A Balanced Scorecard for Compliance - Requirements of a Comprehensive Compliance-Reporting

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ABSTRACT

Companies increasingly focus on compliance and progressively establish various compliance measures. Despite these efforts, in general no comprehensive overview of all compliance data exists. An enterprise must however communicate its compliance to multiple internal and external stakeholders. A central compliance reporting - ideally using an already existing reporting concept - is to be developed. The balanced scorecard concept is already widely accepted and used for reporting purposes in theory and practice.

This paper details the research objective, design and conduction of an empirical exploration investigating the development of a compliance scorecard. Using the grounded theory method, core categories are derived which provide insight into the appropriateness of a balanced scorecard for compliance reporting as well as into required components of such a tool. Three of the core categories confirm findings of prior literature. They prove the rising importance of compliance, the availability of scorecards as well as the tool's appropriateness for a compliance reporting. The fourth core category however provides insight into the implications of a compliance scorecard and its most important components thus going beyond existing results. It clearly outlines that a comprehensive compliance scorecard should comprise an elaborate workflow to ensure immediate remediation activities. The remediation status then is again subject to the reporting. In addition possibilities for risk classification are required. Finally the set up of the compliance scorecard as a modular template allows for its transferability to various industries and enables a compliance benchmarking between different companies.

Keywords

Compliance, Compliance Scorecard, Balanced Scorecard, Compliance Reporting.

INTRODUCTION

Number, complexity and importance of compliance requirements steadily increase resulting in companies undertaking various efforts to ensure the adherence to legal regulations, regulatory standards or voluntarily imposed obligations (Menzies, 2006). At present however the multiple compliance endeavors result in silos operating isolated from each other (Fisher, 2007; Volonino, Gessner and Kermis, 2004) and lead to a duplication of efforts, redundant solutions, higher cost and increased risk (OCEG, 2007). These fragmented approaches obscure the opportunity to integrate risk management and compliance to gain a holistic view of the firm's risk and compliance landscape (OpenPages, 2008).

Companies are therefore facing the challenge of implementing a comprehensive and strategic approach to monitor and control their compliance initiatives in order to form the basis for a successful compliance management (Chaterjee and Milam, 2008). The development of a centrally available integrated reporting is a solution to this dilemma.

The paper at hand deals with the realization of such a reporting through a balanced scorecard for compliance. The balanced scorecard is a concept that is widely accepted in business and therefore already in use within the companies. Thus, it could be adapted for a compliance reporting instead of developing new reporting methods.

The analysis conducted focuses on appropriateness of a balanced scorecard in the area of compliance. Furthermore it strives to identify critical elements which are to be taken into account while designing such a reporting concept. This leads to the major research questions which are as follows:

- Is the balanced scorecard concept appropriate for compliance reporting?
- Which are central components of a compliance scorecard to consider in its implementation?

To answer the questions the current status of compliance in practice is explored and an overview is provided showing to which extent balanced scorecards are presently used. Then the demand of applying the balanced scorecard concept to compliance reporting will be evaluated. Finally additionally required components will be derived to ensure a complete configuration of a comprehensive compliance reporting.

To gather relevant and actual expert knowledge multiple interviews were conducted based on the research questions to explore relevance structures and construction of reality (Meuser and Nagel, 1991). The grounded theory provides a well-proven method to generate theories from data of social research. Hence, this method was used to form theories answering the research questions from the collected qualitative data.

The remainder of this paper is structured as follows: First, an introduction to compliance and balanced scorecards is given pointing out the definitions this paper follows. Second, the research background is evaluated, analyzing concepts for a compliance reporting in prior literature. Thirdly, research design, defining the research objectives of this study, the research methodology and research process is shown. Also the theoretical foundations of the grounded theory method are explained, followed by the evaluation of the available data. From these data, findings and their interpretation are derived which lead to the conclusion and an outlook on future work.

DEFINING COMPLIANCE AND THE BALANCED SCORECARD CONCEPT

To understand scope and concepts this research focuses on, clear definitions of the key terms that are subsequently followed are derived and introduced.

Compliance – a definition

The term „compliance" emerged from the Anglo-Saxon linguistic usage and can be translated into adherence, obedience, conformance with laws, rules, standards and other regulations (Hauschka and Buck-Heeb, 2007; Zimmermann, 2004). Originally the concept of compliance was used in the Anglo-American banking industry where it also implied conformity with existing laws and regulations, but in addition described the implementation of these standards within an organization (Pupke, 2008).

Currently an unambiguous definition of compliance is hindered by inconsistent usage of the term in theory and practice. Allman (2006) states: „Compliance is not at all well defined". Additionally Menzies (2006) and Vetter (2008) reveal that neither a legal nor a generally accepted compliance definition exists. Thus, the need for an effective compliance concept is evident which guarantees usability, a common understanding and the exchange of research results.

Multiple existing definitions where therefore examined by the authors and three main areas of compliance were defined since it was found that the majority of definitions follows one or more of these areas. The main areas could be classified as a legal-regulatory perspective which focuses on the *adherence to requirements*. Secondly an organizational-process related perspective was identified which ensures compliance through *adequate organizational structures and processes*. Thirdly some definitions highlight the *objectives of compliance*. Table 1 provides an extract of examined compliance definitions and substantiates their heterogeneity.

Main area	Definition	Author
Adherence to requirements	Compliance comprises all laws and regulatory requirements.	(Müller and Terzidis, 2008)
	Compliance is the adherence to internal directives, procedures and requirements, or external laws, regulations, standards and agreements.	(Bace and Rozwell, 2006)
Adequate organizational structures and processes	Compliance is defined as the process that organizes compliance activities and ensures adherence to rules and regulations.	(Caldwell and Eid, 2007)
	Compliance comprises the set up of adequate organizational structures, processes and systems.	(Menzies, 2006)
	Corporate compliance can be understood as the organizational actions taken to ensure adherence to laws.	(Pupke, 2008)
Objectives of compliance	The goal of compliance is to protect companies, its employees and stakeholders from damage, to protect a company's reputation and to decrease risk of non-conformance.	(Umnuß and Becker, 2008)
	Compliance strives to achieve management end employee behavior in conformance with rules and regulations.	(Vetter, 2008)

Table 1: Examples for the main areas of compliance definitions

The examples support the approach of assigning compliance definitions to these three main areas. Subsequently the authors combined these main areas to derive a comprehensive compliance definition which this paper applies as stated in Figure 1.
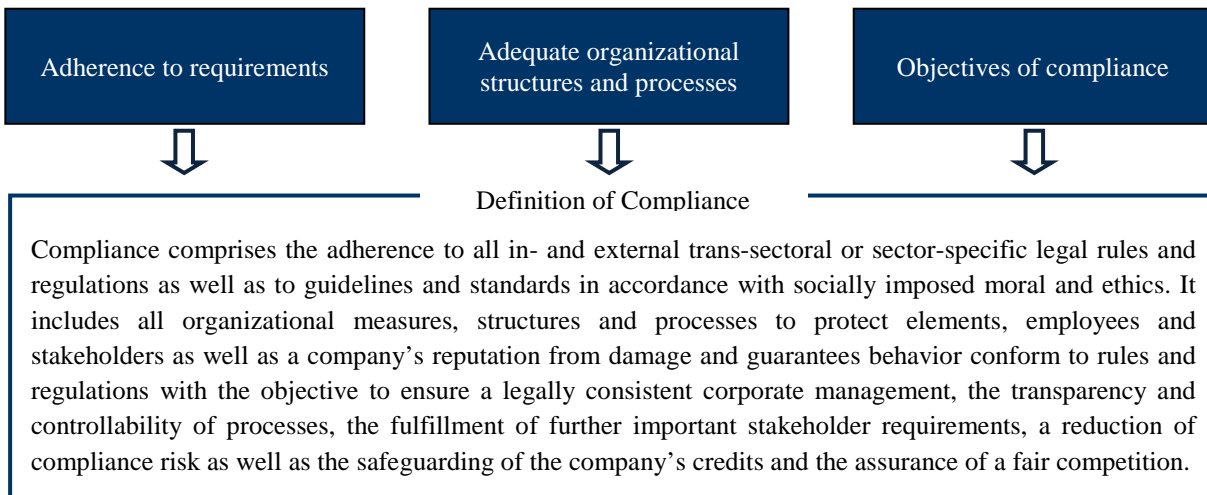
Adherence to requirements	Adequate organizational structures and processes	Objectives of compliance

Definition of Compliance

Compliance comprises the adherence to all in- and external trans-sectoral or sector-specific legal rules and regulations as well as to guidelines and standards in accordance with socially imposed moral and ethics. It includes all organizational measures, structures and processes to protect elements, employees and stakeholders as well as a company's reputation from damage and guarantees behavior conform to rules and regulations with the objective to ensure a legally consistent corporate management, the transparency and controllability of processes, the fulfillment of further important stakeholder requirements, a reduction of compliance risk as well as the safeguarding of the company's credits and the assurance of a fair competition.

Figure 1: Definition of compliance

With the given definition it becomes clear that compliance is more than just adherence to rules and regulations. It also comprises setting up relevant structures and processes to protect all stakeholders and fulfill their further requirements. The compliance stakeholders belong to various groups such as management, supervisory board, auditors, employees, investors, customers, suppliers, government, authorities and to the media (Amberg and Panitz, 2009). Thus the requirements are manifold and a distinct reporting becomes necessary to cover all of their demands.

Definition of the Balanced Scorecard

The concept of the balanced scorecard was introduced in 1992 as a general management system (Kaplan and Norton, 1997). Meanwhile it is extensively used in theory and practice (Horvath & Partners, 2007). It goes beyond purely financial measurement systems and includes a mixture of financial and non-financial performance indicators. It furthermore provides the framework for translating company mission and strategy into a clear system for performance measures (Kaplan and Norton, 1997). Strategy maps usually precede the creation of a balanced scorecard. These maps provide a tool for communicating and implementing the company strategy and show the cause-and-effect relations, by which specific improvements create the desired outcomes, for example how faster process-cycles times and enhanced employee capabilities will increase retention of customers and thus increase a company's revenues (Kaplan and Norton, 2000). These maps are then translated into the balanced scorecard.

The scorecard originally is divided into four perspectives. These usually are employees, processes, customers and financials but can vary according to the scorecard's purpose. Each category contains relevant indicators that are linked to each other showing the cause-and-effect relations identified in the strategy map. It allows for a comprehensive management of relevant areas to realize company strategy (Baum, Coenenberg and Günther, 2007). The definition of its inventors Kaplan and Norton (1997) is used in this paper as shown in Figure 2:

Definition of Balanced Scorecards

The balanced scorecard is a management system which configures the entire planning, steering and controlling process of an organization. It translates a company's mission into a clear performance management system thus providing a framework for a strategic management system. It is therefore more than just a new performance measurement system that integrates financial key data.
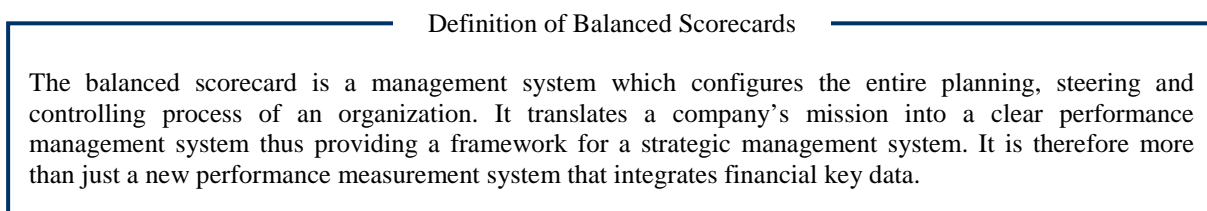
Figure 2: Definition of a balanced scorecard

Based on these definitions research is subsequently undertaken to explore the combination of the two concepts – compliance and the balanced scorecard - and to provide answers to the research questions.

RESEARCH BACKGROUND

Compliance significance for companies is continuously rising. Various stakeholders closely monitor a company's adherence to in- and external rules and regulations (Menzies, 2006). An enterprise needs to demonstrate this conformance to meet stakeholder expectations. Through making compliance efforts transparent, organizations can communicate their values and policies as well as their translation into action to stakeholders and the public. Transparency sets a tone of openness, accessibility and accountability and it builds confidence among stakeholders (Transparency International and UN Global Compact, 2009).

To manage compliance it needs to be thoroughly measured because according to Kaplan and Norton (1997) `"if you cannot measure it, you cannot manage it"`. Different authors discuss the topic of compliance reporting. It should utilize the existing infrastructures of a regular company reporting (Goeken and Knackstedt, 2008). An extensively used instrument in regular reporting is the balanced scorecard (Horvath & Partners, 2007). It can ensure the central information supply, it can provide a basis for corporate control (Mäder, 2006), and it helps identifying synergies. Its increased usage also in the compliance and governance area in near future can be predicted (van Grembergen and de Haes, 2005).

In current compliance implementations in business practice, the reporting structures are often inhomogeneous and do not provide a companywide overview of all compliance information to management and advisory board. Therefore dependencies of different compliance initiatives are not identified and synergies cannot be utilized (Menzies, Tüllner and Martin, 2008). In addition, the set-up of a control environment is highly dependent on information supply (Mäder, 2006; Theisen, 2007). A balanced scorecard is considered an excellent framework for an effective compliance reporting, because of its strong focus on strategic alignment, its broad perspective beyond just financial measures, its central provision of transparency for all compliance effort as well as its mix of leading and lagging metrics (Symons, 2009).

Currently scarce insight into necessary components of a compliance scorecard exists. There are only few comprehensive scorecard concepts available in literature or in studies of market research companies. These concepts usually are based on practice and not empirically developed. Compliance is often defined as a subset of corporate governance (Teubner and Fellner, 2008; Theisen, 2007). Therefore, designs for a corporate governance reporting with a scorecard are taken into account as well to provide an overview of the current status of tool development in this field.

In practice, a working group of the German Association of Financial Analysis and Asset Management (Deutsche Vereinigung für Finanzanalyse und Asset Management e.V. (DVFA)) developed a corporate governance scorecard. It is closely related to the German Corporate Governance Code (Deutscher Corporate Governance Kodex (DCGK))[1], since it represents all of its relevant criteria. Different scores are related to these criteria which are assigned upon completion. The scorecard determines a total value of corporate governance. This value depicts the quality of a company's corporate governance and facilitates company comparisons for the investors. The success of this scorecard led to its wide-spread utilization for example in Indonesia, the Philippines and in a modified version in Latin America and different European countries (Stenger, 2004).

The Professional Accountants and Business Committee (PAIB) of the International Federation of Accountants (IFAC) (2004) states that a company must determine the correct balance between performance and conformance which are two important dimensions of compliance. To observe the performance, the Chartered Institute of Management Accountants' (CIMA) Strategy Scorecard is recommended. To ensure conformance, audit committees are considered an effective method. An evaluation on how a scorecard could be used also on the conformance side supporting governance and compliance is not conducted.

As the research background provides deeper insight into the status of compliance reporting using balanced scorecards, it becomes evident that additional evaluations are necessary. Table 2 summarizes the findings concerning the research background.

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[1] The German Corporate Governance Code is a system of rules developed by a government commission which holds suggestions for the implementation of a good corporate governance. Thus, transparency of existing rules for the management and control of a company is enhanced for national and international investors and confidence in the management of German enterprises is promoted.

Compliance and its reporting	Balanced scorecard concept
• Companies must communicate compliance to meet stakeholder expectations. • Compliance reporting structures are often inhomogeneous. • To manage compliance holistically it needs to be thoroughly measured.	• Balanced scorecards are prevalently used in practice. • It is already in use for a corporate governance reporting according to the DCGK. • A balanced scorecard is also considered an excellent framework for compliance reporting.

Table 2: Findings of the research background

A detailed examination of applying the scorecard concept to a company's compliance reporting is not available. The remainder of this paper therefore describes the empirical exploration of a compliance reporting using a scorecard and outlines the research findings.

RESEARCH DESIGN

Within this chapter, first the research objectives of this study are described, followed by an outline of the research methodology applied. Furthermore a description of the research process is given summarizing the taken approach to reach the desired goals.

Research Objectives

At present compliance initiatives usually operate in silos detached from each other hindering a holistic compliance overview and resulting in unused synergies and higher compliance costs. This research addresses the implementation of a comprehensive company-wide compliance reporting that provides an overview of all compliance efforts a company undertakes. The approach of implementing a compliance reporting with the existing and widely accepted balanced scorecard concept is explored. The introductorily stated research questions are answered to gain an insight into the balanced scorecard's appropriateness to report compliance as well as into essential components of such a compliance reporting solution.

Research Methodology

Expert interviews are especially suitable for qualitative research, if the research topic has not in all dimensions been subject to previous research attempts (Schnell, Hill and Esser, 1999). This approach has been chosen for data gathering, since the topic of compliance reporting has not been explored in greater detail so far. The interviews tend to capture the expert's superior knowledge in the topic of compliance reporting which results from their exposed position within the functional context (Bohnsack, Marotzki and Meuser, 2006). Different from biographic interviews not the interviewees themselves are of interest to the researcher but their role as expert for a specific topic (Flick, 2006). Not only knowledge specific to an individual but the collectively shared interpretations, constructions of reality, relevance structures and knowledge bases are deducted (Meuser and Nagel, 1991).

From the data collected in the interviews, theories were derived. To be relatively sure that the theory will fit and work, an initial systematic discovery of theory from the data is described as the best approach (Glaser and Strauss, 1967). Hence, the grounded theory method was chosen for data evaluation. It is based on the systematic generation of theory from data that itself is systematically obtained from sociological research. "Thus, the grounded theory method offers a rigorous orderly guide to theory development" (Glaser, 1978). It is considered a qualitative research method that strives to build theories on the basis of empirical data. The theory was designed to reveal the meaning of human experiences and to discover the superior social structures in which relevant concepts are constructed and reconstructed. (Bohnsack et al., 2006). Applying the grounded theory method, theories related to the research topic of compliance reporting are derived.

Data Collection

To conduct the expert interviews, an interview guideline based on the research background was developed. It guarantees that all topics relevant to the field of research are addressed thus providing for an at least rudimental comparability of interview results (Schnell et al., 1999). Through an open interview situation and the extension of possible options to answer, the interviewee's frame of reference can be captured as well. So insight into relevance structures and experience background is achieved (Schnell et al., 1999).

As the next step, a pretest was conducted that checked the questionnaire according to its applicability as recommended by Atteslander (2008). The questionnaire was revised in a preparatory interview with one of the experts. Questions were

reviewed for understandability and additional topics identified as important were added. The discussion of synergies obtained through a comprehensive compliance reporting for example, additionally encroached upon the questionnaire. In general, the guideline was openly structured, so that during the evaluation process feedback from previous interviews could be incorporated. This ensured a constant improvement of the questionnaire and guaranteed an evaluation of relevant topics.

The process of interviewing

The development of expertise is closely related to the occupational role (Bohnsack et al., 2006). Often experts do not stem from the highest hierarchical level of an organization but from the second or third, because these employees prepare and push decisions and hold the most detailed knowledge of internal structures and processes (Meuser and Nagel, 1991). In addition, saturation - the stage, in which no additional data can be found to further develop a category - can only be achieved by maximizing the differences between expert groups (Glaser and Strauss, 2008).

According to this theoretical background, different experts from various groups in the compliance area were identified. It was also taken into consideration not to only choose experts from the highest organizational level. The experts hold one of the following roles within their organization. Brackets state the exact amount of persons per role:

- (Chief) compliance officer (2)
- Compliance project lead (3)
- Sales representative for compliance software and solutions (1)
- CFO (1)
- Senior executive risk and compliance management (2)
- Lead reporting and performance measurement (2)

The experts were identified by a sponsor who is a senior compliance manager of a major internationally operating consultancy. The sponsor utilized his network within the community of compliance professionals to initially contact the experts. Six of the interviews were conducted face-to-face, whereas five needed to be conducted by phone due to large geographic distance. All of the interviews were based on the interview guideline which was ex ante send to the experts. The interviews followed the approach of discussing the current compliance status and the availability of balanced scorecards in practice. Subsequently, the balanced scorecard concepts appropriateness for a comprehensive compliance reporting was addressed. Finally, indispensable components of a compliance reporting were taken into account to determine additionally required components. Also experts could emphasize other reporting approaches they considered important to provide enough room for additional core considerations in compliance reporting to unfold.

As soon as a theoretical saturation was achieved and no further insights into the topic could be derived, the interview phase was ceased. In total, eleven different expert interviews were conducted.

Data Analysis

The interviews were recorded and subsequently transcribed. The transcription was carried out by a certified secretary for European languages because two of the interviews were conducted in English. The transcribed interviews were next once more checked against the audio recordings to ensure quality and completeness. In this review additionally the sentence structure was overworked to increase readability and point out thematic interrelations.

The collected data was evaluated according to the grounded theory's coding process. It comprises three different coding types that are open, axial and selective coding (Bohnsack et al., 2006). These three coding types neither have to be necessarily executed in a particular succession nor do they all have to be gone through (Pandit, 1996). Bohnsack et al. (2006) describe open coding as the opening of the text to evaluate and continuously compare data. It allows for grouping data that is conceptual alike into general "core" categories. According to Glaser and Strauss (1967) `"the generalizations not only help delimit a grounded theory's boundaries of applicability; more important, they help us broaden the theory so that it is more generally applicable and has greater explanatory and predictive power"`. Axial coding however describes the process of newly combining categories derived in open coding. Newly formed data is assembled in a structured manner. Thereby, categories and their subcategories are connected and set in relation to one another (Pandit, 1996). In the study at hand, the core categories were derived by open and axial coding.

First of all, 283 statements made in the eleven interviews were entered into a data base. Now by open coding, the statements that are similar in terms of wording and content were combined into 103 groups. These groups again were compared according to equal statement focus. Thus 22 more generally applicable categories were derived. The axial coding now newly combined these categories to 4 core categories. Table 3 provides an overview of the coding procedure. Due to the extensive

input for each core category, not all statements, groups and categories that lead to the derivation of the core category are displayed. Nevertheless it accomplishes the clarification of the coding process.

Interview #	Statements	Group	Categories	Core Categories
1	Linking compliance to the balanced scorecard concept allows for strategy building and the identification of cause and effect relationships and therefore makes perfect sense.	A compliance scorecard supports the derivation of a compliance strategy.	Currently there are no comprehensive compliance scorecards. These are however desirable since they support in deriving a company's compliance strategy. Furthermore they promote compliance throughout the enterprise and emphasize its importance. Scorecards show cause and effect relationships and create sufficient transparency to identify synergies.	A compliance scorecard is highly desirable since it supports development of a compliance strategy, it emphasizes the importance of compliance and it depicts cause and effect relations. Through bundling compliance tasks it creates the necessary transparency to identify synergies, eliminate weaknesses and prove compliance measures' functioning to auditors.
6	I am only able to derive a strategy if I think about compliance, valuate my compliance components and derive the knowledge on which I want to focus my efforts. A scorecard provides the frame for these steps.			
1	By reporting compliance in a scorecard, the topic's relevance is clearly demonstrated within the enterprise.	The balanced scorecard is appropriate for compliance.		
9	The concept of a balanced scorecard is very appropriate to approach compliance reporting. It consolidates compliance efforts within the enterprise and provides an overview.			
…	...			
3	In compliance reporting, there are no integrated approaches as a scorecard would be.	There are no compliance scorecards in use in the companies right now.		
10	Compliance is very rarely reported in companies' scorecards.			
2	Usually companies have some tools in place to report on compliance. These are in most of the cases excel lists and compliance is reported very heterogeneously.	The compliance reporting usually is conducted very heterogeneously.	Compliance and with it its reporting is seldom integrated. Usually single components are implemented and reported. However these need to be merged together to ensure and comprehensive compliance reporting and achieve transparency in all compliance related activities.	
6	Compliance reporting is very often heterogeneous.			
1	Compliance is not very well integrated.	Currently compliance is not yet very well integrated.		
2	Compliance projects are not yet seen very integrated. We do not even achieve this in risk management.			
5	The integration of compliance differs. Sometimes tasks are subdivided, but it is the clear goal to achieve compliance goals in an integrated way. Many enterprises however do not see a need for such integration.			
...	...			
8	The most important reporting feature is to achieve a comprehensive overview of a company's entire compliance situation. The more compliance reports are produced, the higher the risk of not paying attention to a certain issue. Thus, an integrated approach is highly desired.	An integrated reporting allows for a central and comprehensive overview.		
11	The advantage of the scorecard is its visibility. It depicts different compliance requirements and serves as central comprehensive informational tool. It furthermore ensures that identified control deficiencies are not falling out of attention by providing a clear overview.			
7	Compliance data ensure transparency within an enterprise and help fulfill reporting requirements. A compliance reporting must focus on rule conformance but also integrate all other compliance related topics.	Transparency as a benefit of the integration.		
1	A central compliance bears positive effects due to transparency through integration.			
...	...			
...	...	...	...	

Table 3: The coding process

FINDINGS

From the expert interviews' statements, four core categories could be derived. Three of the core categories confirm the findings of prior literature. The fourth core category however provides insight into the implications of a compliance scorecard and its most important components thus going beyond prior research. It enables an insight into the field of compliance reporting on the basis of the balanced scorecard concept. The core categories are subsequently presented and main findings within each core category will be discussed. Main findings are those that were emphasized by several experts.

Core category 1: The relevance of compliance.

Compliance is expected by society and the relevant measures' implementation is of increasingly high importance for companies. It is triggered by Sarbanes-Oxley and external auditors' requirements as well as by changes in company structures and by rules and regulations imposed by company management.

Main findings:

The experts emphasize that compliance is the absolute minimum to participate in business. On the one hand, it often implies additional costs; therefore companies currently only implement and report these compliance measures that are deemed absolutely necessary. On the other hand, companies are expected by the public to ensure compliance. Thus, it becomes a prerequisite for a good customer relationship. Usually these expectations are triggered by current cases covered by the media. As these cases become public, the importance of compliance rises significantly. Companies, especially those in violation with laws and regulations, must prove and communicate their compliance measures. Therefore they need these data centrally available.

Companies tend to demonstrate the adherence to all rules and regulations such as the Sarbanes-Oxley act. Also the communication towards the external auditors lies in a company's focus. It desires to prove the timely remediation of identified control deficiencies and the existence of an effective compliance program to receive the auditors sign-off. This signals a company's compliance towards other stakeholders and helps avoiding legal fines. Nevertheless in the current economic crisis, there are other topics that are of higher visibility for a company than compliance. Credit or illiquidity risk for example was named by the experts as the highest prioritized risk. Companies are willing to take a higher compliance risk and only work on these compliance areas that are identified as absolutely necessary via a risk assessment in order to mainly focus on liquidity. Also compliance key performance indicators (KPIs) are rarely reported externally. Stakeholders are only informed about control deficiencies if it is legally required, since such results can easily negatively affect the stock price.

Core category 2: Application of the balanced scorecard concept in companies.

Many companies use balanced scorecards with subjacent value driver trees which are aggregated according to organizational structure. In many cases however, scorecards are used non recipient-specific as a mere financial reporting.

Main findings:

The interviewed experts agree on the fact that companies use a balanced scorecard as elementary tool for a value reporting. Usually, these scorecards are created in the company's departments and subsequently aggregated to form a comprehensive management reporting. Value driver trees are implemented in the scorecards background which further break down the reported KPIs.

Unfortunately, many companies lack the experience to adequately use the information provided by the scorecard. Scorecards are supposed to be derived from a company's vision and strategy. In practice, this is not entirely the case also because dependencies of the reported values are not fully understood and companies are often far too operational. They tend to immediately influence a KPI that is off target instead of first trying to capture global relations, reveal dependencies and identify further value drivers connected to this KPI. These value drivers could either help reach desired changes or change themselves in dependency to the initial KPI's adjustments. Thus, all remediation effects must be taken into account. Due to the missing experience, the scorecards are often used as financial reporting only. They seldom provide any further KPIs, such as process or client related measures. A point of criticism was also implementation of a non-recipient specific reporting. Usually, a set of standard reports is available for the target audience. Reports should be instead customized for the recipients' informational needs providing additional value and satisfying the demand for specific information.

Currently, companies implement balanced scorecards on an MS Excel basis requiring manual steps for its creation. This tool is considered as suitable for a balanced scorecard's presentation. It is however not sufficient for a proper controlling and management. The manual creation furthermore results in missing adjustment possibilities since the effort of adjusting mainly manually created reports often exceeds reporting resources' availability.

Core category 3: Value of a compliance scorecard.

A compliance scorecard is highly desirable since it supports development of a compliance strategy, it emphasizes the importance of compliance and it depicts cause and effect relations. Through bundling compliance tasks, it creates the necessary transparency to identify synergies, eliminate weaknesses and prove compliance measures' functioning to auditors.

Main findings:

The compliance reporting's significance is continuously rising. Responsible managers need a comprehensive overview of all compliance activities within their company. Auditors in addition are not anymore satisfied with executing spot checks. They require in fact a proof of the proper functioning of all compliance tools and processes which again demands for a proper reporting. Experts however outline the non-existence of a comprehensive overview of compliance in companies. Currently, the compliance reporting is rarely integrated and thus, compliance is reported very heterogeneously. Existing reporting tools

usually only cover a certain compliance area but do not provide an integrated reporting giving an entire overview on compliance. Therefore the experts consider a compliance scorecard as highly valuable.

Since experts are not aware of an existing concept for a complete compliance scorecard, the absence of such a tool is likely. Therefore the development of a concept for a compliance scorecard is highly recommended. Such a comprehensive compliance scorecard enables a central compliance reporting. It provides transparency by reporting on all compliance measures, the control outcomes and the status of the remediation. Furthermore, it closely links compliance to risk management since compliance is considered one of the key risks for companies.

Strategy maps precede the creation of a balanced scorecard and are tools for strategy communication. Furthermore, the maps depict cause and effect relationships which also demonstrate the relation of compliant behavior to the company's overall compliance goals to employees. A central compliance scorecard also serves as an identifier for cost savings, since it helps identifying synergies. Finally, multiple reports can be derived from the central data repository, thus giving auditors and other relevant stakeholders the necessary insights into compliance status and compliance related activities.

Core category 4: Required components of a compliance scorecard.

A compliance scorecard must be set up as a modular template which is adjustable to various enterprises. It should ideally contain automatic remediation processes and follow predefined escalation structures. Classification of weighted KPIs ensures comparability of different entities.

Main findings:

A compliance scorecard can be implemented either by developing a stand-alone solution or by integrating the compliance dimension into the company scorecard. A combination of these two possibilities with the compliance scorecard being the more detailed breakdown of the compliance dimension in the company scorecard, is named a third possibility by the experts. The scorecard is not to be used as a mere reporting but as a compliance management tool. That way, it allows managers full control in the compliance area. The experts strongly recommend the interconnection with an elaborate workflow. It enables the reported compliance breaches' immediate remediation by informing a predefined responsible person in the case of a violation. Thus, this employee can directly start remediation activities. The tracking of the remediation activities' status is again included into the scorecard. An integrated escalation structure, predefined by organizational hierarchies ensures timely remediation. Also the possibility of classifying a rule breach according to its level of risk must be included into the scorecard. So a risk-prioritized remediation of violations can be ensured. That way, a compliance scorecard provides an overview of found violations and their severity. Its workflow fosters the remediation and the remediation status is again reported.

Experts emphasize that a compliance scorecard furthermore can provide a standardized solution for compliance reporting making companies better comparable to each other. This comparability can be achieved by a common understanding and a classification of weighted KPIs or a maturity model. The compliance scorecard could provide a benchmarking possibility for external stakeholders to rank companies according to their compliance efforts. It could also serve a company in internal comparison of different entities or in the general set up of a compliance system by simply comparing their efforts to the market benchmark.

To be implemented in companies of various industries, the scorecard must be designed as a modular template. It then provides enterprises a toolkit from which these can choose adequate components and assemble a reporting customized for their special needs. The software components to implement such a solution are readily available in the market; the concept however must still be finally shaped with the definition of relevant measurements and derivation of KPIs that can be used to comprehensively report compliance in- and externally.

Summary

As the four core categories were presented, the first three confirm the findings of prior literature as described in the research background. Compliance communication towards stakeholders rises in importance. Due to its extensive availability and unique features, the balanced scorecard concept is considered very appropriate as framework to execute the compliance communication. These findings answer the first research question. The fourth core category however provides insights into the set-up of a compliance scorecard describing major functionalities of such a tool. These implications form the key finding of this research going beyond existing evaluations and clearly providing an answer to the second research question. Figure 3 again summarizes the findings of the research.
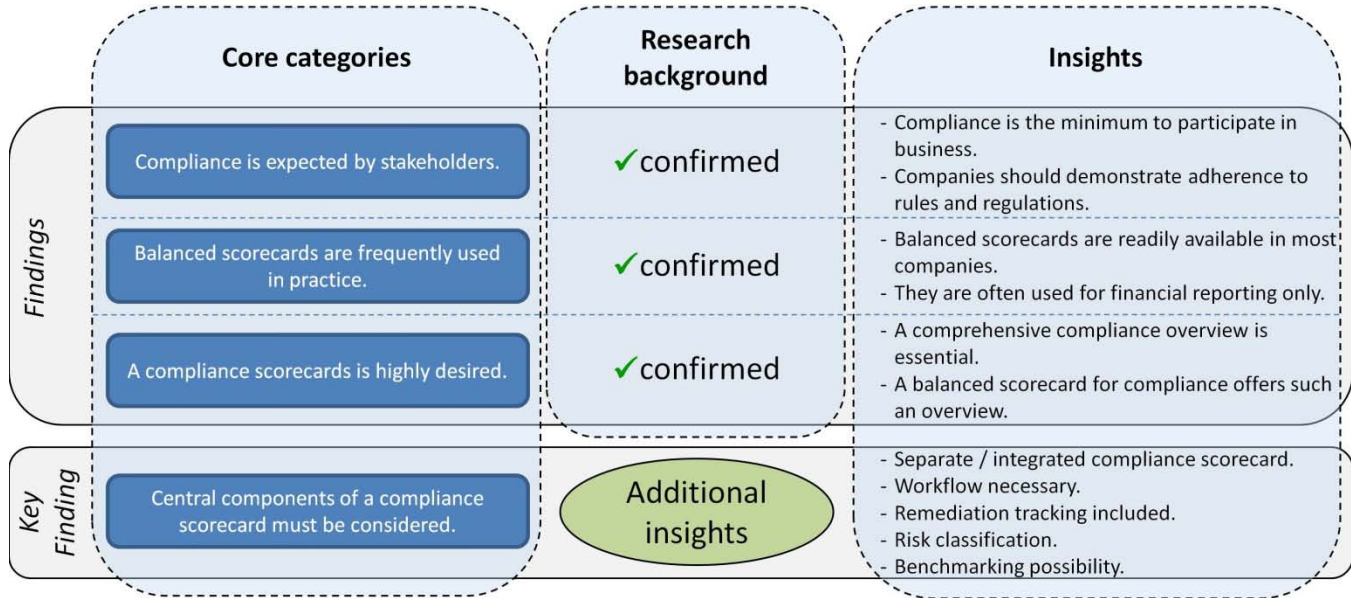
Figure 3: Finding overview

Limitations

After discussing the findings of the study, major limitations must be pointed out to put the results into perspective. The study is based on eleven expert interviews of which only six could be conducted face-to-face. Five more were conducted by phone and did not entirely allow for monitoring expert reactions. These unexpressed inputs to the questionnaire however also provide valuable feedback which in these five cases could not be monitored. Nevertheless, all interviews answer the research questions and foster an understanding of appropriateness and required components of a compliance scorecard.

Furthermore, it is not guaranteed that experts did take all internationally relevant laws and requirements into account while discussing the compliance scorecard. Important components could have remained undiscovered. Yet, experts were chosen among a list of international compliance and reporting professionals providing for a comprehensive as possible overview on components of a compliance scorecard.

CONCLUSION

The importance of compliance is steadily increasing as stakeholder awareness rises. Thus, companies are in the need of implementing a holistic reporting which fulfills all stakeholders' informational demands. A concept for a comprehensive compliance reporting is a compliance scorecard. The study aimed at identifying major components of such a tool that need to be considered in its implementation.

- Multiple Stakeholders require compliance information, since compliance is a hot topic. Therefore, it should be in the reporting focus of many companies.
- Scorecards are a widely accepted and utilized concept which is available in many companies to form the basis of a compliance reporting. Nevertheless additional improvements, such as recipient specific reports or the understanding of KPI relations, are necessary to fully realize the scorecard's benefits.
- A compliance scorecard is considered highly valuable, since it supports compliance strategy, it provides insights into cause and effect relationships in compliance and it ensures compliance transparency which helps identifying synergies.
- Further implications when implementing a compliance scorecard are the decision between a stand-alone or an integrated scorecard solution, a close integration into risk management and the inclusion of a remediation workflow with an escalation structure into the scorecard with the remediation status being subject to reporting in the scorecard itself.

This research clearly identified the concept of the balanced scorecard as a reporting solution for compliance. Due to increasing importance of compliance, the availability of scorecards in many companies to base a compliance reporting on as

well as a strong demand for such a solution, future research should explore the further implications of a compliance scorecard's implementation in detail to enable its usage in practice.

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