



# My wish list

*Arne Karlsson* has been driving improvements in corporate governance in Sweden for the past two decades. He explains what works well for him in his role as an audit committee chair, and what could work better.

## **GET CLOSE TO YOUR EXTERNAL AUDITORS**

My job as an audit committee chair is made easier by establishing a close relationship with external auditors. I sit on six audit committees, chairing five of them. At Maersk, for instance, I try to get the auditors involved in all six audit committee meetings every year.

When the auditors attend every meeting, it means the whole audit committee has regular contact with them. I always ask the lead audit partner to write a one-page executive summary, with the most pressing issues to go to the committee and then the board. And I want to know what the auditors have not asked us to focus on so that we can make a judgement on that.

I benchmark and learn from others, but I think this model could work elsewhere. Every time I start work with a new audit committee where things aren't run in this way, I introduce it.

## **AUDITORS SHOULD BE BRUTALLY HONEST**

I want our external auditors to be a little like a good football referee: someone who knows every detail in the book from back to front but can still, amid the fire and fury, understand the context and use their judgement. That kind of auditor is not afraid of reacting to the way the client works.

For auditors to truly add value, they have to embrace brutal honesty. Too often, they become polite because they want to protect the relationship with the client. Even if they are honest, they are not brutally so. It's the same with internal auditors; they have to be scientific and fully covered in their reports, but they need to be proactive about the things management ought to know.

The key thing is to find the balance where the auditors are not sacrificing the formal oversight role but can still give you advice – that's where they can really add value.

## TESTS FOR NEW REGULATION

Dealing with new regulation is extremely time-consuming and it creates the wrong focus in companies. Instead of focusing on growing the business, you have to comply with new regulations and then go back five years and do the same to restate earlier statements. It's hard to see how it adds value.

I'd like to see two tests met before a new rule is introduced. First, when creating a new rule or code of conduct, you must also propose one rule to eliminate. It's hard to follow 100%, but it's a good test.

Second, whoever is proposing the new rule must provide a clear cost-benefit analysis for the new rule; if the benefit is there, fine. But too often, it's not.

## BE CAREFUL ABOUT NONFINANCIAL METRICS

The hard facts are the financials, and the sort of things that are included in the nonfinancial metrics are reflected in the numbers sooner or later. If those metrics are relevant, then I'm positive about communicating them.

But principally, they should be used internally as a way of understanding the company; if they can also help investors without revealing anything sensitive, then they can be useful.

I'm concerned that if you have too many "soft" metrics, companies can get away with claiming they focus on those measures in order to obfuscate the underlying issues. If it's helping people to understand the business then it has to be good, but we need to be careful.

## THE VALUE OF ANALYTICS

I want to see data analytics continue to grow. These tools are really valuable, allowing us to look at so much more information and revealing new patterns. You can focus on the areas of greatest interest. I think that the Big Four and the multinationals are already rolling this out and it's becoming a hygiene factor.

When it comes to smaller companies, data analytics is not quite there yet. I'm absolutely certain it won't eliminate the auditor's role. Artificial intelligence is driven by algorithms, but it cannot think. So it won't eliminate auditing, but it will get rid of some tasks and roles.

## FRAMEWORKS, NOT RULES

My most important wish is simple: I don't want to see the US rules-based system creep into Europe. We're still quite lightly regulated in the Nordic region, and to a large extent we follow a framework-based system, where the idea is to develop a framework and let best practice develop. I'd like to see that continue.

## BETTER CYBER SECURITY

As an audit committee chair and a board member, my job would be made easier by improved IT and cyber security, so that we could fully exploit

technology's capabilities without having to worry about where it might end up or who can steal it. Achieving that would liberate audit committees, where we spend a lot of time talking about how to protect systems, rather than about how to use them to the maximum.

## FOCUS ON THE LONG TERM

It's easy to say you'd like a long-term view of companies in the market, because it can sometimes become an excuse for poor short-term performance.

But many of the companies I've worked with over the years are family-owned and -controlled. When I first became CEO of a public company in 1999, I spent much more time running the business than when I quit in 2012, because all the short-term issues steal so much time, compared with the private companies, where you can focus on running the business.

It's a tricky problem to solve, but more long-term thinking would help European profitability and unemployment, and we could create a much more efficient set of companies. We should be benchmarking, sure, but it should be in service to the long-term strategy. ■

September 2018



### PROFILE

Arne Karlsson currently chairs the audit committee at shipping giant Maersk. Having been CEO at Ratos from 1999 to 2012, he has since served as chairman at (among others) Bonnier Holding, Ecolan, Einar Mattsson and SNS (Center for Business and Policy Studies). As the Chairman of the Swedish Corporate Governance Board since 2014, he has used his experience at the highest level of business to help reform and improve Sweden's corporate culture.

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EYG no. 010684-18Gbl  
ED 0819

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