Available online at www.sciencedirect.com
SCIENCE DIRECT®
ELSEVIER
Accounting, Organizations and Society 31 (2006) 211–239
Accounting, Organizations and Society
www.elsevier.com/locate/aos

On the constitution of audit committee effectiveness

Yves Gendron [a,*], Jean Bédard [b]

[a] School of Business, University of Alberta, Edmonton, Alta., Canada T6G 2R6
[b] Département des Sciences Comptables, Université Laval, Qué., Canada G1K 7P4

Abstract

Pressures to perform and be effective are significantly influential within contemporary society, including within the realm of corporate boards of directors and audit committees. This paper adopts a social constructivist approach to better understand the process by which meanings regarding audit committee effectiveness are internally developed and sustained, within the small group of people who attend audit committee meetings. We conducted the investigation through interviews in three large Canadian public corporations listed on the Toronto Stock Exchange.

Our analysis indicates that attendees' reflective acts upon processes and activities surrounding audit committee meetings play a key role in configuring meanings of effectiveness. Moreover, every attendee's configuration of meaning consists of an amalgamation of a more or less heterogeneous set of emotions regarding the committee's formal duties—emotions that vary from confidence to hopefulness to anxiety. As such, the paper problematizes several assumptions that underlie corporate governance literature.

Introduction

For several decades, corporate managers typically have been depicted in the media (e.g., PBS video, 2002) and in traditional theories on business behaviour (e.g., Jensen & Meckling, 1976) as being highly motivated by self-interest. Instances of CEOs who exert unchallenged powers on their board of directors or manipulate financial statements to meet earnings expectations are plentiful, and strengthen the persuasiveness of these depictions.

The audit committee (AC) is one of the main corporate governance mechanisms upon which are predicated stakeholders' hopes in constraining the behaviour of corporate managers. Stakeholders generally view the effectiveness of the AC as an area that is to a significant extent manageable through regulatory or self-regulatory approaches, and where diverse groups of actors struggle in trying to impose their point of view. AC effectiveness is indeed one of the most significant themes in

* Corresponding author. Tel.: +1 780 492 2517.
E-mail addresses: yves.gendron@ualberta.ca (Y. Gendron), jean.bedard@fsa.ulaval.ca (J. Bédard).

0361-3682/$ - see front matter
doi:10.1016/j.aos.2005.03.002

corporate governance debates—particularly so since the beginning of the 1990s. Widely disseminated reports from panels of practitioners have in the last fifteen years made recommendations on the composition of the AC and its formal responsibilities (e.g., BRC, 1999; Cadbury Committee, 1992; Dey report, 1994; FRC, 2003). As well, numerous publications issued by accounting firms have advocated approaches and guidelines for more effective ACs (e.g., KPMG, 1999; PricewaterhouseCoopers, 1999). A number of these recommendations have been made legally mandatory (e.g., in the USA through the Sarbanes-Oxley Act of 2002). Accounting academics also have participated in the quest for AC effectiveness. For example, archival studies have sought to identify and assess factors (e.g., degree of independence and expertise of AC members) that are correlated with proxies of effectiveness (for a review see DeZoort, Hermanson, Archambeault, & Reed, 2002).

Until very recently, researchers paid only scant attention to process issues and to the people involved in the day-to-day activities of the AC (Turley & Zaman, 2004). Context-based studies about AC practices are beginning to emerge, though (e.g., Spira, 2002; Turley & Zaman, 2003). The present paper seeks to contribute to this emerging literature by adopting a social constructionist approach in examining the process by which meanings of AC effectiveness are constructed in the eyes of individuals who attend meetings, namely, corporate managers, auditors and, of course, AC members. It is predicated on the point of view that "reality" is socially constructed and that the main task of social scientists consists of analyzing the process by which perceptions of reality develop (Berger & Luckmann, 1966). In particular, our paper is informed by theoretical developments formulated in Schutz's (1967) seminal book *The Phenomenology of the Social World*, which focuses on the process by which self-understandings and understandings of others are constituted, and on the role of reflective acts therein. Therefore, our interest is not in trying to "objectively" assess whether the ACs under study are indeed effective, or in identifying factors that are positively linked to effectiveness. Rather our objective is to better understand the process by which meanings of AC effectiveness are internally developed and sustained, within the small group of people who attend AC meetings. We conducted the investigation via a series of interviews in three large Canadian public corporations listed on the Toronto Stock Exchange. These corporations are herein referred to as "A", "B", and "C". Most of the interviews were conducted in 2000 and 2001, shortly before the collapse of Enron and Andersen. However, we carried out a few additional interviews in 2004 in order to develop a preliminary understanding of the way in which these events impacted attendees' sense of AC effectiveness.

We were particularly interested in the role of symbols and actors' reflectivity in constructing meanings of effectiveness. As explained below, actors' reflectivity especially is a neglected theme in corporate governance literature. However, various streams of research in sociology have established the significance of actors' reflectivity in constituting social realities and in impacting behaviour and action. In short, our analysis indicates that attendees' configurations of meaning regarding AC effectiveness are constructed through four categories of processes, those being: the background of AC members; ceremonial features of AC meetings; reflective interpretations of substantive practices and activities taking place during AC meetings, as well as reflective understandings of informal practices taking place outside meetings. Every attendee's configuration of meaning consists of a more or less heterogeneous set of emotions regarding the committee's areas of involvement—emotions that vary from confidence to hopefulness to anxiety.

The paper is organized as follows. In the next section, we set the stage of the study by justifying the significance of a focus on the process by which meanings of effectiveness are constituted in the small circle of people who attend AC meetings. We then introduce our frame of reference, which is mainly drawn from sociologically informed literature that stresses the role of reflective acts in constructing meanings. The "Method" section describes our data collection and analysis procedures. Interview evidence is presented and discussed in "Constituting meanings of audit committee effectiveness'', while the last section presents our conclusions and what we view as the paper's main implications.

Theoretical underpinnings

Focusing on actors' perceptions

Lyotard (1979) argues that what he calls the principle of performativity, which emphasizes the search for ''optimal'' input/output relationships, is increasingly influential within contemporary society. In particular, he points out that inputs and outputs are brought together in conceptual spaces of manageability not only in the domain of machines but also in the world of social relationships. Not only is performance promoted as a broad ideal in the realm of social relationships, but also its advocates argue that it has to be operationalized and translated into detailed, calculable targets and measures. It can therefore be argued that we live in an era in which expectations of self and others to perform, and provide public demonstrations of performance through objective measures, are considerable.

However, endeavours at making performance visible are constrained in a number of areas, such as financial auditing and corporate governance. As argued by Power (1994, 1997), the objectives and activities of financial auditing are vaguely defined, and there are no clear output-based criteria that have been developed to assess the performance of auditors from an external point of view.[1] Similarly, corporate governance is an area that does not lend itself well to performance measurement. For example, corporate governance disclosures mostly consist of process proxies (e.g., the number of board meetings per year) and potentially useful ''resources'' that directors bring to the table (e.g., their expertise and degree of independence from management). Although subjective knowledge and accounts have become marginalized to a significant extent due to the contemporary ''obsession'' with objective demonstrations of performance (Dent & Whitehead, 2002), there remain significant areas of human life whose degree of translatability into calculable measures of performance is generally viewed as limited.[2] Drawing on Latour (1987), we argue that the perceptions of actors involved in internal processes constitute an ''obligatory passage point'' to make sense and comprehend the effectiveness of entities such as boards of directors and ACs. As long as corporate governance is deemed to have an important function in society, the process by which meanings of effectiveness are produced internally, within the small group of actors involved in corporate governance processes, matters.

Frame of reference

Empirical literature on corporate governance consists to a significant extent of large sample archival studies and surveys.[3] Studies on the topic of AC effectiveness are no exception. These research endeavours essentially rely on a ''black box'' approach to investigate effectiveness, in the sense that analysis is restricted to the examination of relationships between measurable features of ACs and indicators of effectiveness (e.g., whether or not the corporation was subject to investigative actions undertaken by regulatory agencies). As such, these studies do not provide insights into the nature of the work carried out by AC members per se—nor do they shed light on the ways in

[1] However, audit firms have internally developed systems of performance measurement that seem to impact considerably the day-to-day life and the identity of firm auditors (Covaleski, Dirsmith, Heian, & Samuel, 1998; Toffler & Reingold, 2003).

[2] It can indeed be easily argued that regulators' abilities to make visible the effectiveness of boards and ACs are considerably limited, as demonstrated by the failure of Enron whose board was previously deemed by many as being one of the ''best'' corporate boards in the USA, based on publicly disclosed information and the (then) state-of-the-art ''best practice'' regulatory guidelines (e.g., Prince, 2002).

[3] We reviewed the articles published in 10 main journals in the fields of accounting and management over the last 10 years. Out of the 75 corporate governance empirical studies (34 in accounting and 41 in management) that were published in this time frame, 65 (27 and 38 respectively) are predicated either on archival or survey data. The other 10 studies are based on experiments (5, all in accounting), interviews (2 in accounting and 1 in management), field study (1 in management) and direct observation (1 in management).

which meanings of AC effectiveness are socially constructed. As a result of this black boxing, it is reasonable to argue that regulators to a large extent grope along in their quest to make ACs more effective. It is also difficult to make sense of conflicting findings or claims in literature. For example, while archival studies generally suggest that the quality of financial reporting is positively related to members' degree of independence from corporate management and experience in financial reporting matters (e.g., Bédard, Marrakchi Chtourou, & Courteau, 2004), a number of stakeholders are keen to point out that some of the largest corporate governance failures involved ACs that were described in corporate proxies as being made up of independent, financially literate members (e.g., Prince, 2002).

Various authors have called for researchers to deal with board and AC processes, especially through qualitative methodologies. Turley and Zaman (2004) call for the undertaking of research that takes into account the institutional and organizational context in which ACs operate. The need for qualitative inquiries is also stressed in Spira's (2002) book, where she deplores that only a few studies have examined the perceptions of actors involved in AC processes. Our argument is that macro perspectives on AC effectiveness can only provide meagre insights on a variety of fundamental issues such as: the way in which attendees of AC meetings make sense of AC effectiveness; the extent to which meanings of AC effectiveness differ significantly across attendees; and the way in which these meanings are produced. To investigate these issues we rely on auditing and sociological literature.

Auditing literature often views perceptions of effectiveness around audit-related phenomena as being symbolically produced. For example, through fieldwork with two audit teams in the USA, Pentland (1993) argues that auditors, through the accomplishment of rituals, become comfortable with both client data and their own performance as professionals. Spira's (2002) study also centres on the role of rituals in constructing AC effectiveness. Her interviews indicate that AC members generally claim to believe that they fulfil their duties effectively. Spira maintains that members' belief in their own effectiveness stems from the ritualistic completion of routine activities, such as the procedural act of asking questions and the regular occurrence of private meetings with auditors. However, neither Pentland nor Spira focused on studying actors' reflectivity and the role it plays in the process of constructing meanings of AC effectiveness.

Various streams in sociological literature stress the significance of actors' reflectivity in constituting social realities. In particular, in his seminal book *The Phenomenology of the Social World*, Schutz (1967) focuses on the process by which self-understandings and understandings of others are constituted in society, and the role of reflective acts therein. Basically, Schutz (p. 17) conceives of the social world as being made up of reflective acts of meaning-establishment and meaning-interpretation carried out by human beings, who have a fundamental need to understand their own behaviour and that of others. He further specifies (p. 45) that every individual is able to momentarily shift away from the stream of ongoing experience and engage in reflective activities. The individual's reflective glance may be cast upon her/his passed-away experiences, which are then singled out and constituted as meaningful depending on the particular ''cone of light'' or angle in which they are envisaged (pp. 70–71). Reflective acts may also be directed at the understanding of other people's experiences—the individual seeking to grasp what is ''really'' going on in the other person's mind (p. 113) through imaginatively construed projects (p. 115) and/or through communicating acts with the other person (p. 118).

Schutz (p. 75) also argues that the individual is able to aggregate separate acts of reflection into a higher synthesis, organized into a number of interpretive schemes, or configurations of meaning. Interpretive schemes guide the individual during acts of reflection; alternatively, the former are influenced and perhaps modified as a result of the latter (pp. 77, 84). Importantly in the context of the present paper, Schutz argues that certain interpretive schemes are widely shared across individuals and that, as a result, certain cues, expressions and signs are likely to be interpreted quite homogeneously across society—like a red light on a street corner. These cues, expressions and signs are viewed as being endowed with an ''objective meaning'', in the sense that each of them can be ''coordinated to what it designates within [a sign] system independently of whoever is using the sign or interpreting it'' (p. 123). On the other hand, Schutz (p. 133) recognizes that reflective acts can be brought to bear on deeper layers of meaning (i.e., ''subjective meanings''), such as when a person is trying to make sense of another person's behaviour. In particular, he views deeper layers of meaning as playing a key role in face-to-face settings, where the actors reciprocally involved seek to check whether their understanding of the other fits with the other party's explanations and ongoing behaviour, thereby potentially allowing intersubjectively agreed upon understandings to be constituted (p. 171). Schutz (p. 135) specifies that the two layers of meaning (i.e., surface vs. deeper) can be distinguished in accordance with their degree of abstraction: objective meanings are abstracted from every individual's flow of specific experience while subjective meanings involve a reference to a particular person.

Actor's reflectivity is also central in Giddens' (1990) book on late modernity. Giddens argues that the dynamism that characterizes modern society is especially sustained through reflectivity, that is to say people's propensities and abilities to constantly examine and alter social practices in the light of incoming information about those very practices. The role and significance of an actor's reflectivity is also emphasized in a range of other research streams, such as ethnomethodology (for a review see Turner, 1991), organizational analysis (e.g., Crozier & Friedberg, 1980), and studies of professional knowledge (e.g., Schön, 1983).

In spite of the differences in the approaches that underlie the streams of research enumerated above, they altogether constitute a very persuasive argument about the significance of actors' reflectivity in constructing perceptions of objects such as the effectiveness of ACs.[4] We rely especially on some features of Schutz's (1967) theoretical developments to better understand the process by which individuals who attend meetings of a given AC ascribe meaning to the committee's effectiveness. We argue that the process involves two layers of meaning, the symbolic and the substantive.[5] With regard to the former, perceptions of AC effectiveness will be influenced by attendees' relatively homogeneous ritualized interpretations of some widely recognized signs of effectiveness, abstracted from every flow of subjective experience (Schutz, 1967). For example, ceremonies and rituals that celebrate the AC as a rationalistic entity (e.g., meetings that are carefully planned through an agenda) are likely to play a role in the constitution of effectiveness—given that rationality is a widely held cultural belief in today's society (Abbott, 1988). The influence of symbols in constructing effectiveness may be quite straightforward given their presumed universality. Attendees will then take the objective meaning of the sign for granted, thereby strengthening some component in the individual's configuration of meaning. Nonetheless, attendees will always be able, depending on circumstances, to direct their reflective glance to symbols and to question their taken-for-granted assumptions and universal appeals.

The constitution of meaning regarding the effectiveness of the AC will also involve attendees engaging in reflective acts on substantive aspects of processes and activities surrounding AC meetings. The individual's reflective glance will then be applied to her/his own behaviour and that of the other attendees. Those substantive aspects subject to the reflective glance will comprise elements such as one's line of questioning/answering during meetings and informal discussions taking place outside of formal meetings.

The above paragraphs indicate that every attendee's configuration of meaning regarding the effectiveness of the AC will be, to some extent,

[4] For example, while Schutz (1967) and Giddens (1990) recognize that social structures exert some influence on people's day-to-day lives, ethnomethodologists tend to focus on micro processes by which actors construct their realities and their sense of social structure (Holstein & Gubrium, 1998).

[5] In essence, the symbolic reflects Schutz's surface layer of meaning while the substantive corresponds to the deeper layer of meaning. Of course, the boundaries between the symbolic and the substantive are not always clear-cut, and undeniably vary to some extent in accordance with the individual's interpretive schemes.

idiosyncratic. However, the face-to-face level of interaction during AC meetings is likely to allow inter-subjective understandings of effectiveness to develop. Our examination aimed to better understand attendees' configurations of meaning surrounding their AC's effectiveness, and the process by which configurations are constituted.

Method

While observation of AC meetings would have constituted a relevant method to carry out the study, we felt that it would be very difficult to be allowed to attend meetings.[6] Rather we gathered data in the three corporations under study mainly through interviews—which is clearly appropriate given our emphasis on attendees' sense making activities surrounding the notion of AC effectiveness.[7]

In accordance with the views of a number of writers in the domain of qualitative research (e.g., Glaser & Strauss, 1967), we started the investigation with a very broad objective in mind, that is to say, to better understand the activities that AC members carry out in action, and how these activities are perceived by attendees. Our first interviewees often viewed the corporation's AC as being effective in some of the committee's main areas of involvement. This motivated us to examine meanings of AC effectiveness in the eyes of attendees. Several additional themes were incorporated in the interview instrument as the focus of our research was emerging.

Semi-structured interviews were conducted to allow interviewees to express themselves according to their own systems of meaning (Rubin & Rubin, 1995). Our initial set of themes included information about the process of a typical AC meeting. We also invited interviewees to describe the role of their corporation's AC, and to assess the extent to which the committee fulfils this role. In addition, we solicited information on whether the AC under study had ever been confronted with a difficult issue and, if so, interviewees were asked to describe the situation.

Measures to overcome interviewees' potential reluctance to freely provide information were incorporated in the interviews. We asked the interviewee for permission to tape the interview, while emphasizing that complete anonymity would be provided to her/him and to the organization, and that no other organization member would examine the interview transcript. Also, participants were told that they would have the opportunity to subsequently verify the accuracy of the transcript and add changes that they feel might be needed to make them comfortable with what they said during the interview.[8]

Most of our data collection took place in 2000 and 2001, when we interviewed 22 individuals (7 in corporation A; 8 in corporation B; 7 in corporation C). In each corporation, we had a meeting with the following persons: CEO, CFO, chief internal auditor, partner in charge of the external audit engagement, chairperson of the AC, and two AC members. We also interviewed corporation B's corporate secretary—who is in charge of producing the minutes of the meetings. Importantly, we had access to the majority of AC members in each corporation. More details about the interviews conducted in 2000/2001 are provided in Table 1.[9]

The length of (the 2000/2001) interviews varied between 45 and 75 min. All interviews were tape-recorded and transcribed, and were attended by either one of the authors. Most of the interviews were face-to-face meetings—apart from two cases for which phone interviews were carried out. The interview transcripts were analyzed via qualitative

[6] This was later confirmed by the contact persons in two of the participating corporations. See also Spira (2002, p. 41).

[7] In each corporation we also examined the AC's charter and information about the AC as disclosed in the latest management proxy circular (at the time of the first-round interviews).

[8] Only minor modifications resulted from the interviewees' revision of their transcripts.

[9] To our knowledge, no significant regulatory change—or any significant change in the *CICA Handbook*—concerning ACs came into effect in Canada during our main data collection time frame, that is to say from January 2000 to June 2001. Of course, the discursive context surrounding corporate governance changed to some extent in this time frame, but we do not feel that the changes are significant enough to warrant specific consideration.

Table 1
Interviews carried out in 2000/2001

Date	Interviewee	Background
Panel A: Corporation A		
January 21, 2000	CEO	Business administration diploma
January 11, 2000	CFO	CA
January 24, 2000	Internal auditor	CMA; Head of the internal audit department
February 4, 2000	External auditor	CMA; CA; Partner in charge of corporation A's external audit engagement
February 18, 2000	AC member 1 (Chairperson)	MBA; Prior employee and top manager in two financial institutions; Prior director of two financial institutions; Currently CEO of a private holding and investment company
March 1, 2000	AC member 2	Retired partner of a Big Five firm; When active, was in charge of the audit of a large financial institution
March 8, 2000	AC member 3	CA; Currently CFO of a large financial institution
Panel B: Corporation B		
March 29, 2000	CEO	Diploma in engineering
January 31, 2000	CFO	CMA
January 26, 2000	Corporate secretary	Lawyer
January 10, 2000	Internal auditor	CMA; Head of the internal audit department
March 17, 2000	External auditor	CA; Partner in charge of corporation B's external audit engagement
March 6, 2000	AC member 1 (Chairperson)	CA; Prior CEO of a large public company; Currently CEO of a private holding and investment company
March 17, 2000	AC member 2	MBA; Prior CFO of a large private company (service industry); Currently CEO of a private holding and investment company
April 14, 2000	AC member 3	University courses in business and economics; Currently CEO of a public company (service industry)
Panel C: Corporation C		
June 13, 2001	CEO	Member of a financial profession
March 8, 2001	CFO	Member of a financial profession
May 25, 2001	Internal auditor	Member of a financial profession; Member of the Institute of Internal Auditors; Head of the internal audit department
April 11, 2001	External auditor	CA; Partner in charge of corporation C's external audit engagement
May 1, 2001	AC member 1 (Chairperson)	Prior CEO of a large public sector institution; Currently CEO of another large public sector institution
May 16, 2001	AC member 2	Degree in law; MBA; Prior CEO of two companies (one being a state-owned corporation, the other a subsidiary of a foreign public corporation)
May 16, 2001	AC member 3	Lawyer; Prior top manager of a financial institution; Currently business consultant

procedures (Miles & Huberman, 1994). We used a coding scheme that we developed while reading the transcripts to enhance data sensitivity. Afterwards, for each corporation, a conceptual matrix was prepared to summarize the main themes discussed by the interviewees. We subsequently read literature on actor reflectivity and decided to rely especially on Schutz's analytical concepts to re-examine our interview material in gaining a better understanding of meanings surrounding AC effectiveness.

Finally, we conducted a second round of interviews between May and July 2004 with the chairperson of the AC in every participating organization.[10] We were particularly intrigued about attendees' sense of effectiveness in a post-Enron environment—given the extent of problematization that the collapse of Enron and Andersen generated in the media and elsewhere (Williams, 2003) and the subsequent adoption of new regulation (e.g., Ontario Securities Commission, 2004; Sarbanes-Oxley Act of 2002). Although

[10] The individuals chairing the AC of A and C in 2004 were also chairpersons when we conducted the original interviews in 2000/2001. The individual chairing B's AC in 2004 was not a member of the AC during the first-round interviews.

our second-round interviews are limited and possibly biased towards chairpersons' viewpoints, our analysis nonetheless provides preliminary insights into the way in which interviewees made sense of the collapse of Andersen and the adoption of new regulation, and how these events were integrated in their configuration of meaning of AC effectiveness. The additional interviews were analyzed using the same type of qualitative procedures as described above.

Some features of the three corporations under study

In Canada, minimum standards regarding ACs are set by the Canada Business Corporations Act.[11] Also, at the time of the first round of interviews, the Toronto Stock Exchange (TSX) had non-compulsory corporate governance guidelines on the role, composition and powers of the board and its sub-committees, including the AC (Sec. 474 (13) of the TSX Company Manual). The TSX required listed corporations to disclose on an annual basis the extent to which they follow the guidelines—either in their proxy statement or annual report.[12] In each of the three participating corporations, the latest disclosure (at the time of the first-round interviews) indicates that the organization's AC policies fully comply with the TSX guideline pertaining to the AC.[13]

At the time of the first round of interviews, corporations A and C were medium-sized financial institutions, each of them possessing assets valued at above $1 billion (Canadian dollars). Corporation B provided (non-financial) services and had assets in excess of $5 billion (Canadian dollars). In the last five years prior to the first-round interviews, each corporation's financial performance was relatively stable, its return on common shareholders' equity having been consistently between 10% and 15%. As required by regulation of financial institutions in Canada, ownership in corporations A and C was widely dispersed with no shareholder owning more than 10% of each company's voting shares. Corporation B had a significant corporate blockholder, which did not have control of the company's voting shares. In each corporation, there was separation of the role of CEO and chairperson of the board. Further, in each corporation a majority of AC members had sat on the AC for the last three years preceding the interviews, and the current external audit firm had been in charge of the company's audit engagement for more than 10 years. According to interviewees, in corporations A and C audit fees then accounted for most of the fees charged by the external auditor; in corporation B the typical annual proportion of audit fees to total fees was about 50%. In all three corporations the AC was then made up exclusively of outside directors (4 in corporation A; 5 in corporation B; 4 in corporation C).

Constituting meanings of audit committee effectiveness

The processes discussed in the following subsections are based on the first round of interviews, which took place shortly before the collapse of Enron and Andersen. However, the last subsection relies on the second round of interviews to explore attendees' sense of AC effectiveness in a post-Enron environment.

Constructing effectiveness through the background of AC members

Our analysis suggests that interviewees' sense of AC effectiveness is to some extent related to the

[11] The Act requires that ACs have at least three members, a majority of whom cannot be officers or employees of the company or any of its affiliates. ACs of federally regulated financial institutions are required to have a majority of unaffiliated directors, and none of the members of the committee can be officer or employee of the financial institution or any of its subsidiaries.

[12] This is similar in many respects to the regulatory approach that was then being used in the UK, where listed companies were required to state whether they comply with a regulatory code and give reasons for any areas of non-compliance (Charkham, 1995). Moreover, like in Canada, UK regulation then emphasized the notion of independence of AC members. One area of difference with the UK is that Canadian regulation did not require corporate governance disclosures to be audited.

[13] The guideline specified that the AC should be composed only of outside directors, that the responsibilities of the committee should be defined, that the AC should have direct communication channels with the internal and external auditors, and that the AC's duties should include oversight responsibility for management reporting on internal control.

background that members possess in terms of expertise and independence, which is consistent with the present regulatory approach that regulators have favoured for some time, which consists (more or less coercively) of specifying prime features needed by AC members (especially in terms of expertise and independence), and to make these features visible through disclosures (e.g., BRC, 1999; Joint Committee on Corporate Governance, 2001). As shown in the last column of Table 1, the AC members interviewed possess on paper a relatively extensive financial and accounting background. Several are professional accountants. Others occupy or have occupied top management positions (CEO or CFO) in large organizations. Relying on the definition of expertise as formulated in the BRC (1999) report, we determined that the proportion of members in each corporation who may be considered "experts" is as follows: 100% in corporation A; 60% in corporation B; and 75% in corporation C.[14] AC members in all three corporations therefore have a financial and accounting background that goes beyond recommendations of the BRC report (1999), and of the Canadian Joint Committee on Corporate Governance's final report (2001)—both of which proposing that at least one member of the AC should have "accounting or related financial expertise".

Frequently during the interviews, AC members argued that their extensive financial and accounting background is significant in making their respective AC effective. For example:

> I think the fact that all the committee members have a background in finance either through their training or through their current business affiliations [is a factor that contributes to the effectiveness of the audit committee]. [...] So you have a good blend of members on the committee in terms of their skill sets that they bring to the table. I think that is a key determining the success of the committee. (AC member—corporation A)

Consistent with the dominant regulatory discourse, this quote assumes that AC effectiveness is manageable through the selection of members having the "right" expertise background. Another interviewee argued that when asked to become a member of corporation B's AC, the strength of her/his financial background provided her/him with the "comfort" that she/he would be able to contribute significantly to the fulfilment of the committee's mandate. One member of C's AC mentioned being concerned with none of the members having an accounting designation, uneasiness that again points to the role of formal competencies in constructing effectiveness. It therefore appears that formal competencies may generate feelings of self-confidence in AC members' minds, thereby possibly affecting their performance during meetings (e.g., being more confident may translate into members asking more challenging questions or, alternatively, it may prevent members from asking "naïve" but fundamental questions).

Similarly, managers and auditors appeared to take into account members' expertise background when constructing effectiveness. For example, both the CFO in corporation A and the corporate secretary in corporation B claimed that their respective boards of directors sought to put their "stronger heads" on the AC—because ACs deal with matters for which boards tend to be sued. In the following quote, B's external auditor links the effectiveness of the company's AC to the credential profile of its members:

> I don't know if you have seen the Blue Ribbon report in the US that talks about all the changes. The kind of things that they are talking about most of the things [corporation A] already does. So that we are one of the few, I won't say one of the few organizations because I don't know for sure, in the

[14] The BRC report (1999) specifies that at least one member of the audit committee needs to have accounting or related financial management expertise. "Expertise" is defined as "past employment experience in finance or accounting, requisite professional certification in accounting, or any other comparable experience or background which results in the individual's financial sophistication, including being or having been a CEO or other senior officer with financial oversight responsibilities" (BRC, 1999, p. 25). We rated each member in accordance with the educational and career information that we gathered on her/him during the interviews.

> few that I deal with there are other difficulties. All the members of the audit committee [of corporation A] are CAs. That is not always the case. [. . .] One of them, [member's name] from the US, is a former partner [of Big Five firm X] in the US. So he brings to bear a lot of things that are happening with the SEC and what is going on in the US. So they are quite knowledgeable people. Now, they don't all have the specifics to do with the [industry in which corporation A is involved], but because they have been around for so long you build that up. And we don't just go out and change directors all the time; there are very few changes. [. . .] So they have been around a while, they have been through all these issues. So, I think we have got pretty good people. I am involved in other audit committees where not everybody on the committee is a CA. So you have to go through and explain a lot of things to these people. I think that in this particular organization we deal with issues that have to be dealt with; nobody has to spend a lot of time talking about the financial statements and what this note of disclosure means. They are pretty good; they understand a lot of that. So we are very fortunate in this audit committee because we have people who have appropriate backgrounds and understand a lot of it. (External auditor—corporation A)

Again, the interviewee views members' formal competencies as a manageable input. A number of dimensions of effectiveness linked to background features of members also emerge from the quote. The more professional accountants on the AC, the more "effective" is the AC in terms of adhering to best practices. The interviewee also appears to believe that the longer members have been on the AC, the better enabled they are to deal with specifics (without however providing any substance to support this belief). In addition, the lack of basic and "irrelevant" questions being asked by members is viewed as ensuing from members' credentials. All of this suggests that credentials and other proxies such as tenure are used in symbolically constructing meanings of effectiveness—as well as competence boundaries. Processes of professional exclusion indeed seem to be sustained through profile screening activities predicated on competence criteria as set in discourses of "best practices". We surmise that, as a result of these activities, individuals whose background is perceived as being inconsistent with competence criteria are possibly marginalized and prevented from enlisting in ACs.

In addition to expertise, our interviews suggest that the independence of AC members influences the construction of AC effectiveness. Relying on the definition of unrelated directors as specified in the Dey report (1994), we found that the proportion of such directors on the three ACs under study is respectively as follows: 100% in corporation A; 40% in corporation B; and 100% in corporation C.[15] Corporations A and C therefore comply with the BRC report (1999) and with the Canadian Joint Committee on Corporate Governance's final report (2001), which both specify that ACs should comprise only outside and unrelated members. This is not the case for corporation B. Nonetheless, and key to our understanding of the process by which meanings of effectiveness are socially constructed, in corporation B attendees generally viewed AC members as "independent" in spite of the relatively low proportion of them being formally deemed to be unrelated. Outside directorship would be enough to make attendees comfortable with members' independence.

In all three corporations the "independent" status of AC members appears to be influential in constructing effectiveness. For example, one AC member likened the role of independent members to that of the Canadian Senate:

[15] According to the Dey report (1994, p. 4), an unrelated director "is a director who is independent of management and is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act with a view to the best interests of the corporation, other than interests and relationships arising from shareholding". We determined the proportion of unrelated members by relying on the disclosures made in the latest proxy statement or annual report (at the time of the first-round interviews), which specify the independence status of each director (as judgementally determined by the board of directors).

> The [purpose of the committee is] almost like the Senate of the country, in a sense. In the sense that we are sort of a sober second thought. The committee is ideally composed of professionals who have knowledge of financial matters, either through training or through experience, who can take an independent and impartial view of the material presented to them in the form of financial results. (AC member—corporation A)

Here, independence is conceived of as one's ability to be detached from managers' reports, which allegedly allows members to review financial documents in a way that unquestioningly benefits shareholders. As well, two interviewees (A's CFO and internal auditor) argued that asymmetry of information paradoxically benefits AC members since it allows the latter to examine reports from a distance, thereby strengthening the company's financial reporting. Interestingly enough, in their comments interviewees did not rely on the notion of ''relatedness'' as articulated in the TSX guidelines when making sense of members' attitudinal stance. It appears that outside directorship is believed to be sufficient to provide members with an inner ability to examine documents and reports from an angle different than that of management, thereby pointing to a potentially significant difference between attendees' conception of member independence and that of regulators.

Constructing effectiveness through ceremonial features of meetings

Our interviews suggest that ceremonial features surrounding AC meetings play a role in constructing meanings of effectiveness not only in the eyes of AC members (Spira, 2002) but also in those of managers and auditors. For example, in the following quote, C's external auditor claims that the company's AC is highly effective, and links to some extent her/his assessment of effectiveness to ceremonial and other symbolic features:

> I think that the effectiveness of the audit committee depends to a large extent on the extent to which the meetings are structured. In [corporation C] the meetings of the audit committee are always well prepared. The meetings are always well organized. What needs to be examined is sent in advance to members of the audit committee. Therefore meetings are never a kind of a surprise game when something unexpected needs to be swiftly resolved. It's never that way. This level of structure probably contributes significantly to the effectiveness of the audit committee. It allows the committee to focus on the most important points. [...] In comparison with the audit committees of our other clients—whether of public or private corporations—when we talk about the audit committee of [corporation C], we talk about an audit committee that is very effective. [...] As a matter of fact, this audit committee is my frame of reference. When I am involved with another corporation's audit committee, I always refer to the processes of [corporation C]'s audit committee. It's transparent, well organized, and the audit committee members are alert. (External auditor—corporation C)

In this quote, the external auditor justifies her/his assessment of effectiveness through comparative analysis. The comparative dimensions that she/he highlights relate to the ceremonial organization of the meetings and the way in which members look as being attentive and awake during meetings.

One of the ceremonial features that seems to influence the constitution of meaning regarding effectiveness is the agenda. In corporations A and B, the agenda is prepared using a schedule of routine activities while in corporation C the agenda is set by relying on prior agendas and minutes. As a result of mechanistic planning, the agenda's content is consistent over time, thereby providing members and other attendees with a sense of orderliness. Indeed:

> I think also the formal preset agenda that is established, that at every meeting there is a preset agenda [...] I think that it contributes to the effectiveness of it [i.e., the corporation's AC] as well. It establishes a track

record that you can build on from meeting to meeting and it helps you determine whether what is being presented is reasonable and appropriate because you have the context of having looked at similar information for the previous x number of quarters. (AC member—corporation A)

As implied in the above quote, being exposed to regular agendas would encourage members to develop expectations about the content of meetings. Some sense of effectiveness would be derived when members find that the next meeting's agenda is in line with their expectations.

In addition, the agenda's display provides attendees with a template that they reportedly use to compare features of their AC to discourses of "best practices" promoted by large accounting firms and regulators. AC members in corporations A and B mentioned that they regularly receive publications from large accounting firms that enumerate what their duties should be.[16] In all three corporations members reportedly strive to ensure that AC activities are reflective of the latest best practices. For example:

I chair quite a few audit committees. [...] And [one is] a US listed company. So as a consequence we have been dealing a lot with the SEC's new guidelines that have come down recently from there. So there may be some comments [on SEC guidelines] that I would bring to the attention of [corporation B]'s committee, that even though [corporation B] is not required to follow those guidelines if there are some good guidelines there and some good things we are not doing, that we should adopt them because we always want to be on the leading edge. (AC member—corporation B)

As argued by Abrahamson (1996), business people generally are receptive to techniques that are framed as rational and at the forefront of management progress. This is especially likely to be the case for actors involved in ACs, given that committees are generally recognized as characterized by invisible outcomes and indeterminate means/ends relationships. As suggested by March and Olsen (1989), in such settings actors through a "logic of appropriateness" may tend to adopt fashionable best practices in response to perceived uncertainty. In our interviews, being "on the leading edge" in terms of best practices appears significant in constructing meanings of effectiveness. For example, when discussing effectiveness several interviewees volunteered that their respective AC complies with (one interviewee even stated "goes beyond") the latest sets of best practices. As mentioned by one of them:

Most of the stuff that comes out of the Blue Ribbon report they [i.e., AC members] are already doing. They have the proper people on the audit committee. The audit committee is independent. They do review quarterly statements. They get involved with the audit appointments and approve our fees. [...] They have a standard agenda and it covers all the stuff that should be covered. I made a presentation two meetings ago. I gave them [i.e., AC members] a booklet that our firm produced on the Blue Ribbon report. [...] And I said you really don't have a lot to worry about, you are already doing them [i.e., recommendations of the BRC report]. They were happy to hear about that. Those kinds of things I think they are doing fine. They are fulfilling their role properly; they are doing what they should be doing. So I am very happy with this audit committee. (External auditor—corporation A)

Here, the interviewee relies on a particular document that promotes best practices to justify why A's AC is effective. It appears that such documents shape attendees' interpretive schemes by providing them with "ideal" features that ACs should have, which are then used as a template in assessing the effectiveness of real-world ACs. As suggested

[16] Some large accounting firms appear to view AC members as key targets in developing a firm's clientele. For example, KPMG created in 1999 the Audit Committee Institute, which is aimed at communicating with AC members (e.g., through publications) to "enhance their awareness, commitment, and ability to implement effective audit committee processes" (KPMG Audit Committee Institute, 2003).

above, it is also worth noting that from time to time the external auditor in corporation A (and corporation B) congratulates AC members for following state-of-the-art practices, thereby perhaps influencing members' viewpoint about their AC's effectiveness.

Constructing effectiveness through reflective interpretations of the substance of meetings

In all three corporations AC members claimed to be quite concerned about financial reports, and that they devote significant energy and time during meetings in reviewing them. Our analysis indicates that members carry out diverse practices in order to get comfortable with their company's financial reports and internal controls, and that these practices shape meanings of AC effectiveness through attendees' reflective interpretations.[17] Several of these practices deal with reports of the internal auditing function—a neglected area in auditing research (Maijoor, Meuwissen, & Quadackers, 2000). Our interviewees said that internal auditing mattered to them.

In corporations A and B, internal auditors use a categorization scheme in their reports to disclose the results of their investigations (using categories such as very good/acceptable/needs improvement). As implied in the following excerpt, the use of categories to assess control effectiveness allows members to easily identify reported weaknesses and deficiencies, upon which management is questioned during meetings:

> We [AC members] really hope for very short, succinct [audit] reports. Which is to say, I plan to do in this quarter three audits, I finished three audits, I have no adverse findings to report. If that is the report, that is a great report. It is a fantastic report. Because we don't care about the details of why things are; we are just focusing on the exceptions. (AC member—corporation B)

Categorization schemes are powerful disciplinary devices (Foucault, 1975). Accordingly, the internal auditors' categorization schemes make visible the extent to which top managers are competent at dealing with risk and internal control, and quite naturally direct the attention of AC members to the lowest categories of evaluation.[18] Internal auditors are aware of their powers at making problems visible, as implied by corporation B's chief internal auditor: "The internal audit [...] brings issues to the table for them [i.e., AC members] to talk about and to look at. And that gives them a sense of where the controls may be weak." The internal audit function therefore appears to play a central role in the development of an accountability relationship from corporate management to AC members—the former being on the spot so to speak during meetings in terms of explaining and justifying some of their (in) actions.

In all three corporations, members mentioned paying careful attention to the extent to which managers adopt appropriate measures to solve deficiencies highlighted in internal audit reports. For example:

> [With regard to recommendations of the internal auditor], there is [in the audit report] management's action plan, and there is discussion [in the meeting]. And (a) if it has been identified as a deficiency, and (b) if management has acknowledged it as a deficiency, and (c) if management has a plan that addresses it, then the only thing left is to say hurry up and tell us it is fixed. And it normally happens that way. [...] It is normally: "We found it, we are going to fix it, and hereafter is the result." And that will be put on a brought forward agenda so that in the next quarterly report it is reported back as being

[17] These practices are described more thoroughly in Gendron, Bédard, and Gosselin (2004).

[18] Although the internal auditor in corporation C does not rely on a categorization scheme in regular audit reports, once a year she/he discloses in a special report the status of prior recommendations that have not been implemented in a satisfactory way—specifically by classifying them in accordance with a measure of the degree of risk related to the corresponding control area. This report may allow AC members to focus their questioning on sensitive topics to corporate management.

> resolved or a future date to have it resolved. So these things don't work unless the loop is closed and acknowledged. At the end, that may affect next year's audit plan. Because the internal audit may say, look, that was a major problem, we found it was fixed, we had better go back in and confirm it next year. (AC member—corporation B)

Perhaps the most noticeable feature in this quote is the interviewee's implicit belief that follow-up procedures carried out by members on deficiencies highlighted in internal audit reports make a difference in closing the loop of corporate accountability. That is to say, by insisting that management needs to take corrective steps rapidly and to report subsequently on corrective measures—and by being provided with evidence that managers do comply—members are provided with an observable measure of the impact that they have in the corporation.

In corporation C, members also claimed that they carefully consider the justifiability of management's position when it refuses to implement internal auditors' recommendations.[19] Several interviewees mentioned that C's AC members are swift in identifying those recommendations that are rejected by management (which amount to a few yearly), and in scrutinizing management's reasons for objecting to the recommendations. Importantly, members perceived that they have powers in constraining management to account for rejected recommendations. For example, when discussing a situation in which management opposed a recommendation without having provided a detailed written justification, one member proudly mentioned: "This is unacceptable. I constrained management to provide detailed explanations!" Such situations provide members and others with an indication that members are able to make a difference in terms of accountability. Further, the same interviewee added that the corporation's external auditor congratulated her/him privately after a meeting in which she/he had been adamant in requiring explanations from management: "[The external auditor] told me: 'You were right in being inflexible. It does not make sense for a company to pay one hundred thousand dollars for the internal audit function when management decides not to explain why it opposes recommendations.'" Being supported by the external auditor in such a way may reinforce members' confidence in their effectiveness as guardians of accountability.[20]

Members in C's AC also appeared to be sensitive to less tangible effects (though nonetheless significant) that they viewed as stemming from their stiff attitude on management having to justify appropriately its stance on rejected recommendations. One member explained that this attitude aims to make the internal auditor more comfortable at raising sensitive matters in reports, in order to "counterbalance" management's powers. The interviewee's transcript implies that demonstrations of toughness by the internal auditor, expressed either in writing in audit report or verbally during meetings, constitute a signal that the AC is effective through its attitudes at generating internal auditing aggressiveness. As the interviewee put it:

> The internal auditor is outspoken. We feel it during meetings. [S/he] often says: "I think that the company should do this." Sometimes we feel that management are reluctant to it. [...] That's a good thing. It shows that the internal auditor has [her/his] own point of view, and that management has its own point of view. [...] I think we have a good independent internal auditor. (AC member—corporation C)

Moreover, in the quote divergences between the internal auditor and corporate managers are framed as an indication of the independence of

[19] Interviewees in corporation C discussed the internal audit function in a much more significant way than in the other corporations. However, this higher weight does not necessarily imply a between-site difference in actual practices. Due to time constraints, our original line of questioning did not focus on the internal audit function. In corporation C interviewees brought internal auditing up during interview without prompting. Data collection in corporations A and B was then already completed.

[20] We surmise that the role of the external auditor in influencing corporate governance actors behind the scene constitutes an unrecognized aspect of the external audit function.

the former. Consistent with a theme that recently highlighted in literature (e.g., Van de Ven, Polley, Garud, & Venkataraman, 1999), tensions among divergent points of view are seen as healthy to organizational life, in that they provide additional opportunities to challenge decisions.

On a more general level, our analysis indicates that members' skill in questioning is a central element of the process by which meanings of effectiveness are constituted. Managers and auditors seem to evaluate the performance of members especially through the extent to which the latter ask "difficult" and "challenging" questions. Skill in questioning also appears to be key in establishing members' self-confidence in their role as effective directors. To corroborate the significance of questioning skills, interviewees provided detailed information on the type of questions that members ask during meetings. The following quote illustrates questions asked to B's external auditor regarding audit planning:

> But if you [i.e. the corporation] have entities all over the place, you [i.e. the external auditor] can't be everywhere, so where are you looking, why are you looking, why do you think you should be here, here and here, instead of here, here and here, those sorts of things. So, a good challenge. And you talk about the compensation and these sorts of things as well, with them. Their manpower and who they have got. What is the team like and their experiences. (AC member—corporation B)

This quote—and several others—implies that when formulating questions members seek to apply the practical knowledge that they have about the corporation and the industry—making sure, for example, that the external auditor's sampling plan reflects their understanding of the main changes that occurred in the business environment and the company's systems. In this light, asking context-based questions may make members more credible in the eyes of other attendees, like A's external auditor who praised members during the interview for asking "relevant" questions—not the "generic" ones found in checklists distributed by her/his own accounting firm. Similarly, the next quote indicates that questions asked by members of B's AC about external auditor independence are context-based, reflecting broader debates opposing North American securities commissions to the (then) Big Five firms.[21] Indeed:

> My own feeling is that I have never [...] worked for a PW or a D and T or whoever, but I often wonder from time to time whether the audit is not simply a loss leader for the rest of the company because it is a way in the door. That being said, it still does not make an awful lot of sense if you are going into a merger and acquisition or whatever, to take somebody else, bring them in and say, learn our system [...]. So again, there is a job for the audit committee to police this. And they do this in a way by simply [...] saying to the external auditor: "We know this is happening, we know this can create independence problems. So watch your step because we are watching you", and that is healthy. [...] And management knows that. We say: "We are concerned about this thing getting out of hand and the independence of the auditor is being somehow challenged, so be careful. Look, we know this is happening." So [...] we do go so far as to say: "Why couldn't that have been done by somebody else?" and we actually ask them [i.e., managers] to rationalize what I have just gone through. Management is aware that the audit committee will ask the question, so they say, gee, maybe we'd better give this one to XYZ. (AC member—corporation B)

[21] In 1998 the Chairperson of the US Securities and Exchange Commission voiced concerns about the independence of external audit firms being compromised by the growing amount of fees generated by non-audit services provided to auditees (e.g., Levitt, 1998). The Chairperson of the Ontario Securities Commission voiced similar concerns in 1999 (e.g., Brown, 1999). In June 2000, the SEC issued a rule proposal to change regulation concerning auditor independence (SEC, 2000). The proposal assumed that certain types of non-audit services impair auditor independence, such as internal audit outsourcing as well as financial information systems design and implementation.

Problematizations developed and promoted by securities commissions therefore appear to reach boards and ACs. Members of B's AC were much aware of ongoing debates concerning auditor independence, and seemed to be in the process of internalizing the position of regulators.[22] However, as suggested in the last sentence of the quote, there is a degree of scepticism about the likelihood of members' policing of auditor independence actually impacting management's behaviour. Hopefulness appears to play a role, perhaps in a more significant way than more tangible indications regarding the making of a difference, in constructing meanings of AC effectiveness.

One of the key themes in our interviews is that questions asked by members need to be perceived as "challenging" if members want to differentiate themselves from caricatures of ineffective, rubber-stamping ACs. The following quote brings to the fore members' skills in asking challenging questions:

> Do the audit committee members have the necessary qualifications to be able to sit there and ask the right questions? Because basically it is an "ask the right question game." [...] So if you don't understand a balance sheet how are you going to ask the questions? So, number one, you have to have the right characteristics. And you have to have the right kind of mind to think in terms of, what would this mean if this wasn't here, those sorts of things. And to have a challenging mind so that you do look at the numbers and can spot inconsistencies or funny kind of things that jump out at you and ask the questions as to why, and then hopefully get the right answers to satisfy yourself. It is through that challenging and answering process that you get the satisfaction and comfort that the numbers are right. (AC member—corporation B)

To this member, challenging questions are centre-stage in the process of constructing AC effectiveness. Skills in asking such questions are seen as depending on members having the appropriate technical qualifications as well as inner abilities to detect potentially incoherent data in financial reports. Similarly, the following quote brings up the ability to ask "difficult" questions as a key dimension of effectiveness: "The audit committees that I am currently on I find effective. [...] I had feelings in the past that I was not asking difficult questions" (AC member—corporation A). Here, effectiveness is constructed through a process in which the individual reflectively compares her/his experiences on ACs. The individual's perceived ability to ask difficult questions emerges as a fundamental aspect of her/his longitudinal introspections. Further, managers and auditors also highlighted members' abilities to ask challenging questions as a key dimension of AC effectiveness. For example, corporation C's internal auditor pointed out that the AC exerts significant pressure on top managers through members' extensive and continuous questioning of the reasons managers oppose certain internal audit recommendations.[23] Indeed:

> The CEO cannot attend audit committee meetings and listen recurrently to the same questions when a recommendation not adopted by management is repeated in the internal auditor's follow-up report. It gets annoying to see the same rejected recommendation coming to the fore every year. At a certain point the CEO [decided to accept the recommendation]. [She/he] was wise enough to understand that the situation had lasted long enough. (Chief internal auditor—corporation C)

In this quote, the interviewee appears to believe that the AC is powerful enough in the long run to render the legitimacy of management problematic

[22] In all three corporations AC members were aware of the concerns that regulators then had about auditor independence, and the difficulties involved in overseeing it. AC members in A and C mentioned not being overly worried about auditor independence because of the relatively small level of non-audit work carried out by the external auditor.

[23] In this respect our interviews differ significantly from other qualitative studies on ACs, in which managers and/or auditors generally deemed members' ability to ask challenging questions as significantly limited (e.g., Cohen, Krishnamoorthy, & Wright, 2002; Spira, 2002; Turley & Zaman, 2003).

in those situations where internal audit recommendations are not taken seriously. Moreover, in all three corporations members seem to have a relatively strong level of confidence in their powers to undertake specific actions as a result of their reflective assessment of answers provided by interrogated parties to challenging questions. For example:

> How do I define their [i.e., auditors'] ability? Their response on whatever the key financial reporting issues are for [corporation A]. We discuss with the auditors the key financial reporting issues. If I am starting to question their advice that would be cause for us, for me as I am an audit committee member, to say we should be reviewing our relationship with the auditors. How would I question their advice? I would question their advice by looking at, for example, financial reports from other [financial institutions] and so on. So I have a basis on which to assess how [corporation A] is doing and if we were to be significantly different or if our auditors were taking significantly different positions than auditors from other institutions, then I would say we should re-evaluate our relationship with our external auditor. (AC member—corporation A)

This quote provides insight into isomorphic pressures sustained by AC members in the business community, who seek to ensure that their corporation's financial reporting is in line with industry practices. The interviewee also seems to believe that the AC is powerful enough at constraining the corporation to change auditors. However, the same person speculated that the AC would probably play a less determinant role in the event that management recommended not to renew the mandate of the external auditor:

> If management has lost the confidence in the auditors and wants the auditors to be replaced, the audit committee too can say: "We don't want the auditors replaced". You can do that. But in terms of the relationship ongoing [between management and auditors] that is going to be very difficult. So you are probably at a point that the committee has to oversee the selection of a new auditor as opposed to try to reverse a decision that has been made. I think what the committee has to do is to be sufficiently involved in the normal course, just on corporate basis, that those issues don't arise and get so large and out of control that there is a huge disagreement, where the audit committee agrees with the external auditor rather than the management. (AC member—corporation A)

Similarly, B's external auditor was quite doubtful about the ability of ACs in general to challenge management regarding auditor dismissals—in spite of believing (thereby pointing to the multidimensional nature of the individual's configuration of meaning) that B's AC was very good at "ensuring that the financial information that gets released is appropriate in the circumstances and that the controls are being put in place with respect to those areas":

> Interviewee: I would speculate that [...] the audit committee takes a recommendation from management regarding retention or the consideration for replacement of the audit firm. So if the CFO is unhappy because, and look we have lost clients like this, where you have to make some hard calls. And you [i.e., the external auditor] say, sorry, you can't do this, this way of presenting your financial information isn't right. So the CFO says, fine I will go along with you and then he is unhappy. So the CFO says, I am unhappy with the services for such and such a reason, and out goes the audit engagement for tender. The CFO administers it and selects who the new ones are going to be, comes up with the reasons why it is appropriate and puts it to the audit committee, the audit committee goes along with it. They are not involved with the selection process. (External auditor—corporation B)
> *Interviewer*: *So that is the way it works*?
> Interviewee: Yes. Absolutely. Visibly if you look at it they are involved because they probably get the copies of the proposals

> and things like that, but it is management's recommendation and they don't go through the selection process. [...] The other thing when there is a change in auditors, the Securities Commission requires you, and you probably know this, to put out a notice saying if there were any disagreements, qualified opinions or anything like that because they think that should be brought into bear. Now, how many [audit] firms do you know put qualifications in a report because there are disagreements? You put that in there, you aren't going to get any work. Nobody's going to want you. They won't hire you again. (External auditor—corporation B)

The last quote provides quite a negative picture about the effectiveness of mandatory corporate governance disclosures that are supposed to strengthen auditor independence. The perceived functioning of market mechanisms would act as a self-disciplining and silencing mechanism (Foucault, 1988) that prevents auditors from bringing into the field of visibility disagreements with management and the underlying reasons. In contrast to the viewpoint of the above interviewee, however, a few AC members and one external auditor claimed that the AC would be able to make a difference in the event of a significant disagreement between management and auditors, thereby pointing to a widely spread range of perceptions regarding the role of the AC in audit renewals. It remains to be seen whether post-Enron regulatory changes, which formalize the role of the AC in the appointment of the external auditor (e.g., Ontario Securities Commission, 2004), will mitigate the extent to which a number of auditors perceive management's interests as the "obligatory passage point" (Callon, 1986) to audit renewal.

From another angle, our interviews also suggest that auditors and managers do not perceive AC meetings as formal rituals; rather both parties emphasized the need to demonstrate during meetings their intellectual capacities. Members claimed to develop confidence (or not) in others' competencies through their assessment of the quality of responses provided to challenging questions. Members also said that they expect auditors to keep them informed of emergent accounting standards and state-of-the-art governance practices. As shown below, the stakes for auditors seem to be particularly high in the portion of the meetings where members meet privately with auditors without management being present:

> With the external auditor, we sit them down and look them in the eye, and say: "Is there anything that is going on that you want to tell us about that you wouldn't say in front of anybody else? And are you getting the cooperation? Are you getting everything you need?" [...] So unless they want to lie to us, which they can do, but if they are going to lie once they are going to lie six times a year, because we are going to ask them every time. And eventually if we find out [that they lied], of course they are gone. (AC member—corporation B)

Private meetings may therefore be conceived of as avowal settings, in which auditors submit claims of truthfulness to referees.[24] The powers inherent to such avowal processes are not insignificant (Covaleski et al., 1998; Foucault, 1988). The auditor may become tied to the intentions and thoughts articulated in the private meeting, thereby inciting her/him to change her/his attitudes and behaviour. As referees, AC members—through the comments and viewpoints that they express during the meeting—may become committed to a certain course of action as well. As suggested by one external auditor: "If we are not entirely comfortable—for example about [the accounting firm] being potentially in a conflict of interest—, at least we say [avow] it in the private meeting and submit the problem to the judgement of the directors." AC members have the powers to absolve behav-

[24] In corporation A, at the end of every standard meeting AC members meet simultaneously with both the external and the internal auditor—without management being present. Members in corporation B have three private meetings at the end of every regular meeting: one with the external auditor; one with the internal auditor; and one attended only by AC members. In corporation C, private meetings occur only once a year—one with the external auditor and the other with corporate managers and the internal auditor altogether.

iours in private meetings—but once absolution is given, it constitutes a "precedent" that may tie members in the future. Nonetheless, the key point we wish to make is that as referees in charge of the private meetings and the related avowal processes, AC members are provided with a strong signal of the committee's powers.

In summary, our interviews suggest that attendees' reflective interpretations of practices carried out by members during meetings significantly influence the construction of meanings of AC effectiveness. Attendees' sense of effectiveness often appeared to be linked to the AC's capacity to require managers and auditors during meetings to account for their positions on potentially sensitive topics. Members' alleged abilities to challenge managers would be especially reliant on internal audit reports, which make visible areas where management's positions may be relatively fragile. Attendees' narratives of AC effectiveness, however, do not imply a sense of perfection or inflexible attitudes in considering ways to improve practices. Most interviewees brought forward a number of obstacles that constrain the effectiveness of their AC, such as the asymmetry of knowledge between managers and members, managers' discretion in putting items on the agenda, or the presence of interlocking directorships that might prevent members from being very tough with managers for fear of experiencing negative consequences when roles are reversed. Members were particularly aware of the difficulties involved in carrying out some of their duties. As two interviewees put it:

> When you are looking at judgments you are never sure you are right; you just try to come to a conclusion. (AC member—corporation A)
>
> The audit committee's role, of course, is to make sure that the external auditors understand that it is not management that drives, that it is the audit committee that drives them. So we will tell you what to do, when to do, whatever, it is part of the way of getting it done. [. . .] It is one of the most difficult things, I think, that issue we just talked about, when you talk about results of an audit committee. If the sense is that it is management that is totally driving the external auditor, then I don't think the audit committee is doing their job. (AC member—corporation B)

Again, it appears that perceptions of effectiveness are to some extent predicated on the hope that members' diligence and assiduity during meetings impact others' mindset and behaviour. Some interviewees were sceptical, however, about some areas of involvement of the AC. For example:

> We should not delude ourselves. People appointed on the board and the audit committee—not just in [corporation C] but also in every public corporation—are friends of those in power. They are like members of a family who behave like: "Scratch my back, I'll scratch yours." [. . .] It's: "friends first and foremost", as Brassens would put it.[25] It's too bad but that's the way it is. [. . .] Board members want that everything goes very smoothly and that everything goes like clockwork. People want everyone to be friend with everyone. That's a political feature of boards that may be surprising to some people. (Internal auditor—corporation C)

Here, the interviewee claims that intra-role conflicts of commitment inherent in board membership (Golden-Biddle & Rao, 1997) tend to be resolved in board members acting as a friendly and supportive body toward management instead of a vigilant monitoring mechanism. The same interviewee, however, had positive views about the effectiveness of C's AC in a number of areas, especially with regard to the way in which management accountability is strengthened through members' questioning. Our analysis therefore suggests that one's sense of AC effectiveness is made up of confidence feelings in some areas of involvement of the AC (which are supported by more or

[25] The interviewee refers here to the song "Les copains d'abord" from notorious French songwriter Georges Brassens, which is perhaps his most widely known song.

less tangible indications that the AC makes a difference in these areas) and hopes and anxieties regarding other role features of the AC.

Constructing effectiveness through reflective interpretations of informal practices

Similar to Turley and Zaman (2003), our interviews indicate that a significant level of activity on matters that fall under the jurisdiction of the AC takes place outside of formal meetings.[26] Our study suggests that such events guide practices and are important sources of organizational sense making. It is worth noting, however, that activities taking place outside of the realm of formal meetings are not formally documented in corporate governance disclosures, thereby constraining outsiders' abilities to assess one significant aspect of the functioning of ACs.

In all three corporations a number of informal discussions aim to brief the chairperson of the AC about reports to be formally submitted to the committee.[27] It especially appears that chairpersons seek, during those informal discussions, to be made aware of any significant area of disagreement between managers and auditors. For example:

> I have a procedure set up. Every quarter when we do our quarterly review, I talk to the chairman of the audit committee in advance of the meeting. If I don't call him he calls me. Just to know if there is anything he should be aware of that has been going on in the quarter that he hasn't heard about, did we have any audit issues, or [...] has something come up that management has some concern about. [...] So he wouldn't go to the meeting and find out we had some disagreement or we agreed with the management and he didn't, whatever. So we do talk a lot. (External auditor—corporation A)

In carrying out such inquiries chairpersons signal their wish to be informed of potential conflicting issues before meetings. Their view is that their legitimacy as chairpersons would be tarnished if such issues were to be unexpectedly brought up during meetings. Our interviews also brought up informal discussions of another type regularly taking place, namely, discussions between corporate management and auditors that are aimed at solving problems in advance of AC meetings.[28] For example:

> Once the internal auditor tested the company's disaster recovery plan. He issued recommendations for which the vice-president of the information technology department did not agree. [...] I organized a meeting with the vice-president and the internal auditor before the matter is discussed at the audit committee, in order to make sure that they both agree on the solutions that should be implemented concerning the problems that emerged from the auditor's tests. (CFO—corporation C)

The motivation of auditors and managers to undertake such discussions appears to be very high. Indeed, several auditors and managers were adamant that they did not want the AC to arbitrate auditor-corporate management conflict situations because the stakes are too high. They

[26] What distinguishes this section from Turley and Zaman's (2003) paper is our focus on the process by which informal practices construct meanings of effectiveness in the eyes of attendees. In contrast, Turley and Zaman (through a case study in one public corporation) document informal practices and what they view as behavioural effects associated with the AC, such as the motivation that it seems to provide to management and external auditors for resolving their differences informally before AC meetings.

[27] Recall that our interview questions generally put more stress on external auditing rather than on internal auditing. This may have prevented interviewees from highlighting informal discussions in which internal auditors are involved. Interviewees in corporation A did not mention informal discussions involving the internal auditor while in corporation B interviewees only briefly referred to the matter. In contrast, in corporation C interviewees brought forward a significant level of informal discussions involving the internal auditor.

[28] As such, our interpretations hereafter bear a significant resemblance to those formulated at the board level by McNulty and Pettigrew (1999), who stress the role of outside directors in shaping corporate strategic decisions through consultation outside of the boardroom and through managers' tendencies to anticipate the response of outside directors and engage in self-regulating behaviour.

mentioned to be especially concerned about their reputation being tarnished or career being compromised in the event that a material unresolved issue is forwarded to the AC to act as a referee. For example:

> I think that the audit committee is not a proper setting to debate differences in points of view between management and the internal auditing function. These differences are resolved before the meeting of the committee. For example, a unit manager recently rejected one of our recommendations. Since the unit manager does not attend audit committee meetings, who was the defender of his position during the meeting? The CEO, who answers for the positions adopted by the company's unit managers. And since the internal audit function is under the authority of the CEO, I do not have any interest, and I absolutely do not want to have a fight with him during an audit committee meeting. It's the last thing that I want. So conflicting issues will always be discussed before meetings. (Internal auditor—corporation C)

In particular, this quote highlights that the internal auditor's capacity to bring forward a material and unresolved issue to the AC is constrained by the hierarchical relationship that she/he has with the company's top managers.[29] According to the interviewee, these constraints do not imply that the internal audit function refrains from issuing tough recommendations in audit reports, however. Nor do they imply that management and the internal auditor both always agree on the significance of problems and the relevance of corresponding recommendations. When disagreements remain, it seems that both parties negotiate and make sure that they agree on the text in which the disagreement is described in the internal audit report. According to the internal auditor, informal activities aimed at trying to solve differences prior to meetings "have worked very well during the last 10 years, and I am not an individual who is easy on compromises." To her/him, the AC is helpful since it provides strong incentives for managers and her/his department to debate sensitive matters in advance, in a setting where the reputational stakes are not as high as in formal AC meetings.

Importantly, our interviews suggest that as a result of informal discussions AC members are usually not confronted with difficult situations to arbitrate. Interviewees in all three corporations were unanimous in highlighting that their respective ACs had not been confronted with significant auditor-corporate management disputes. For interviewees, "effective" committees are powerful enough to pre-empt such situations. AC members are merely informed of areas of disagreement that have been worked out through prior discussions between managers and auditors, thereby helping to establish the effectiveness of the AC in the eyes of the parties involved while contributing to the construction of managers' and auditors' performance. Indeed:

> I would say that quite implicitly, the audit committee constrains managers and auditors to do their homework in advance. If the audit committee was frequently confronted with disputes, members would say: "There's a problem. Somebody is not doing his or her job appropriately." (External auditor—corporation C)

The AC setting would therefore allow auditors and managers to demonstrate that they possess the ability to reach mutually acceptable compromises on sensitive matters. In addition, the above quote—as several others—indicates that both auditors and managers feel accountable to the AC because of practices that members carry out in formal meetings, which signal auditors and managers that it is to their own advantage to somehow work out problems and conflicts before meetings. The formal and the informal therefore are linked in constructing meanings of AC effectiveness. The AC, through the stakes involved in formal meetings, is perceived as a strong motivator for auditors and managers to reconcile their

[29] In conformity with Practice Advisory 1110-2 of the Institute of Internal Auditors (2002), the internal audit function in corporation C reports functionally to the audit committee and administratively to the chief executive officer.

differences before meetings, thereby perhaps preventing conflicting situations from escalating.[30]

Discussion

Overall, our analysis indicates that attendees' configurations of meaning are impacted to some extent by symbols, whose basic meaning is taken for granted, thereby reinforcing some dimension of effectiveness in the individual's mind when the symbol is encountered and recognized.[31] Attendees' sense of effectiveness also seems to be especially derived from reflective acts on what we termed the "substantive", where attendees focus their reflective glance on deeper layers of meaning surrounding AC processes and outcomes. Regarding processes, attendees' reflectively emphasized the asking of challenging questions by AC members as key in making attendees comfortable about certain functions of the committee, thereby pointing to an inter-subjectively agreed upon meaning in the three corporations under study. Moreover, attendees' sense of effectiveness appears to be related to the absence of negative outcomes (e.g., the committee being deemed powerful enough to motivate managers and auditors to solve problems together informally prior to meetings) as well as what attendees see as tangible indications of outcomes of the work and formal authority of AC members (e.g., when the internal auditor's frankness in meetings is seen as an indication that the AC makes participants comfortable at voicing concerns).

Our analysis further suggests that as a result of the influence of symbols and reflective acts, attendees' configurations of meaning comprise three categories, which we respectively designate as zones of comfort, hopefulness and anxiety. Similarly to Pentland's (1993) examination of financial audit engagements in the making, the notion of comfort appears to play a central role in the process by which attendees' configurations of meaning about AC effectiveness are developed and sustained. For attendees, constructing effectiveness implies a process in which they seek to become comfortable regarding the main areas of involvement of the AC.

Attendees in general were quite comfortable with the role of the AC regarding the reviewing of financial statements and the overseeing of internal control systems. However, we found wide variation concerning the effectiveness of the AC in the area of auditor dismissal—a situation that our participants never experienced. Attendees' configurations of meaning are therefore not homogeneous—even within the small circle of people who attend meetings of the same AC and interact together. As argued by Schutz (1967), it cannot be otherwise since every individual's interpretive schemes are to some extent unique, depending on her/his flow of experiences. We therefore argue that emotional heterogeneity characterizes one's configuration of meaning regarding AC effectiveness—the individual's range of emotions varying from confidence to hopefulness to anxiety.

Attendees' sense of effectiveness in a post-Enron environment

Again, the interpretations reported above are predicated on data gathered in 2000 and 2001, shortly before the collapse of Enron and Andersen. In this sub-section, we investigate attendees' sense of AC effectiveness in a post-Enron environment, relying on additional data that we collected in 2004 with the chairperson of the AC in every participating organization.

Interestingly enough, all three chairpersons claim that they trust external auditors to the same extent that they did before the collapse of Enron, therefore casting doubt on the severity of the alleged "crisis" of confidence surrounding the external audit function in the aftermath of Enron et al. (e.g., Bérubé, 2002), at the very least in some AC

[30] An alternative view is that informal practices hollow out the AC from any conflicting content, thereby preventing the committee from playing any direct role in resolving differences between managers and auditors while hopefully taking stockholders' interests into account. However, this view did not emerge in our interviews, thereby suggesting that it is not part of attendees' configurations of meaning regarding AC effectiveness.

[31] It is worth noting that interviewees did not engage in any significant critical analysis of the linkage between member background and AC effectiveness, thereby pointing to the persuasiveness of official discourse on corporate governance conveyed through documents such as the Blue Ribbon report.

circles. When questioned about the collapse of Andersen, the chairperson of B's AC viewed the event as the outcome of a rogue local office and the zeal of US politicians:

> To me the tragedy of Andersen was that you had one office [i.e., Houston office] that was obviously in cahoots with the firm and they effectively ruined an 88,000-employee firm, worldwide, over that. Now was that called for? Who knows? But Paul Sarbanes and Michael Oxley were both running for re-election and made a *cause célèbre* out of it and Eliot Spitzer in New York has greater political aspirations than that. So I am not too sure whether we once again, probably overreacted there. [...] As I mentioned earlier, that Andersen was maybe a kind of a rogue element in an office that got caught up in the issue. But I don't think anyone questioned Andersen's kind of expertise. They were highly regarded. I mean they were one of the prime firms in North America. They had a strong training program. They had their own campus in Chicago. You know, [...] this thing hit and they kind of got decimated with it. So I think even today there is still, by and large I think people are, still have a healthy respect for the firms and their qualities and independence. (AC chairperson—corporation B)

In the quote the interviewee refers to specific names and numbers, thereby suggesting that she/he gathered a significant amount of information and engaged in a series of reflective acts regarding the collapse of Andersen. It is reasonable to assume that adherence to the rogue office thesis prevented the individual's sense of auditor effectiveness (and the individual's sense of AC effectiveness) from being fundamentally disrupted. She/he views auditors in general as sufficiently honest to act appropriately when facing an area of disagreement with management.

Nonetheless, interviewees claimed to be less confident about auditors' and AC members' abilities to detect fraud, especially when collusion occurs. All three interviewees brought up these concerns, unprompted, thereby suggesting that the Enron's scandal triggered a reflective process in which fraud detection abilities were questioned. For example:

> The board is responsible to determine that policies and practices are in place. But short of having board members work full time and get in there and get involved they can't always know what is going on. They just make sure the policies and procedures are in place, the checks and balances are there and they follow up that they are being done. As I say any CEO or CFO or even someone down in the bowels of the company wanted to embezzle some money they could do it. Eventually they are going to get caught, but probably the auditors aren't going to pick it up. They will tell you that in their engagement letter. The board is not going to; it is usually that somebody trips up at the end of the day. (AC chairperson—corporation B)

Here, auditors' and AC members' abilities to detect fraud are seen as inescapably limited. However, the interviewees' concern did not appear to translate into significant anxieties. Rather the chairpersons were hopeful that with appropriate practices (e.g., making sure that "checks and balances are there") the likelihood of corporate fraud is reduced to some extent, thereby bringing corporate fraud within the purview of manageability. In this respect, two interviewees highlighted that their respective AC now puts more emphasis on whistle blowing channels in the hope of securing a conduit for bringing fraud concerns in the field of visibility. Two chairpersons stressed that their AC relies on the assessment of management integrity as one of the main areas in which members place their hopes in dealing with corporate fraud. As put by one of them:

> In some instances [of corporate fraud like Enron and Parmalat] it is clear to see that one or two individuals had a big role in what went wrong. The extent to which the system that was in place didn't pick those up is concerning. And I think as a consequence everyone who is involved with an audit committee or auditing or regulating corporations has

got to be thinking about the extent to which things really are working properly. And I think we too have been wondering if we are effective. I think we thought we were and we hope we are and you try to react to what has happened to adjust the areas of your involvement, the depth of your involvement, to try and maintain a level of efficiency and effectiveness. And try to ascertain as you are going through the process whether you are effective. But it is not like you put in a paper at the end of the term and you get back 99% and you get A first. No one is scoring you like that. [...] So I think it is very much a situation of not being entirely certain any more, but trying to do what appears to make sense in order to try and be effective. [...] I think in many cases it really comes down to the integrity of the people who are operating in that system and the degree to which they are personally committed to ensuring that the process works, whether you are talking about management or auditors. (AC chairperson—corporation A)

Again, the interviewee reportedly engaged in a series of reflective acts in the aftermath of Enron et al., which led her/him to stress the role of unethical individuals in the occurrence of corporate fraud, and to emphasize management and auditor integrity as one of the prime targets of AC members' endeavours. The quote also seems to imply a reduction in the interviewee's degree of confidence in the effectiveness of the AC—specifically in the area of corporate fraud. This area is now clearly depicted as an area of hopefulness, which is especially challenging to deal with given the surrounding ambiguities and the invisibility of risks involved.

Our additional interviews also suggest that recent regulatory changes significantly impacted interviewees' sense of AC effectiveness. An indication of these effects is found in chairpersons referring much more frequently to regulation than in the original interviews. Unsurprisingly, heterogeneity characterizes the interviewees' point of view about regulation. For example, the chairperson of C's AC claimed that the committee's effectiveness had been strengthened since a Chartered Accountant had been admitted on the AC (recall that in 2001 no member of C's AC had an accounting designation). It seems that the new member asks relevant questions, from a viewpoint that is different from that of the other members (non-accountants). Members of C's AC deemed it important to have a professional accountant on the committee given the emphasis of recent regulation on the notions of financial literacy and expertise. In contrast, the chairperson of B's AC deplored the signal provided by recent regulation on the composition of the AC:

I personally think there has been a bit of overreaction, which is natural and the pendulum has gone a long way out. I don't disagree with the financial literacy test. I think an audit committee should obviously have some financial expertise. However, I would be very concerned about having six chartered accountants on my audit committee. I think, when you look at what has happened with Shell as an example with reserves, and in many companies the audit committee looks at the reserve reports. Well you get six accountants looking at it, it would be nice to have a reservoir engineer around here, but he doesn't qualify for financial expertise possibly. So I think there has got to be some flexibility kind of built into the process to recognize that there are some unique circumstances. (AC chairperson—corporation B)

It therefore appears that regulatory changes regarding the composition of ACs translated into anxiety and discomfort in the interviewee's configuration of meaning. To her/him, recent regulation implicitly values more heavily financial expertise than other types of expertise, which might lead ACs not to have enough variety of expertise to effectively review financial statements.

Interestingly enough, all three chairpersons were concerned about new corporate governance regulation leading boards and ACs to focus too much on procedures and minutiae. As one interviewee put it:

> I don't know if you saw last week the president of Placer Dome was retiring and they said, I suppose you are going to go on a few boards. And he said: "No, I don't want to spend my time being a kind of a policeman", was I think the term he used. That to me doesn't appear to be a lot of fun. And I think that is what is happening on a lot of boards, getting too far into one feature and not enough on a broader approach to issues. (AC chairperson—corporation B)

To the interviewee, new regulation basically conceives of the role of boards as policing bodies, in charge of monitoring obedience to standards and rules, which is quite inconsistent with the individual's own conception of the role that boards should play. The same interviewee added that as a result of the various items that ACs are required to police, meetings are much longer: "Our last meeting, we started at 8 o'clock in the morning and finished at three. And I dare say that going back in time committee meetings probably in most instances, in many companies would have been an hour and a half, two hours. Most audit committee meetings are going a lot longer than they used to." However, the chairperson explained how meetings in another AC (on which she/he is a member) were then in the process of changing in trying to counteract the over-emphasis on minutiae:

> We had fairly long audit committee meetings with a lot of material. And what the chair of the audit committee did was he said: "Let us go in camera at the start of the meeting." And so [...] the audit committee [members], nobody else, they sit down at the start of the hour and they go through the agenda. [...] Then we brought in management and the auditors. When we get to each agenda item, rather than getting the finance officer, the treasurer or the external auditor, whoever, doing a huge presentation with slides [the chair of the audit committee] would say: "OK we have had a look at this section. Here are some of the areas of concern the board has expressed." And then what we found was we got far more discussion going than if someone stood up for an hour and went through slide by slide by slide. [...] It has really been quite an eye opener for the committee and for management. [...] We have done it now three times for three meetings and it seems to work, work very well. I have mentioned it to a couple of other boards I am on and they are looking at trying it too. [...] It is new yet but I think boards find it is much more useful to discuss rather than to sit there and listen. You know, if you sit there and listen for eight hours. If you did a class for eight hours your students might be glassy eyed. (Laughs) (AC chairperson—corporation B)

The above quote illustrates how AC members may reflectively manage anxieties. As a result of the initial impact that regulatory changes have had on AC meetings, members of this AC were engaged in a series of endeavours in trying to translate the new regulation imperatives in a way that is more consistent with their ongoing sense of AC effectiveness. The quote also provides insights into the process by which representations of effective practices circulate through networking in corporate governance circles.

In conclusion, the overall impression that emerges from the quotes disclosed in the paper is that AC members generally apply themselves seriously to make the committee effective—but their degree of confidence in the diverse areas in which the AC is involved varies significantly in time and space. Also, notwithstanding the limited number of second-round interviews that we conducted, our analysis suggests that chairpersons' sense of AC effectiveness was not fundamentally fractured in the aftermath of the collapse of Andersen. Several assumptions that underlie the work of external auditors continue to be black-boxed, such as auditors' nomination process and their overall sense of ethics. All of this might come as a surprise—but is it? As pointed out by Giddens (1990), people do not tend to be overly sceptical of systems of expertise—even when facing situations that are generally seen as failures. Most people would pragmatically accept the risk of systems failure—not least because they need to get on with the realities of their daily lives. In this context, did individuals engage in selective screening of information to protect the essence of their configurations of meaning of AC effectiveness? Is corporate governance, to employ a term developed by Power (1997), another dead end in the chain of corporate accountability?

Conclusion

This paper investigated the process by which actors construct a sense of effectiveness in a setting in which the operationalization of the performativity principle into detailed measures of performance is limited, namely, the audit committee. Although regulators have developed some input and process measures that they hope to be correlated with AC effectiveness, the AC setting has shown to be resistant to the large-scale deployment of the performativity apparatus and its concern to develop "objective" measures allowing the manageability of means-ends relationships. We examined the process by which meanings of AC effectiveness are socially constructed in three Canadian public corporations.

Our analysis suggests that every attendee's sense of effectiveness, which we conceive of as a configuration of meaning, is produced through symbolic influence and reflective acts centred on AC processes and outcomes. Each configuration is made up of a more or less heterogeneous set of emotions regarding the main areas of involvement of the AC—emotions that vary from confidence to hopefulness to anxiety. Within each corporation, although there tends to be inter-subjective agreements regarding the effectiveness of some of the main duties of the AC (e.g., in reviewing financial statements), attendees differ on the reasons that underlie their assessment. Heterogeneity therefore characterizes attendees' configurations of meaning, both from an intra- and between-individual perspective.

As such, our analysis highlights the significance of hopes and anxieties in constructing attendees' sense of effectiveness and points to a number of questions that, we hope, will be the subject of further research endeavours. For example, how do individuals rationalize their involvement on the AC when they are anxious about some of the key duties of the committee? How do they cope with these anxieties? Does the trend in society towards risk management (e.g., Beck, 1992) play a role in making attendees accept a perpetual state of significant uncertainty? What actions do AC members and other attendees engage in while trying to mitigate their anxieties and transform them into hope and comfort zones? Are hope and anxiety key in motivating AC members to ask challenging questions during meetings?

Our study also has implications from a regulatory point of view. It might sensitize regulators about research on micro processes of corporate governance. It is reasonable to assume that regulatory changes should be predicated on an understanding of the way in which the main actors involved in corporate governance processes, notably attendees of the AC, construct meanings of effectiveness—which is surprisingly a type of research that is not actively supported by regulatory institutions (e.g., SEC, 1999).

Our analysis also casts doubt on some representations of ACs widely conveyed in literature, and which are unlikely to be challenged through conventional, quantitative-based studies of corporate governance. From an institutional theory perspective, the AC is often described as a symbolic mechanism, which signals outsiders that management is under control while reality from the inside is often claimed to be quite different (for a description of this perspective, see Cohen et al., 2002). In contrast, our analysis indicates that attendees do not perceive AC meetings as mere rituals devoid of interest; rather meetings may be conceived of as arenas where attendees have their own reputation at stake and are each mutually involved in constructing, through interaction, meanings of their own effectiveness as well as that of the AC. Our paper also suggests that configurations of meaning are not constructed through big and impactive events, such as when the AC actively supports the auditor in auditor-corporate management conflict situations.[32] Several studies in auditing literature assume

[32] We are grateful to Michael Power for having made us aware of this point.

that ACs are involved in resolving significant conflicts between management and auditors (e.g., DeZoort & Salterio, 2001; Knapp, 1987), thereby suggesting that these events are significant in constructing meanings of effectiveness. Our study rather indicates that meanings of AC effectiveness develop especially through attendees' ongoing reflections concerning the myriad of small events and relatively unremarkable actions that take place within and around meetings, such as members' style of questioning and insistence on managers swiftly adopting corrective measures to solve problems highlighted in internal audit reports. Thus, in spite of regulators' efforts at making corporate governance more transparent through the disclosure of input and process measures, our paper implies that these measures are fundamentally limited in signalling the nature of activities that surround AC meetings and that account for much in constructing attendees' perceptions of effectiveness. Moreover, the emotional heterogeneity that characterizes members' configurations of meaning is unlikely to be easily translatable into formal disclosures and detailed indicators of effectiveness. Are several aspects of corporate governance doomed to remain in the shadows? Are "better" regulatory disclosures nothing more than politically acceptable solutions to crisis, even when it is well known that such disclosures would unlikely have prevented the crisis in question (Power, 2004)?

Finally, this paper focuses on the micro-production of meaning within the small circle of people who attend AC meetings. We did not examine how meanings of AC effectiveness are constituted beyond this circle, in the eyes of outsiders. What are the distinct features of the process by which meanings of effectiveness are developed when actors are distant from meanings and reflections developed within the small group of attendees, and do not have any face-to-face relationship with them? Are outsiders' configurations of meaning characterized by a higher degree of hope and anxiety than attendees? Power (1997, p. 31) generally argues that actors tend to overcome obscurity issues through trust, by making a leap of faith that others will, in fact, act in good faith. However, in a performativity era, whatever trust is accorded is preferably earned through the ability to perform to an externally given set of performance indicators (Dent & Whitehead, 2002). Therefore it may be relatively difficult to sustain perceptions of trustworthiness beyond the level of AC attendees, given the difficulties involved in measuring and evaluating AC effectiveness with any traditional regulatory means (Kalbers & Fogarty, 1993). Nonetheless, sociological research shows that processes of trust construction are particularly complex and that there are diverse "grounds" for trust, such as one's assessment of how much another party may lose if she/he breaches trust (Sztompka, 1999). Researchers who wish to extend our work may therefore consider examining the constitution of meaning and trustworthiness in the eyes of distant actors.

Acknowledgements

We especially thank the contact persons and participants who made it possible for us to gather data in their respective organizations. We acknowledge the comments provided on an earlier version of the paper by Joane Martel, Michael Power, Vaughan Radcliffe, Steven Salterio, Daniel Thornton, Paul Wayne, as well as workshop participants at Concordia University, McGill University, and Queen's University. We also acknowledge the comments from attendees at the 2003 Alternative Accounts Workshop of the University of Calgary, the 2004 Canadian Academic Accounting Association Conference (Vancouver), and the 2004 Auditing in Action Workshop of the London School of Economics. Special thanks to the two anonymous reviewers, whose comments contributed significantly to the development of the paper. We also acknowledge the financial support of the Social Sciences and Humanities Research Council of Canada. Finally, the first author acknowledges the financial support of the CA chair in accounting of the School of Business, University of Alberta.

References

Abbott, A. D. (1988). *The system of professions*. Chicago, IL: University of Chicago Press.

Abrahamson, E. (1996). Management fashion. *The Academy of Management Review, 21*(1), 254–285.

Bédard, J., Marrakchi Chtourou, S., & Courteau, L. (2004). The effect of audit committee expertise, independence, and activity on aggressive earnings management. *Auditing: A Journal of Practice & Theory, 23*(2), 13–35.

Beck, U. (1992). *Risk society: towards a new modernity*. Newbury Park, CA: Sage Publications.

Berger, P. L., & Luckmann, T. (1966). *The social construction of reality*. New York: Penguin Books.

Bérubé, G. (2002). Trust is everything. *CA Magazine, 135*(6), 7.

Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees (BRC report). (1999). *Report and recommendations of the Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees*. New York: New York Stock Exchange/National Association of Securities Dealers.

Brown, D. A. (1999, June 8). *Public accounting at a crossroads*. Remarks by the Chair of the Ontario Securities Commission to the Business Leaders' Luncheon, sponsored by the Institute of Chartered Accountants of Ontario.

Cadbury Committee (1992). *The financial aspects of corporate governance*. London, UK: Financial Reporting Council.

Callon, M. (1986). Some elements of a sociology of translation: Domestication of the scallops and the fishermen of St Brieuc Bay. In J. Law (Ed.), *Power, action, and belief* (pp. 196–233). London, UK: Routledge.

Charkham, J. P. (1995). *Keeping good company: a study of corporate governance in five countries*. Oxford, UK: Oxford University Press.

Cohen, J., Krishnamoorthy, G., & Wright, A. M. (2002). Corporate governance and the audit process. *Contemporary Accounting Research, 19*(4), 573–594.

Covaleski, M. A., Dirsmith, M. W., Heian, J. B., & Samuel, S. (1998). The calculated and the avowed: techniques of discipline and struggles over identity in Big Six public accounting firms. *Administrative Science Quarterly, 43*(2), 298–327.

Crozier, M., & Friedberg, E. (1980). *Actors and systems*. Chicago, IL: The University of Chicago Press.

Dent, M., & Whitehead, S. (2002). Configuring the "new" professional. In M. Dent & S. Whitehead (Eds.), *Managing professional identities: knowledge, performativity and the "new" professional* (pp. 1–16). New York: Routledge.

DeZoort, F. T., Hermanson, D. R., Archambeault, D. S., & Reed, S. A. (2002). Audit committee effectiveness: a synthesis of the empirical audit committee literature. *Journal of Accounting Literature, 21*, 21–38.

DeZoort, F. T., & Salterio, S. (2001). The effects of corporate governance experience and financial-reporting and audit knowledge on audit committee members' judgments. *Auditing: A Journal of Practice & Theory, 20*(2), 31–47.

Financial Reporting Council (FRC). (2003). *Combined code on corporate governance*. London, UK: FRC.

Foucault, M. (1975). *Surveiller et punir*. Paris, France: Éditions Gallimard.

Foucault, M. (1988). Technologies of the self. In L. Martin, H. Gutman, & P. Hutton (Eds.), *A seminar with Michel Foucault* (pp. 16–49). Amherst, MA: University of Massachusetts Press.

Gendron, Y., Bédard, J., & Gosselin, M. (2004). Getting inside the black box: a field study of practices in "effective" audit committees. *Auditing: A Journal of Practice & Theory, 23*(1), 153–171.

Giddens, A. (1990). *The consequences of modernity*. Stanford, CA: Stanford University Press.

Glaser, B. G., & Strauss, A. L. (1967). *The discovery of grounded theory*. Hawthorne, NY: Aldine de Gruyter.

Golden-Biddle, K., & Rao, H. (1997). Breaches in the boardroom: organizational identity and conflicts of commitment in a nonprofit organization. *Organization Science, 8*(6), 593–611.

Holstein, J. A., & Gubrium, J. F. (1998). Phenomenology, ethnomethodology, and interpretive practice. In N. K. Denzin & Y. S. Lincoln (Eds.), *Strategies of qualitative inquiry* (pp. 137–157). Thousand Oaks, CA: Sage Publications.

Institute of Internal Auditors. (2002). *Practice Advisory 1110-2: Chief audit executive (CAE) reporting lines*. Orlando, FL: The Institute of Internal Auditors.

Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: managerial behavior, agency costs, and ownership structure. *Journal of Financial Economics, 3*(4), 305–360.

Joint Committee on Corporate Governance. (2001). *Beyond compliance: building a governance culture*. Final report of the Committee, sponsored by the Toronto Stock Exchange, the Canadian Venture Exchange and the Canadian Institute of Chartered Accountants.

Kalbers, L. P., & Fogarty, T. J. (1993). Audit committee effectiveness: an empirical investigation of the contribution of power. *Auditing: A Journal of Practice & Theory, 12*(1), 24–49.

Knapp, M. C. (1987). An empirical study of audit committee support for auditors involved in technical disputes with client management. *The Accounting Review, 62*(3), 578–588.

KPMG. (1999). *Shaping the audit committee agenda*. USA: KPMG LLP.

KPMG Audit Committee Institute. (2003). KPMG's Audit Committee Institute. <www.kpmg.com/aci/> Accessed August 13, 2003.

Latour, B. (1987). *Science in action*. Cambridge, MA: Harvard University Press.

Levitt, A. (1998, December 8). *A partnership for the public trust*. Remarks by the Chair of the SEC before the American Institute of Certified Public Accountants.

Lyotard, J.-F. (1979). *La condition postmoderne*. Paris, France: Les Éditions de Minuit.

Maijoor, S., Meuwissen, R., & Quadackers, L. (2000). The effects of national institutions on audit research: evidence from Europe and North America. *The European Accounting Review, 9*(4), 569–587.

March, J. G., & Olsen, J. P. (1989). *Rediscovering institutions*. New York: Free Press.

McNulty, T., & Pettigrew, A. (1999). Strategists on the board. *Organization Studies, 20*(1), 47–74.

Miles, M. B., & Huberman, A. M. (1994). *Qualitative data analysis: an expanded sourcebook* (2nd ed.). Thousand Oaks, CA: Sage Publications.

Ontario Securities Commission. (2004). *Multilateral Instrument 52-110: Audit Committees*. Came into force on March 30, 2004.

PBS video (2002). *Frontline: bigger than Enron*.

Pentland, B. T. (1993). Getting comfortable with the numbers: auditing and the micro-production of macro-order. *Accounting, Organizations and Society, 18*(7/8), 605–620.

Power, M. (1994). The audit society. In A. G. Hopwood & P. Miller (Eds.), *Accounting as social and institutional practice* (pp. 299–316). New York: Cambridge University Press.

Power, M. (1997). *The audit society: rituals of verification*. Oxford, UK: Oxford University Press.

Power, M. (2004). *The risk management of everything: rethinking the politics of uncertainty*. London, UK: Demos.

PricewaterhouseCoopers. (1999). *Audit committees: good practices for meeting market expectations*.

Prince, C. J. (2002, October). The best & worst boards of 2002: let there be light. *Chief Executive*.

Rubin, J., & Rubin, I. S. (1995). *Qualitative interviewing: the art of hearing data*. Thousand Oaks, CA: Sage Publications.

Sarbanes-Oxley Act of 2002. (2002). US Congress, Senate H.R. 3763.

Schön, D. A. (1983). *The reflective practitioner*. United States: Basic Books.

Schutz, A. (1967). *The phenomenology of the social world*. Evanston, IL: Northwestern University Press.

Securities and Exchange Commission (SEC). (1999, August 15). *Call for academic research on key accounting issues*. <www.sec.gov/news/extra/aaacall.htm> Accessed October 14, 2004.

Securities and Exchange Commission (SEC). (2000, June 27). *Fact sheet: the Commission's proposal to modernize the rules governing the independence of the accounting profession*. <www.sec.gov/news/extra/audfact.htm> Accessed August 27, 2002.

Spira, L. F. (2002). *The audit committee: performing corporate governance*. London, UK: Kluwer Academic Publishers.

Sztompka, P. (1999). *Trust: a sociological theory*. New York: Cambridge University Press.

Toffler, B. L., & Reingold, J. (2003). *Final accounting: ambition, greed and the fall of Arthur Andersen*. New York: Broadway Books.

Toronto Stock Exchange Committee on Corporate Governance (Dey report). (1994). *Where were the directors? Guidelines for improved corporate governance in Canada*. Report of the Toronto Stock Exchange Committee on Corporate Governance in Canada.

Turley, S., & Zaman, M. (2003). Audit committee effectiveness: a case study of informal processes and behavioural effects. Paper presented at the AFAANZ 2003 Conference, Brisbane, Australia.

Turley, S., & Zaman, M. (2004). The corporate governance effects of audit committees. *Journal of Management and Governance, 8*(3), 305–332.

Turner, J. H. (1991). *The structure of sociological theory* (5th ed.). Belmont, CA: Wadsworth Publishing Company.

Van de Ven, A. H., Polley, D. E., Garud, R., & Venkataraman, S. (1999). *The innovation journey*. New York: Oxford University Press.

Williams, J. (2003). Accounting for Enron: media accounts, cultural narratives, and the reproduction of "faith" in the markets. Paper presented at the 2003 Conference "Financial reporting under public scrutiny: Reflecting on the series of recent accounting abuses" (University of Alberta, Edmonton, Canada).