free and equal, that is to mean that the directors have not a particular place which can give to their voice an influence with regards the others attendees. For creating this particular context, the directors have to act with tact. They are not in a situation such as they can demand. They have to take some sufficient precautions in speaking in order that the financial team members or the external auditors do not lose their face, in the sense given by Goffman (1963). They have to be cautious during the public interactions in order not to offend anyone, in order that attendees’ status remains intact. It is what an audit committee chairman implies in these words:

> *« About the accounts, I would say that in a general manner, it is enough rare the audit committee finds something unsatisfactory in the accounts. On the other hand, when it finds something, it isn’t done like that. If you want, as a rule… an audit committee has a dialogue with the CFO and sees the issues which are, about which an hesitation can exist. »* (F10)

The directors are totally conscious of this situation. They are aware a good working of an audit committee rests on the existence of good relationships between the directors and the other attendees. These good relationships allow the directors to obtain relevant information and to create the opportunity to express themselves. These good relationships only can exist in a relaxed atmosphere. For having this atmosphere, it is necessary to create it. An audit committee chairman explains:

> *« That should not be a court, if we want that oysters close … So, I think it’s necessary to have, in the same time... I want to say... a minimum of respect and the feeling of obligations to be receptive. »* (F3)

Also this mutual respect atmosphere (even an mutual equality atmosphere), allowing the face maintenance of all attendees, is recognized as an important component of the effectiveness of an audit committee. As an external auditor underlines, he considers the audit committee meetings as an exchange time, as a dialogue when the collaboration becomes possible. It is necessary that a feeling of equality does exist between the attendees:

*« Now, I don't feel I'm on the gril, if you want. It isn't a questioning. It is really.., for me, it is an exchange. […] There are the financial management, we, the committee members. So, everybody speaks alternately. There is, on certain points… yes, there are exchanges of sight about some subjects. I prefer the term exchange than examination. »* (A1-1)

Thus it is important that the directors and the other audit committee attendees feel equal in order that the dialogue is considered as possible. That is the first necessary condition in order that a collaboration could exist. The construction of this feeling about the status equality is the product of interactions during which the directors play an active role. It is what an internal auditor chief underlines in the following interview extract:

*« When I took up my post, a little apprehension because, we don't know together* [him and the the audit committee]. *Still, I don't know the audit committee members. All the other attendees, even the external auditors, we know them. We don't know how it goes, we don't know which questions are asked. At once, they put you comfortable. »* (F9)

Establishing the dialogue is the first element that the audit committee directors introduce in order to establish the collaboration. A second element which is tried to be created by the directors is a confidence relationship with the other attendees. Trust is a complex feeling. The directors cannot impose to other attendees to trust them. They only can create a climate which is favourable for the appearance of this confidence. The discussion tone during the meetings is also an important element for establishing a confidence climate. Another possibility to create this confidence is to organize others meetings than the formal ones. These meetings in other place and in other time can be more favourable for the establishment of a close relationship. These meetings outside the formal audit committee meetings and outside the company seem rather being meetings during which only the audit committee chairman is present with one or two other people – auditors or financial team members. These meetings aim to assemble few people in order to establish a more particular relationship which can becomes more private. An audit committee chairman explains us that regularly he takes lunch or dinner with company's external auditors in one hand:

*« Personally as the audit committee chairman I had got used to meeting for the lunch, personally, the external auditor, alone together, to discuss about all issues. […] For*

*these lunches, I lunched or they came to see me at home, so that there is a real conversation, on the one hand an extremely free conversation, and on the other hand, if you want, a little less professional contact with the external auditors than, within the audit committee. »* (F12)

He tells also his meetings with the chief of internal audit:

*« The chief of internal audit had got used to coming to see me at home, personally and alone together, two or three times per year. So, before the meetings, he came to say it to me… It was very free! […] We spoke two hours, two hours and half. »* (F12)

Diverse elements can be highlighted in these interview extracts. It is indeed at the audit committee chairman initiative that these private meetings take place. He expressly expresses the fact that these meetings aim to create a little less professional relationships, that is to say a a little bit closer in order to allow the appearance of trust. These meetings rest on the dialogue and on the discussion. Finally the audit committee chairman has the external and internal auditors for lunch, at home, that seems to us a very big mark of consideration from the audit committee chairman to the auditors, who can feel most obliged to the same consideration about him in return. In the case of the meetings with the external auditors, the meeting takes place during the lunch, what gives a little different tone to the meeting. Even if the main aim is for the audit committee chairman to obtain relevant information and to have the possibility to express himself, this purpose is partially diverted by the lunch activity which is more favourable of the exchanges. These more informal meetings are a means for the audit committee chairman to show his great receptiveness to his guests. This message from the audit committee chairman, that is to say "I am available to discuss with you when you need" is well understood. The financial management and the internal auditors ask for having meetings in order to discuss and obtain audit committee chairman's point of view. Indeed the chairman seems to be the directors with who they discuss the more. It is what a CFO says to us:

*« Myself, from time to time, I can visit the audit committee chairman, to have a totally independent sight, take a coffee with him to talk about this and that. »* (F6)

The audit committee chairman, and the other directors in a less extent, try to establish an atmosphere of respect and equality by being constructive and respectful as regards other attendees' status. They try to create a dialogue during the formal meetings and outside the formal meetings especially with the audit committee chairman. Finally this last one tries to show a very great receptiveness of listening and advising for the auditors and for the financial management. In doing that the audit committee achieves to create moments when it can express itself and be heard, especially through the audit committee chairman voice. Sometimes the CFO or the internal auditor asks for a meeting in the only purpose to collect his point of view. The relationships establishing between the audit committee chairman on the one hand and the financial management or internal auditors in the other hand get closer to a « culture of collaboration » (Hargreaves, 1994). Indeed the collaboration becomes spontaneous, voluntary, appears on the initiative of the auditors or of the financial management members. It is not planed and takes place rather in informal surroundings manner: during a lunch or around a coffee. Finally the discussion subjects, that is to say the collaboration subjects, are not determined by an external agenda. They correspond to the actual concerns. This description resumes all the characteristics of the « culture of collaboration » as Hargreaves (1994) defines it.

Nevertheless this culture of collaboration rests a lot on trust. But trust can only appear through time. It seems evident that it is the repetition of meetings – firstly aroused by the audit committee chairman who wants to show his great receptiveness – which can create some confidence relationships. Then the auditors or the financial management members ask, themselves, to have these meetings in order to obtain audit committee chairman's point of view. The possibility for the audit committee to express itself can be analysed only in a dynamic way, by keeping in mind that it is this culture of collaboration which can allow the audit committee to work beyond an contrived collegiality. These audit committee chairman's words underline the importance of time in the construction of confidence relationships:

> *« They* [relationships between the directors and the other attendees] *progress. When a trust relationship builds between the management, the external auditors, the audit committee… It is more effective for company's good that trust relationships exist rather than the relationship simply remains on a formal level, for the reasons I just said before. But this trust relationship, it depends on people, it can build or not. And when it builds, it always takes time. There has to have a certain perpetuity in the audit committee composition, in the audit committee chair to build this mutual knowledge and this trust. And that isn't always done in a good way and isn't always done fastly. But I think that's important. »* (F5)

As this audit committee chairman underlines, trust relationships so as the culture of collaboration can be reached or not. Even if the audit committee chairman has an active approach to create trust relationships, that is to say relationships which will allow him to express himself through the dialogue, the creation of these relationships depends on financial team members and auditors' will too. They can accept these relationships or not. But since trust and so culture of collaboration have been built and exist, they exist as well during the private meetings as during the formal meetings. The culture of collaboration constructed during the private meetings continues to exist during the formal audit committee meetings as a CFO underlines:

> *« Even if the presentation in itself is formal, there are documents, the external auditors express themselves in an argued way, the discussion in itself is a discussion between people knowing well in the course of years and expressing themselves in a very free and informal way. »* (F7)

Because the directors are not able to express themselves in contrived collegiality surroundings, the directors try to create favourable moments for the collaboration. A culture of collaboration can appears especially in the initiative of the audit committee chairman. This culture of collaboration allows the directors, especially the chairman, to express themselves. The attendees of the audit committee meetings can ask also to meet the audit committee chairman in order to collect his point of view about the issues they have chosen. Nevertheless the expression of these points of view only take place during conversations between equal people, what can have certain consequences about the receiving of the message by the other attendees.

### *3.3. The generalized other*

In order to maintain this culture of collaboration, the directors always have to be cautious about the manner they express themselves and about the tone they use. As this external auditor let us understand in this interview extract, the directors never express a too strong opposition. That could damage the dialogue continuity:

> *« But, I say, in a general manner, it's always constructive. It never has a real opposition. Possibly it can have intent advices about some recommendations but no opposition in itself, and, I say, no assessments... a little bite negative in these meetings. »* (A3-2)

The directors also express themselves without having to spell things out. They express themselves with messages which are not completely explicit but sufficiently understandable. These messages are passed through the questions they ask, questions which are full of allusions. The themes tackled during the meetings constitute indications about the subjects considered as important by the directors. They can modulate the depth of questions, stress more or less on certain issues. They also make some remarks, some suggestions. Most of the time the remarks are expressed by the audit committee chairman during private meetings not really during formal meetings where only questions are asked. Thus the directors express themselves by suggesting. Suggesting is their main way for expressing themselves. Moreover, remarks' recipients feel the expression of directors' points of view as suggestions, as a CFO says:

> *« The audit committee can be led to give suggestions, advices, which we, normally, take into account, and which are then integrated in the presentation sent to the members of the board of directors. »* (F7)

A consequence of the fact that the directors express themselves by suggesting is that the financial management such as the external auditors feel free to take into consideration or not these remarks or suggestions or advices. They have a freedom feeling which is intrinsically linked to the fact that the interactions take place in a culture of collaboration. Without this culture of collaboration, the directors could not express themselves. But the existence of this culture of collaboration involves that the directors are in position such as they are only advisers who make suggestions. This freedom feeling seems to be stronger for the external auditors than for the audit management members. Indeed the CFO whose comments are reported just above underlines that taking into consideration directors' remarks is a normal situation with his words. In the extract of an interview with an external auditor just below, the auditor says he considers taking into consideration directors' suggestions as a possibility:

> *« So, conversely, from the conclusions or the remarks made by the audit committee, we effectively can always deduct that, there are certain issues which interest them a little bit. And responsibility to us, eventually, to adjust a little bit more your external audit process to these fields. »* (A3-2)

Nevertheless even if the directors have only a power of suggesting, their suggestions can be fruitful. For beginning the financial management and the auditors take into consideration what the directors want to say, they attach interest to it. That is to mean that they accept, during a moment, to follow what are expressed or suggested by a director – most of the time he is the audit committee chairman. It is connected to the fact that the directors are responsible for the quality of financial statements too. But even if the financial management or the auditors listen directors' messages or suggestions they stress that they remains the only responsible for their choices or their opinions. That is what an external auditor says:

> *« The great difficulty about our jobs, it's cause there are technical components – That, it is simple – and some assessment components. We besides have to say on which foundations we have taken assessments. By definition, the assessments, it becomes less easy, less direct. So, people can estimate in a different way. After, the whole, it is to move the points of view closer together and to well understand why, why each has his position. Then at some point we take back our role and each his responsabilities. »* (A1-3)

By reasoning as the directors do, the external auditors as the other attendees internalized audit committee directors' expectations. These expectations, which are suggested, are internalized through what Mead calls "the generalized other". Mead (1934) considers every individual possesses the ability of reflexivity: he is able to understand the mind of people with whom he interacts. He will be able to analyze his own behaviour as if it is about the behaviour of another person. This detachment allows the individual to internalize certain conventions and expectations emanating from people with whom he interacts. These internalized conventions and expectations constitute "the generalized other", which constitutes a censor for the individual. However "the generalized other" does not dictate individual's behaviours. The individual remains free to adopt a behaviour different than the one waited by people with whom he interacts. The construction of this "generalized other" is made through the language, gestures or attitudes that are interpreted during the interactions between individuals.

The generalized other constitutes some keys for analyzing own behaviours, keys that every people have. These keys help people to analyze the choices they have to make. Then the financial team members, the internal and external auditors possess these keys of analyzing. Some new keys are added with their interactions with the directors. It allows them to analyze their own behaviours towards the social role they have to play. Simple suggestions that are repeated can have effects on people. A form of social control is exerted. That is the purpose that the directors want to reach, as an audit committee chairman explains:

> *« Indirectly, certainly, in the extent that the works and the debates of the committee, I say, as they are registered by our interlocutors of the financial management, end up having an echo, in the way they, in the way they present financial information. Because, they have registered that such or such aspects are considered as important. So, they see to it that the information doesn't get lost, or is drawn in one way or another. […] It is for the impregnation. »* (F3)

Directors' suggestions, even when they are implied, then have effects that are perceived by the directors. These suggestions are internalized in financial team members' mind or auditors' mind through their generalized other. This generalized other acts as a censor.

Better will be the culture of collaboration, faster will be internalized directors' wishes and the less these ones will need to express themselves. So, it is absolutely possible that the directors who do not express themselves during the audit committee meetings do not that either because they do that outside the formal meetings or because their wishes and expectations are internalized yet. It is what an audit committee explains when he says us why the audit committee never asks to change the internal audit plan:

> *« But, we never had really, it seems to me, asked to add something to what is proposed to us. We have our agreement… And they knew that on certain points, we were more demanding. So almost without needing to ask they put it in their audit programme. […] They saw well what the audit committee waited. »* (F12)

The financial management members as the internal and external auditors admit a value of directors' points of view since they internalized them, and they sometimes take for their own account. The authority of the audit committee that comes from the authority of the board of directors is not the only reason why a value is admitted to directors' suggestions. It comes from the fact that the quality of these suggestions is admitted. The first quality of directors' points of view that is recognized is the externality of these points of view. The directors are not accountants; they have more non-specialized profiles. Then, they can have a point of view a little bit different than other attendees' ones because they have another angle of sight which can be perceived as interesting by the financial management or by the external and internal auditors. The audit committee directors then allow internal auditors, external auditors and the financial management members to test or to challenge their own opinions. The audit committee can become a sounding board because the directors are able to bring a fresh sight of the issue due to their job and their experience. It is what a CFO expresses with these terms:

> *« And the comments we can make… Sometimes, he* [the audit committee chairman] *makes comments, we say ourselves… I don't see the issue. And after a moment, you notice that it is effectively an issue which has... Because he has, a vision, a prism different of your which is totally financial. Him, he has a prism which is much wider. And as a result, he is going to ask you some questions about things, which he eventually doesn't understand or… you go to notice that he has a very interesting angle of sight and it allows you to complete your point of view, to solidify it. »* (F1)

Even if directors' expression is given only onto the tone of the suggestion, it has an impact. The audit committee directors have a voice that is heard. These suggestions are the object of attention by the financial team members and by the external and internal auditors because they consider that the audit committee directors potentially can have quality opinions. Then, the financial team members, the external and internal auditors listen these remarks, they perceived the messages because they are aware. They interiorize directors' expectations and sometimes can answer to these expectations. Nevertheless in order that the audit committee can have this voice and this power of suggesting, a culture of collaboration has to develop within the audit committee, not a culture of mistrust as the contrived collegiality.

## CONCLUSION

Expressing themselves is not an easy thing to do for the directors. The audit committee institution organized around formal meetings does not give favourable surroundings for the expression on the one hand and for the listening of this expression on the other hand. Indeed, expressing one's self only in order to express one's self without being heard has a limited interest. Directors' expression only has an interest if it is heard, in order that this expression contribute to improve company's management and contribute to the quality of the financial statements. The only formal audit committee meetings do not constitute a favourable moment for the expression because they work as a contrived collegiality in the sense of Hargreaves (1994). Sometimes the directors try to transform this contrived collegiality into a culture of collaboration. For that, they favour the way of discussing both during the formal meetings and outside. The audit committee chairman creates informal meetings with the financial management members or with the external or internal auditors, always with very few people. These meetings aim to create trust relationships in establishing a mutual knowledge, more private, between the audit committee chairman and the financial team members or the external and internal auditors. These meetings also aim that the guests understand that the audit committee chairman is available as an adviser when it needs. A culture of collaboration is also built. Nevertheless as the directors and especially the audit committee chairman express themselves only during conversations, they cannot impose their points of view. They only have a power of suggesting. The financial management members as the auditors seem to take into consideration audit committee's suggestions and expectations because the directors are responsible for the quality of financial statements too and because they have a different angle of sight. They are not accountants, they are managers. Then the financial management members and the auditors internalize directors' expectations which feed their generalized other (Mead, 1934). The generalized other acts as a censor of behaviours. So directors' suggestions can have an impact.

Expressing themselves in an audible manner depends on the existence or not of a culture of collaboration for the directors. This culture of collaboration does not exist in itself. It needs some efforts from the audit committee chairman who plays a central role in establishing confidence relationships with the financial team members and with the external and internal auditors. These last ones are not obliged to accept these relationships. As an audit committee chairman said, the creation of trust depends on people. It needs also time. Time and efforts are the main components to reach this culture of collaboration. What requires a great involvement and a great receptiveness as well as relational abilities of the audit committee chairman. These relational abilities, the abilities to create trust relationships, is a skill little considered in the previous research studies which are interested in the audit committee skills. Finally the audit committee chairman plays a central role in the creation of possible moment for audit committee’s expression. More widely it seems that it is him who create a living, interesting, useful and effective audit committee or not.

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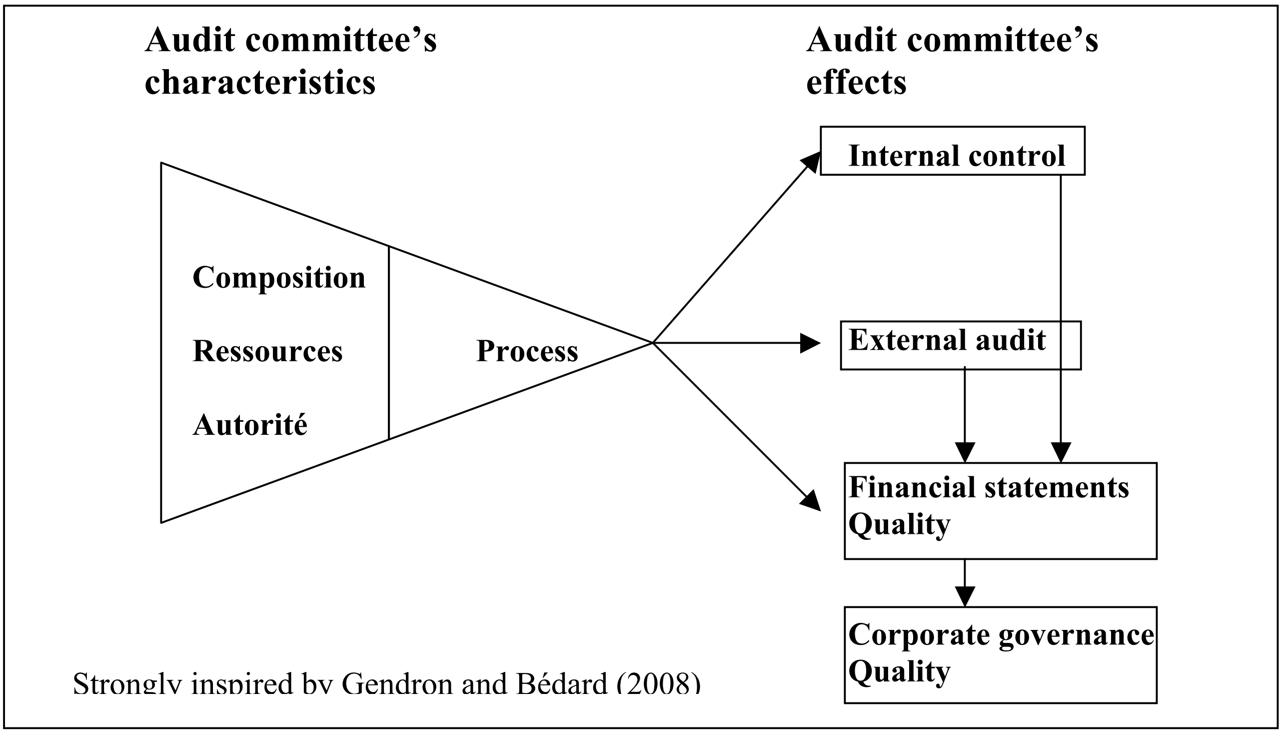
**Graph 1:**




Strongly inspired by Gendron and Bédard (2008)

**Appendix 1: Summary table of the interviews**

| Firm (F) / Audit firm A | Position inside the firm of interviewed people | Interview duration (in mn) |
|---|---|---|
| A1-1 | Partner | 45 |
| A1-2 | Partner | 45 |
| A1-3 | Partner | 40 |
| A2 | Partner | 20 |
| A3-1 | Partner | 60 |
| A3-2 | Partner | 45 |
| A3 (F4) | Partner | 75 |
| A4 (F1 and F2) | Partner | 50 |
| F1 | CFO | 40 |
| | Chief of internal audit | 45 |
| F2 | CFO | 45 |
| | Chief of internal audit | 60 (not recorded) |
| F3 | Audit committee chairman | 45 |
| | Chief of internal audit | 40 |
| F4 | Chief of internal audit | 45 |
| F5 | Audit committee chairman | 60 |
| | Chief of internal audit | 45 (not recorded) |
| F6 | CFO | 35 |
| | Audit committee director | 45 |
| F7 | CFO | 60 |
| F8 | Chief of internal audit | 40 |
| F9 | Chief of internal audit | 45 |
| F10 | Audit committee chairman | 45 |
| F11 | Audit committee director | 40 |
| F12 | Audit committee chairman | 40 |
| F13 | Audit committee director | 45 (not recorded) |
| F14 | Audit committee director | 45 (not recorded) |
| | Total | 20h45 |