DEBRIEF
Cultural and reporting challenges for international business
The twelfth Centre for Audit Committee and Investor Dialogue dinner was held on 4 November 2015. The conversation focused on practical issues relating to boards and audit committees in their international context both from the perspective of the existence of different board structures around the world and from that of running global businesses.

**Talking points...**

**Each board to be judged on its individual merits**
Each board had to be judged on its individual merits and it was not possible to say one particular structure would naturally tend to yield better results.

That said, it was considered that the UK system of governance was well respected internationally.

**Not possible to separate performance of economies from board structures**
In looking at the different levels of performance associated with different systems, it was not really possible to separate this from the underlying performance of the economies in which different boards operated.

If you take an individual sector, such as banking, and look at the performance in one country it suggests that board structure is not the determining factor of performance. For example, an attendee referred to a recent survey that showed three US banks had significantly outperformed their peers over the long-term.

It was also noted that Canadian banks had generally performed well in the crisis and this perhaps highlights the potential role of regulation and national culture on performance.

**Different approaches to board leadership**
One key difference between different systems was whether the role of chairman and chief executive was combined as more frequently occurred in countries such as France and the US, as compared to the UK, and it was observed that you could see linkages between accepted corporate styles of leadership and the related approaches to political leadership in the counties concerned, ie whether the roles of head of state and of government were separated.

**Avoiding the emergence of dominant individuals**
It was felt that the UK corporate governance system generally has a good level of protection against dominant individuals emerging on boards (though there would always be exceptions where this did occur). The existence of a dominant person on the board, most frequently the CEO, was seen as one of the principal threats to effective governance.

Amongst the safeguards in the UK Code on Corporate Governance are that the role of chair and CEO be separated, that the CEO of a company should not go on to become its chair and that there should be a suitable balance between executive and non-executive directors on the board together with an emphasis on the importance of diversity in board membership.
Different levels of involvement of employees and investors

On the degree of independence of composition, it was noted that in Japan boards tended to be mainly composed of ‘inside’ directors. An investor at the dinner commented that their views tended not to be at the forefront of boards’ thinking. By contrast, Swedish boards were made up wholly of external directors though the senior management attended board meetings.

Another key difference in composition related to whether there was employee representation at board level which was the case in some countries, generally amongst those with two-tier board systems. This seemed to work well in Denmark and allowed the board to gain an important additional perspective but in some other systems led to boards being cautious about openly discussing issues and introduced a political dimension to board meetings. Generally it was felt that boards often did not have great sight of HR issues in their businesses.

Technology expertise on boards not high in UK

Having regard to a recent incident in the telecoms sector in the UK, the importance of boards and audit committees understanding cybersecurity was discussed and it was considered that boards in some other EU countries often had greater expertise in this area.

National cultures influence approaches to risk and transparency

Amongst the key differences between boards and audit committees in different countries was thought to be the approach to risk and transparency (and these are probably linked to different national cultures).

One or two-tier boards — are differences more form than substance?

On two-tier boards it was thought there was less debate before decisions were made as these were the responsibility of the management board and this was replaced by dialogue afterwards on key issues between its members and those on its supervisory board.

In overall terms, the view was that the form varied more than the substance when looking at how different boards worked around the world.

EU Directive will not lead to significant change in composition for audit committees

On EU matters, it was not thought the revised EU Audit Directive would lead to significant change in the composition of UK audit committees for listed companies as the Code already went beyond the Directive’s requirements. A recent ecoDa/Mazars study of ‘comply and explain’ and governance monitoring systems across the EU was also discussed. The report looks at how the approach is being applied, as well as the potential for codes to drive further improvements in corporate governance.
The Centre provides regular opportunities for discussion between Audit Committee chairs of FTSE 350 companies and leading institutional investors on topics of mutual interest. Should you require any further information on the Centre, or wish to participate in future meetings, please do not hesitate to contact:

**Stacy Street**

T: +44 (0)20 706 34867  
E: stacy.street@mazars.co.uk

The next meeting of the Centre for Audit Committee and Investor Dialogue will be held on 23 February 2016.