The Influence of Governance Regime on Preferred Controller Involvement and Independence

Anouk de Bonta\textsuperscript{a}, Frans Roozen\textsuperscript{b}, Bert Steens\textsuperscript{c}

\textsuperscript{a} Senior Advisor Ernst & Young
\textsuperscript{b} Professor VU University Amsterdam
\textsuperscript{c} Partner Ernst & Young, professor VU University Amsterdam


Abstract

The plethora of changes in the corporate governance landscape in the past decade might lead to tighter governance regimes within organizations (e.g., Roozen and Steens, 2006). Furthermore, the changes in corporate governance may have an impact on the control function (Feeney and Pierce, 2007). Although there is a need for two distinguished roles of the controller (scorekeeper and business partner) increased tightness of the governance regime of a company can have an important impact on the desired role of the controller (see e.g., Sathe, 1982). As a result of a more demanding governance regime, the role of independent scorekeeper may prevail above the role of involved business partner, because there is a higher need for accurate and reliable financial reporting and independence.

In this study, it is hypothesized that the tighter the governance regimes in organizations are, the higher the preferred degree of controller independence is and the lower the preferred degree of controller involvement is. The results of an experiment show that tightness of the governance regime does not induce differences between the preferred degree of controller involvement and the preferred degree of independence. These findings suggest that an “all-round” controller combining scorekeeper and business partner roles is preferred, regardless of external and internal governance pressures. This provides an avenue for further research into the controller’s roles.

The results of this study can provide an explanation of the time spent of the controller on being independent and involved in management decision-making. Next to that, it can be the starting point for deciding which role of the controller is preferred in a certain organization. For example, in organizations where the business unit controller has to deal with consequences from external governance, like signing the ‘in-control statement’, independence plays a crucial role. In cases where an organization wants to warrant a high level of controller independence, but not at the cost of the level of the controller’s involvement with the business, it could also be an option to choose for a so-called ‘split controller’ (Sathe, 1982). For a ‘split controller’ the two major responsibilities of, on the one hand, management service and, on the other hand, financial reporting and control are divided among two individuals (Sathe, 1983). This way, every responsibility receives sufficient attention.

Keywords: Governance regime; Corporate governance; Controller involvement; Controller independence; Experiment

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