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Thesis:

"Comparison between the Internal Control and Enterprise Risk Management Systems of the U.S. and several countries in Europe"

Judging by the number of worldwide financial scandals, one could suppose that the Internal Control Systems (IC) and Risk Management Systems (RiskM) are ineffective or not effective enough.

The financial scandals have taken place not only in the U.S., but also in other countries, even in Europe. Therefore, if we try to generate a comparison of the Internal Control Systems and Risk Management Systems between the U.S. and Europe, we recognize that within Europe there are different frameworks of these systems. European Regulations differ in scope and details so that there are, in contrast to the U.S. COSO-Framework [1], no uniform standards in Europe.

The next question is, are the Internal Control Systems and Risk Management Systems in Europe, in comparison to those in the U.S., more sophisticated and better designed to prevent and to detect fraud? Are there indicators available to measure the quality of these systems? Participants in survey of the ACFE estimated that U.S. organizations lose 7% of their annual revenues to fraud.

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[1] http://www.coso.org.

Applied to the projected 2008 United States Gross Domestic Product, this 7% figure translates to approximately $994 billion in fraud losses.[2]

To my knowledge, there are only studies focusing on country-wide „stand alone" topics, but the research on the quality of audit engagements through the „European Auditing Research Network" (EARNet) is one source of useful insights on these matters. An older source is the FEE Discussion Paper „Risk Management and Internal Control in the EU", published in 2005 by the Fédération des Experts Comptables Européens.[3] Hence, focused literature research must be done to find more evidence of comparisons, if there are any.

However, the research cannot only be focused on information already published, knowledge from experts on the different countries within the research area has to be included. One of several methods of qualitative research to gain information from those experts would be interviewing them on all the problems involved. But there are specific advantages and disadvantages involved with interviews.

The definition of Erwin Kurt Scheuch for the personal interview is: "The interview as a research method should be seen as a planned process with the scientific goal that the interviewee, through systematic questions or told stimuli, should be motivated to render verbal information back."[4] [translated]

The interview for research purposes is a extension of the normal conversation with questions and information. It is a simulated, asymmetrical interaction among strangers. The information exchanged within an interview has no consequences because the interviewee has the feeling that his answers, neither in the interview nor afterwards, will not result in any consequences for him personally. We are familiar with the „neutral interview technique", which gives the interviewer the additional opportunity to react to the transmitted answers and not to judge if the answers are positive or negative. In reality, this procedure is very difficult to perform well because of the facial expression, the body language or verbal reactions of the interviewer. To the contrary, one surrenders consciously with the

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[2] ACFE, RttN, 2008, p. 4
[3] FEE (2005), p. 5.
[4] Scheuch (1973), p. 71.

„soft" or with the „strong" interview technique with the appearance of neutrality. Guiding a soft, not too straightforward interview, the interviewer tries, through his own responses, to remove stoppages and to support and motivate more answers.[5]

In guiding a strong interview, the interviewer pretends to have authority. Scheuch indicates this as: „the interviewer renders the interviewee the feeling of a uselessness of imperfect answers".[6]

There are two main types of interview questions: closed and open questions. Closed questions are the dominant type used in standardized interviews. The advantages of closed questions are:

- comparability of the answers,
- higher objectivity of enforcement and analysis,
- less time-consuming for the interviewees,
- easier to answer,
- easier to evaluate.[7]

Open questions offer the interviewee more possibilities for answers but need to generate a written protocol and an analysis of the spoken words. Semi-open questions, also known as hybrid questions, are a compromise between open and closed questions and offer the interviewee a less rigid structure through several open questions in between or as a supplement to the categories through an open question.

Flick draws a distinction between several interview categories, which are affected by the expectation that in the open-minded situation of an interview, the perception of the interviewee is more emphasized than in standardized interviews or in questionnaires.[8]

Distinctions are made between:

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[5] Lamnek (1995/2), p. 57.
[6] Scheuch (1973), p. 74.
[7] Diekmann (2008), p. 477ff
[8] Flick (2007), p. 194ff.

- o the focused interview
- o the semi-standardized interview
- o the problem-centred interview
- o the expert interview
- o the ethnographic interview

I would like to focus only on the expert interview, because I do suppose this will play a dominant role in this research project. According to Bogner und Menz [9]:

"The expert possesses technical, process and interpretative knowledge, which refers to his specific professional area of practice. Therefore the knowledge of an expert consists not only of systematised, reflexive accessible expertise, instead it shows mostly the character of practical knowledge, which is influenced by different and by all means disparate key factors and individual decision rules and collective orientations." [translated]

However, there is an existing danger in concentrating on the status of an <expert> in a determined function throughout the application of an expert-interview. The scope of potential relevant information that the interviewee should <deliver> is obviously more restricted than with the other types of interviews.[10]

Because of the pressure of time and the focus on the application, as a control the guideline shows how to exclude unproducitve topics throughout the interview. Flick quotes as examples of potential failures Meuser und Nagel:[11]

a) The expert is blocking the interview in its progress, maybe he is not the expert as previously supposed;

b) The expert makes the interviewer his confidante regarding recent conflicts and discusses internal company issues instead of the topics of the interview;

c) The expert changes often between the roles of an expert and a private individual, thereby offering more private information than facts as an expert;

d) An intermediate form between success and failure is the „rhetoric interview" where the expert gives a lecture on his knowledge instead of answering questions within an interview.

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[9] Bogner, A., Littig, B. & Menz, W. (2002), p. 36f.
[10] Flick (2007), p. 215.
[11] Meuser, M. & Nagel, U. (2002) in: Bogner, Littig & Menz (2002), p. 76ff.

Furthermore, Meuser & Nagel report on the double function of the guideline which is also to exclude that the researcher exposes himself to the expert as incompetent. The guideline also supports that the interview stays in line with the research goals and that the researcher does not lose himself with topics during the discussion that do not fulfil the aim of answering the research questions. A structured interview allows the interviewer as well as the interviewee to perform a structured negotiation but also helps the expert to represent his view of the research topic. Flick reports also that during the application of an expert interview that there are problems of time pressure. This is not unusual because one expects from the interviewer a high level of knowledge and expertise to understand the very complex processes and to translate them into the right questions to investigate the topic.[12]

The necessity for the interviewer to clarify during the interview that he is knowledgable seems to be very important for a successful interview.

To be motivated to make himself available for an interview, the interviewee could be interested in the research topic, interested in answering those scientific questions, could enjoy the recognition as an expert, or could do so out of curiosity. Interest in these motives can be sparked in the preliminary written communication, thereby creating a high voluntary willingness to cooperate.

In most of the cases, the interview partners will underestimate the length of the interview. Also, one has to distinguish between the answers of western cultures, in which in an acceptable ethical frame mostly true answers will be given, and non-western cultures where the truth, because of the norms of politeness, will be different. Depending on the cultural background of the interviewee, questions should be asked in a different manner.

With the interviews, we are able to gain qualitative data that will support our theory building. By quoting Locke, „the social sciences accepted the hypothetico-deductive model, which eventually, as the inductive method came increasingly under attack, became the official doctrine endorsed by philosophers of science. (…) This meant that researchers often had to pretend that theories before they had a firm basis for any".[13]

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[12] Flick (2007), p. 218f.
[13] Locke (2007), p. 872.

Also Locke is mentioning in his "Case for inductive theory building", that concerning the Goal Setting Theory, that goals which were specific led to better performance than "do your best" goals.[14] Together with Beck' s cognitive Theory of Depression and Bandura' s Social-Cognitive Theory Locke came to the result that none of these theories advanced by the method of falsification.

One of the main essences under these circumstances from the paper of Locke is his explanation of a definition.

"The purpose of a definition is to tie the concept to reality and to differentiate it from other concepts. The definition is not the same as the concept. The concept of man includes everything known about man and everything that will be discovered in the future. In this respect, concepts are open-ended."[15]

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[14] Locke (2007), p. 878.
[15] Locke (2007), p. 881f.

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