

## THE INFLUENCE OF CONTINGENCY FACTORS IN THE AREA OF DIVISIONAL CONTROLLERSHIP IN FOREIGN SUBSIDIARIES OF A MULTINATIONAL ORGANIZATION

**Edna Yayoi Hirakawa Goto**

*Master in Accounting FECAP (Brazil)*  
Av. da Liberdade, 532 – São Paulo-SP, Brasil, CEP 01502-001  
E-mail: [edna\\_goto@hotmail.com](mailto:edna_goto@hotmail.com)

**Claudio Parisi (Corresponding author)**

*Professor at the FECAP (Brazil)*  
*Doctor in Accounting FEA/USP*  
Av. da Liberdade, 532 – São Paulo-SP, Brasil, CEP 01502-001  
E-mail: [claudio.parsi@fecap.br](mailto:claudio.parsi@fecap.br)

**Vilma Geni Slomski**

*Professor at the FECAP (Brazil)*  
*Doctor in Education FE/USP*  
Av. da Liberdade, 532 – São Paulo-SP, Brasil, CEP 01502-001  
E-mail: [vilma.geni@fecap.br](mailto:vilma.geni@fecap.br)

### ABSTRACT

*This research aimed to investigate the influence of contingency factors in the Controllershship area in two foreign subsidiaries, one located in Mexico and the other in the USA, belonging to a multinational organization based in Germany. It was performed a descriptive-qualitative research. Data were collected by interview and questionnaire. The main findings are: at the most significant subsidiary (American), the controller is subordinate to a local superior which reports to the general manager and in the unit of Mexico the subordination is direct to the general manager; the Mexican subsidiary is characterized as a prospective strategy, with informational support linked to the business performance, and the American as analyzer strategy with concern focused on product costs. It is concluded that the performance of the divisional Controllershship is partially affected by a combination of contingency factors and may be inferred that exists the effect of coercive isomorphism which minimizes the effect of contingency factors in the area.*

**Keywords:** *Divisional Controllershship; Contingency Theory; Contingency factors; Subsidiaries; Multinational Companies*

### 1 INTRODUCTION

In the last decades the organizations have been through constant and significant process changes caused by factors such as the internationalization of markets, increasing of the size of the companies that has intensified through the various corporate restructuring processes, financial and economic crises, as well the technological advances, which lead to the increase of the complexity of the operations. The Controllershship, to follow this ongoing business development, has expanded its field of action with leading role in the organizations, with a view to the mission of measure, control and evaluate the results in the companies, considering their different organizational structures, and thus, satisfy the need to remain competitive in this environment (Almeida, Parisi and Pereira, 2001; Beuren, 2002; Borinelli, 2006).

Thus, the Controllershship accompanies the growth of the organizations and, in this sense, according to the expansion of the organizations in terms of geographic area of operation and the increasing of the products diversity, occurs the enlargement of the complexity of its management. To the organization works effectively in relation to their goals and strategies, established its management as a set of units or divisions, that approach performance by the Controllershship on the business units is named of divisional Controllershship (Frezatti, Rocha, Nascimento & Junqueira, 2009).

In view of the role and importance of the Controllershship in organizational environments, were identified in the theoretical framework several authors that investigated the organizations, as Gordon and Miller (1976), Woodward, (1965), Lawrence e Lorsch (1967), Burns e Stalker (1961) e Perrow (1967) which presents discoveries about the types of appropriate organizational structure, depending on environmental conditions and

the need of sophisticated organizational devices that varies according to the degree of dynamism, heterogeneity and hostility of the environment. According to these studies, the research of Guerra (2007) from the perspective of the contingency theory, argues that different environments require different designs in the strategic plans and organizational structures, making an impact in how the management control system is organized. Variations in the environment or technology leads to variation in the strategy, structure and other organizational components.

The choice of this theme was motivated by the concern with the growth and complexity of the organizations as they expand in terms of geographic area, and enlarge the diversity of products, increases the complexity of management and in this sense, studies defends that the application of the contingency theory in the practice of the organizations, what aroused the need of investigate which is the influence of contingency factors in the divisional Controllership area performance in different organizational contexts, provided that the contingency approach establishes that something is true only under specific conditions Faced with these approaches is questioned: Which is the influence of the contingency factors in the divisional Controllership area in two foreign subsidiaries of a multinational organization?

Before this problem was elaborated as target investigate the influence of contingency factors (size, strategy, technology, structure and environment) in the Controllership area (activities, functions, informational support and organizational structure) in two foreign subsidiaries, one located in Mexico and the other in the United States, belonging to a multinational organization based in Germany.

By the importance and highlight of the role of Controllership in the organizations, several authors as Catelli (2001), Beuren (2002), Anthony and Govindarajan (2006) and Borinelli (2006) present analysis related to the performance of this area in relation to their practices, functions, activities, responsibilities and organizational structure. The study of Borinelli (2006) concludes that organizations have different ways of dealing with aspects of Controllership.

This study seeks to contribute to a deeper understanding of the issue in question, as well as a greater understanding of the reality of divisional Controllership in an international context, given the complexity and reach of its management in the business units.

## 2 THEORETICAL FRAMEWORK

### 2.1 Controllership

The Controllership area has acted progressively in the organizations with activities related to the integration of information from several areas and advising the managers in the definition of strategies and support in the management process. These activities are attached to the support related to the decisive process having as orientation the control of the obtained results, analyzing the variation of real results versus the expected results, as well as all the mechanisms of controls necessary for organizations to achieve their objectives.

In this study the concept of Controllership is in accordance with Almeida, Parisi e Pereira (2001, pp. 344-345) who defend this area in two ways:

The Controllership is divided into two vertexes: as a branch of knowledge is responsible for the establishment of technical and theoretical basis and as an administrative unit is responsible for the "dissemination of knowledge, modeling and implementation of information systems", acting as a "unifying organ and driver of efforts of the other managers that lead the global optimization of the organization.

Several other studies such as Willson, Roehl-Anderson e Bragg (1995), Anthony e Govindarajan (2006), Bornelli (2006), Vaivio e Kokko (2006) defend the idea that the Controllership must actively participate in the process of managerial decision and formulation of strategies leaving of emphasize the role of compiler numbers ("*number-crunching*", "*bean counter*"), to occupy a more articulated and committed of support to the decision-making ("*business partner*"), from the understanding of the market direction and the business complexity.

Freitas and Lunkes (2011) assert that, although there is no consensus on the concept or definition of Controllership between the experts of the area, the focus is the supply of information for decision-making on an effective and efficient way, by supporting the process management, aiming to achieve the expected results. The authors add that the analysis of the factors that influence participation and definition of the controller in the management process is essential for the optimization of its activities and improvement of its performance in the organizations. In that sense, the aim is to understand the performance of the organizational unit that develops activities and Controllership functions and how they reflect within the organizations.

Anthony e Govindarajan (2006) observe that countries and even regions of the countries themselves have different cultures, which can affect the management control system project and have implications for the planning and control processes of the organizations. Besides that, the development and the performance of the areas related to Controllershship have as a mainstay the business characteristics of the organization , as well as its principles of operation, which is strongly represented by a set of beliefs and values, usually resulted from its partners and founders (Catelli, 2001).

The Controllershship, like all other areas of responsibility, is directed to the mission accomplishment and continuity of the organizations. In this sense, the organizational model of the Controllershship must be based in the delineation of responsibilities, on the functions and its position in the organizational structure of the companies. In the study of Gordon and Miller (1976) it was identified that, in the literature of organizations theory, several authors as Woodward (1965), Lawrence and Lorsch (1967), Burns and Stalker (1961) and Perrow (1967) talk about discoveries about the types of adequate organizational structure, depending on the environmental conditions and the need for sophisticated organizational devices that varies according to the degree of dynamism, heterogeneity and hostility of the environment.

In this sense, Oliveira, L. M. (1998) establishes that the functions and activities of the Controllershship activities may vary from company to company, due to factors such as its size, diversification of the activities, level of centralization and number of factories and branches. Meanwhile, Borinelli (2006) questions this argument, because the author did not provide empirical results to prove this situation. Other researchers, such as Catelli (2001), talk about the Controllershship as a field of the knowledge and administrative unit, and others, like Oliveira, L.M. (1998), Peleias (2002) and Padoveze (2004), established it as a structured organizational unit. It is observed that there is no consensus on the Controllershship issue in Brazil.

To Donaldson (2001), the contingency theory establishes that there is not an unique organizational structure, and do not exists one that can be valid for all organizations. The optimization of the structure goes to depend on certain contingency factors such as the strategy, the size and the technology. Allied to these organizational characteristics, there is also the reflection of the environmental influence in which the organization is, in other words, so that the organization continues, needs to adapt its structure to its contingency factors and also to their environment. Several studies have suggested that such contingency factors have impact on the design of the organizational structure (Simons, 1987; Donaldson, 2001; Chenhall, 2003).

Borinelli (2006) proposes the Conceptual Basic Structure of the Controllershship (CBSC) to guide how the Controllershship should work as a line organ wherein the management process and decision-making happens along with the other organs and organization functions, being directly to the Presidency. As may be seen, among the researchers there is no unanimous position regarding the hierarchical question and the level of authority. However, it is understood that the typical activities of the Controllershship can happen in a disseminated form throughout the organization, when one have the processes view. On the other hand, it is observed that in literary and in practice terms, the area of the Controllershship can be found in organizations with similar names, such as: Control, Planning and Control, Accounting, Management Accounting, among others.

On this study, however, the Controllershship is considered as an administrative organ that materializes in the organizations such as organizational unit, with a mission and objectives. To the understanding of their role in this environment, the Controllershship is investigated about their functions and activities, and performance on the organizations. Guerra (2007) and Junqueira (2010) talk about the management accounting from the perspective of the contingency theory, identifying that the pioneer researches of Burns and Stalker (1961), Chandler (1962), Woodward (1965) and Lawrence and Lorsch (1967) began the search for the understanding of how factors such as environment, size, technology and strategy interferes in the process of the organizations management, contributing to the emergence of the contingency theory.

### 2.1.1 Controllershship Functions

In what refers to the functions and activities of the Controllershship, one can notice several lines of thought among the researchers, some convergent, other divergent. Kanitz (1976) assures that the Controllershship has its origins on people that performed positions of responsibility in the accounting or finance departments, as these professionals had the ability and the broad vision of the company, to detect problems and propose solutions.

Willson, Roehl-Anderson and Bragg (1995) establish that over the years there have been many changes in Controllershship functions, and through these reviews, there is an indication of the basic responsibilities and activities that can be categorized as: planning, control, information, accounting and other primary responsibilities.

In this same line of thought, the importance of the action of the Controllershship is to provide consistent informational support to the managers by monitoring the real situation of the company real situation, to define the decision-making of the direction to be followed by the organization in accordance with the objectives and strategies of the companies. As for the activities and functions of the Controllershship may be divergence in the assignments of the several areas or organizational units (for example, planning and control department, management information, etc.) in order to meet the organization's needs, however the activities and functions of the knowledge area of the Controllershship do not vary. (Willson, Roehl-Anderson & Bragg, 1995; Borinelli, 2006; Beuren; Costa & Fietz, 2007; Lunkes, Schnorrenberger, Gasparetto & Vicente, 2009).

Thus, it can be verified that many authors use the expressions functions and activities of Controllershship to define it. To Padoveze (2004), the Controllershship, beyond the management functions, has assigned regulatory functions related to accounting issues, corporate and tax legislation. The authors emphasize that there are many deviations to the basic functions listed at the above topic, stating that the controllers should not be limited to them.

The planning and control functions are extremely important to the success of organizations that overload the controller with activities that other managers themselves could be developing. Complementing, Borinelli (2006) considered on the CBSC the functions: strategic management, costs, asset protection, internal controls, and risk control, whereby the area of knowledge of the Controllershship takes shape in the organizational environment. Based on these listed functions, it is observed that the Controllershship may play different roles in the organizations, from the primary, like the accounting records and related to the tributes, as to the more complex functions of strategic management and information management, should be aligned with the objectives of the Controllershship and also with the mission of the company.

The Controllershship as a corporate governance tool, guides the controller for the creation of information focused particularly at disclosure and the accountability (obligation to report the results), aimed at the providing transparency of the diffusion of financial reporting, aiming the reduction of information asymmetry (Nascimento & Bianchi, 2005).

The management accountants, especially in multinational companies with divisional Controllershship, have adopted multiple functions in order to provide subsidies for troubleshooting, and has become important, owing to the increasing of environmental uncertainties that require new and different information requested by the general managers of the units (Emsley, 2005).

#### 2.1.2 Divisional Controllershship

It must be considered that there is a strong division of the companies, by the impossibility of only one person make all the decisions involved in the management process, which is the fundamental assumption of decentralization processes. In this sense, the Controllershship has the key role to be the inductor of the actions of managers for global optimization of the organization, with the continuing challenge to provide the appropriate information so that managers can direct their efforts and focus on their fields, aiming to achieve effectiveness in making their decisions in finding the best possible results.

One of the advantages of structures with business units is that they are in direct contact with the market in relation to its products, (contrary to the headquarters of the company), in which the executive chief may have agility in decision-making and may react faster in situations of risks and new opportunities. In this sense arises the importance of divisional Controllershship in informational support to the managers for decision making.

Anthony and Govindarajan (2006) assert that the controllers of units inevitably have their loyalties divided as it has some subordination to the controller of the headquarters, and on the other hand must be subordinate to the general manager of the unit, as they are responsible for giving them all the necessary informational assistance. This theme is crucial in management accounting, as stated Indejikian and Matejka (2006), as the controllers serve two broad objectives in organizations: to facilitate decision-making for the unit managers and mitigate the problems of controls to attend corporate Controllershship.

The adequate relation between the unit controller and the headquarters controller is questionable, as there is double responsibility as to the functions of the controller, generating conflicts about the need to have or not the functional responsibility of reporting to the headquarters in a legitimate and objective way the economic situation of its unit to facilitate corporate control; and, on the other hand, there is the local responsibility to provide all information to facilitate the strategic and operational decision-making, which may be adverse to the expected by the headquarters. In this regard, researchers like Sathe (1982) and Maas and Matejka (2009) identify this situation of conflict between the functions of "watchdog" or "corporate policeman" for corporate

Controllership and "advisor" or "business partner" (business advocate) to the general manager of the unit (Loo, Verstegen & Swagerman, 2011; Maas & Matejka, 2009).

According to Prenger (1972), the controller should report directly to the Unit Manager and wait for guidelines from the corporate controller this way the divisional controller has the responsibility to ensure that the results of the unit are recorded appropriately to reflect real results of the business unit, with the responsibility to ensure that the established procedures regarding the protection of the patrimony of the corporation are in accordance to the policy and company procedures (Loo, Verstegen & Swagerman, 2011). This is a recurring approach when the issue involves the Divisional Controllership as to support the local Controllership, as well as corporate Controllership and how professionals has managed these issues.

### 2.2 *The organizations from the perspective of contingency theory*

The contingency theory. The contingency theory emerges in the late 1950s and early 1960s and somehow contradicts some of the earlier universalist theories, which establish an adequate way of the company to organize itself and this theory could be applied to any company (one best way). In contrast, the contingency theory considers that there is no single way to get organized. This way of thinking indicates that companies are systematically adjusted to environmental conditions (Donaldson, 2001). Otley (1980) corroborates that thought, saying that the general context of the companies requires a continuous adaptation.

Guerra (2007) notes that some ingredients are essential in this view of contingency approaches, for example, the importance of situational factors that may contain external or environmental factors as internal or organizational factors. The difference is on the characterization of these factors in independent variables, such as the external environment and technology, where the organization does not exercise any form of control, and may at most react to the changes and dependent variables, composed of various elements, such as strategy, organizational structure, size and culture, over which the organization exercises broad control.

This his is the vision normally disclose, although there are recent studies questioning about the simple reason of cause and effect of contextual factors involved in the contingency approach and their influence in organizations. (Donaldson, 2001)

Morgan (2006, pp.63-64) summarized the main ideas on which it is based the contingency approach of the organizations, which has established itself as a dominant perspective in modern organizational analysis, noting that: i) organizations are open systems that need to be carefully managed to meet the balance of internal needs and adapt to environmental circumstances; ii) there is not a better way to organize itself, the appropriate form depends on the type of task and the environment in question; iii) management needs to be concerned, above all, to achieve alignment and "good adjustments"; iv) different approaches of administration may be required to perform different tasks within the same organization and v) different types or organization "species" are required in different types of environments.

The pioneering researches of Burns and Stalker (1961), Woodward (1965), Chandler (1962) and Lawrence and Lorsch (1967) started the search for understanding of how the contingency variables (environment, technology and strategy) impacted the organizational structure, giving rise to the contingency theory, because the approach of the classical theory cannot answer anymore the context in which they insert organizations with an unique management (*one way*) mechanism, regardless of environmental conditions.

Chandler (1962) presented the strategy as something highly contextual in organizations, and the applied questionnaire was not explored in full form (Chapman, 1997). This seminal approach, where the strategy was considered as relatively simple, distinguishes it from later studies, with subsequent problems outlined and described in the comments of authors like Dent (1990), Hopwood (1978) and Otley (1980).

The management controls systems initially had a purpose and have been modified according to the new possibilities of organizational actions and responded in accordance with the challenges and to the pressures and circumstances of the numerous changes in the business environment (Hopwood, 1978).

Although the term "contingency theory" was only used in 1967 by Lawrence and Lorsch, the work of the sociologist Joan Woodward, Management and Technology, can be considered as the initial work of the contingency approach. The author found that the structural variables were connected with the nature of the technology of the companies surveyed. The study was a pioneer by showing quantitative results of the relation between technology and structure in 100 British companies from various business areas, organized by South East Essex College of Technology (Guerra, 2007; Junqueira, 2010).

Chenhal (2003) provided an empirical review of contingency work about the management control system developed since the '80s, establishing that the term "contingency" means that something is true only under specific conditions. Therefore, given the variety of theories that can be used to explain the conditions relative to management control systems that can be associated with its performance improvement, there would be no "contingency theory". He noted that the external environment is a powerful contextual variable that is the basis of contingency theory, and perhaps the most widely researched aspect of the environment is the uncertainty. He argues that the more hostile and turbulent is the external environment, the greater is the reliability of formal controls and the emphasis on traditional budgets.

Relative to the size, according to Child and Mansfield (1972), growth in size has allowed companies to improve their efficiency, providing opportunities for specialization and division of labor. Big organizations tend to have more power to control their operations from the environment and when they employ large-scale mass production techniques they reduce the uncertain tasks. However, when an organization becomes larger, the need for executives to manage large amount of information grows to the point that should be instituted controls such as: rules, documentation, specialization of roles and functions, with consequent increase of the hierarchy and increased decentralization in the structural hierarchy.

In the case of technology, for Waterhouse and Tiessen (1983), the contingency theory essentially establishes that efficient organizational structures vary according to contextual factors such as the organization's environment and technology. In this sense, D'Avila (2005) establishes that the size has been used to explain the variation between management control systems models, the survival of new companies and the model basis of the lifecycle (Kazanjan & Drazin, 1989). With the experience based on the management control systems models, the size of the company is proposed as a director in all cases.

In contrast, Cadez and Guiding (2008) investigated the effect of strategic choices, market orientations and company size in two different dimensions of the management accounting systems about the artifacts and the accountants role and the effect of these systems on the performance of the company. The results confirmed the central proposition of contingency theory in that there is no universal management control system and the organizational performance depends on the adequacy of the organizational context and structure. The use of management controls systems is strongly associated with specific strategies, company size and the participation of accountants in the process of making strategic decisions.

As to their strategy, in the study of Jokipii (2010) was observed that the strategy of organizations is one of the main contingency characteristics that affect the control system of companies and, depending on that strategy, as evidenced by Miles, Snow, Meyer and Coleman Jr. (1978), the control system can be used in different ways. Based on previous organizational studies of Langfield-Smith (2005) and Chenhall (2003), we can see that certain types of control systems are better suited to certain strategies.

According to the dimension of the typology of Miles and Snow, based on the research conducted in four segments: didactic books, electronics, food processing and health care, there is a proportional relation according to the change of their products or markets, and successfully identified three generic strategies of the organizations, which were labeled as: i) prospective - compete through new products and growth markets and is constantly looking for new opportunities and markets; ii) defensive - operates in relative stability of products and areas, compete according to the costs and quality of services, commit to few products and growth markets; and iii) analyzer - are intermediate or hybrid being among those of defensive and prospective strategy (Miles et al., 1978).

Covaleski and Aiken (1986) presented an exploratory study of how the accounting systems and their functions were developed and their relationships with the coordination and control activities in the organizations, considering the problematic of social and organizational aspects of public and private companies. In this research, were made critics to the contingency approach for presenting references to the organizations and units survival from the perspective of the population of the organizations on the issues of adaptation to the environment and not of the organizations individually, in the sense of how organizations change and transform themselves to a better fit with their environment for their survival.

Considering the sociological approach in which organizations see themselves in a broader social context, to Aguiar and Frezatti (2007) the contingency theory adopts a functionalist perspective that, according to Covaleski e Aiken, (1986, p. 310), "[...] emphasizes the ways in which several functions are carried out in societies and the contribution of these functions for the integration and, ultimately, the survival of the collectivity".

The research of Silva and Gonçalves (2008) aimed to characterize the use of the budget system using the contingency approach in a multi case study, in which we used the items technology, participation, budget monitoring, integration of the budget system and emphasis on use, in relation to the corporate factors size, diversification, decentralization, dynamism and market participation. It was concluded that the results converged almost entirely with previous empirical studies, indicating that the corporate context variables help to explain the shape and implications of how the budget system is used in the organizations.

In contrast Beuren, Czesnat e Silva (2009) focused on the environment in which the agro-industries of meat and meat products of publicly traded are inserted, trying to verify the role of the Controllershship in the adaptation to the contingencies identified in its annual reports. The results showed that companies are prepared to face the legal, political, ecological and health, economic, administrative and market contingencies through established plans and that the Controllershship has a key role in helping to the problem solving and mitigation of risks coming from identified contingencies.

Junqueira (2010) concluded that, to be maintained the relevance on studies about contingency approach to management controls systems, researchers should focus the attention on the contemporary issues regarding the results of organizational and social contexts, in areas such as strategy, cultural and organizational changes, manufacturing , information technology and human resources management.

### 3 RESEARCH METHODOLOGY

Considering that the objective of this research was to investigate the influence of contingency factors in the divisional Controllershship area in two foreign subsidiaries of a multinational company, it was understood that the most appropriate way would be the descriptive-qualitative research. To Martins (1994, p. 36), the purpose of descriptive research is "the description of the characteristics of a certain population or phenomenon, and the establishment of relations between variables and facts." The qualitative approach, in agreement with this type of research is characterized by a greater focus on the meaning and understanding of the facts, unlike the quantitative approach that is characterized by its measurement and accuracy results (Minayo, 2010).

The research delimited the Controllershship area of two subsidiaries of a multinational company, regarded as one of the biggest compressed air systems manufacturers in the world, with decades of experience, based in Germany. The company was selected for this study because of being able to provide opportunities and discoveries related to the Controllershship area of an European multinational company with actants subsidiaries in various countries on all continents. The subsidiaries were chosen by the fact of stand out from other subsidiaries of the group, having in consideration the revenues and economic performance. As for the location one has: a) subsidiary located in the United States, in the state of Virginia, in the city of Fredericksburg, referred to in this study as subsidiary "A" and the answerer as RA and b) subsidiary located in Mexico, in the state of Queretaro, in the capital Santiago de Queretaro, referred to in this study as subsidiary "B" and the answerer as RB.

The collaborators of this study were 02 professionals of the Controllershship area, 01 (one) controller and 01 an accounting financial manager. These professionals were selected because they are the main actors in the divisional Controllershship area of the researched subsidiaries. Data were collected through a semi-structured interview and a questionnaire. Collect instruments were about the influence of contingency factors in the divisional Controllershship area.

The interview aimed to know the performance of divisional Controllershship area in subsidiaries and followed a previous script which consists of four parts, namely: **a)** in the initial part was tried to collect the profile of the respondents such as: age , professional experience, academic training and data about the company; **b)** the second part aimed to identify the role of the American controllers in comparison to the Mexican controllers. This part of the interview followed the study of Borinelli (2006) and Linhardt and Sundqvist (2004), consisting on questions such as: Existence and identification of the administrative unit Controllershship; controller subordination; Controllershship Functions; controller Profile; **c)** The third part of the script aimed to know the support of the Controllershship in terms of support to unit decisions. This part of the instrument was based on the study of Emsley (2005), which examined the degree of involvement of the role of the controllers in the business units or functional orientation of accounting. So, one has elaborated a question focused on the decision support unit investigated; **d)** the fourth part of the interview was to identify the support provided to the Controllershship area, the study of Indjejikian and Matejka (2006) and encompassed questions that aimed at identifying the performance of the divisional controllers and how occurs the decision support in the investigated units.

With the objective of ensure ethical principles before the interview, the collaborator was informed about the research objectives and signed the term of free and clarified consent. The set of predefined questions allowed direct the discussion and complement it with additional questions.

The questionnaire aimed to complementary the understanding of the Controllershship area performance in terms of organizational structure and was composed of three big dimensions with questions, namely:

- The first part is based on the framework presented in the study of Borinelli (2006), that focused on the CBSC and discussed the activities and functions through which the Controllershship knowledge area is materialized in organizations, from questions relating to the actuating form on the organizational structure of the Controllershship area;
- The second part aimed to verify the responsibilities of the controller and treasurer in organizations according to the study of Willson, Roehl-Anderson and Bragg (1995) according with questions concerning the organizational structure of the Controllershship in companies;
- The third part aimed to characterize the contingency factors present in the researched subsidiaries and included questions such as: size variable characteristics; variable characteristics strategy; variable structure characteristics; variable technology characteristics and environment variable characteristics.

The data collected through questionnaire with semi-structured questions and data relating to the interview with questions, were analyzed using content analysis, according to Bardin (2004).

#### **4 RESULTS AND DISCUSSIONS**

After the collect, analysis and interpretation of data in view of the size of the collect instruments, was tried to find categories of analysis and/or topics/themes. Due to the contents of the reports and questionnaires answers was showed up meaning units and/or analysis categories which were grouped into three general thematic presented below: a) presentation of the studied subsidiaries; b) brief profile of the respondents; c) the influence of contingency factors in the performance of divisional Controllershship.

##### *4.1 Presentation of the studied subsidiaries*

Both companies are subsidiaries of a family group based in Germany acting for about 90 years, with more than 4,400 employees around the world and consolidated annual revenues of more than 600 million Euros. The subsidiary "A" is based in the USA and market leader in distribution of capital goods for supply and compressed air treatment, with a full product line of air systems, and is considered the main subsidiary of the multinational company at issue . It has about 20 subunits, working in the market for 27 years, having consolidated their position, even in the periods of recent crises that struck the country. The subsidiary "B" is based in Mexico and has had a significant growth due to the good acceptance by the quality of goods and services provided to their clients, who seek a perfect combination of reliability and efficiency mainly regarding energy consumption, worrying also with the question of reducing the damages to the environment. The company is between the 5 (top five) largest subsidiaries, having approximately 5 subunits.

##### *4.2 Brief profile of respondents*

On this topic aimed to identify and qualify the respondents. In order to maintain their anonymity they were named as Respondent A (RA) of the American subsidiary and Respondent B (RB) of the Mexican subsidiary. The collaborators are male, RA has 44 years and RB 37, with a difference of 07 years between them. About the formation, RA have a bachelor's degree in media and a master in accounting. RB has the bachelor's degree in accounting sciences. About the position held is known that RA is Financial Controller and RB is Accounting and Financial Manager . In relation to the acting time at the company and at the current post, RA has been at the post and at the company for 06 years, as RB is at the company for 09 years and at the current position for 8.5 years. Concerning the time of experience in Controllershship, RA has 12 years and RB 8.5, there is a difference of 3.5 between them.

##### *4.3 The influence of contingency factors in the performance of divisional Controllershship*

On this topic are presented the results regarding the influence of contingency factors (size, strategy, technology, structure and environment) in the divisional Controllershship area in two foreign subsidiaries of a multinational organization.

###### **4.3.1 - Referring to the Size**

The subsidiaries size was measured in accordance with the number of employees in the company and in the Controllershship area at the moment of the research. The data indicates that the Mexican subsidiary has 113 employees, 3 of them at the Controllershship area, while in the American has 439 employees, 22 of them at the Controllershship area.



According to the Mexican respondent, the company is considered a medium size, and to the American respondent, the company is considered a big size. It is noticed that in this category exist a direct relation between company size, number of employees working at the company and the area of Controllershship, the larger the size of the company, the greater the number of employees who work in the Control area.

Another observation is how much autonomy of the Controllershship area, in the larger subsidiary (American) the position at the organization chart affects the controller to a hierarchical superior which reports to the general manager, existing an intermediate level. In the Mexico subsidiary that does not happen, existing a direct reporting to the Executive responsible for the unit. This situation is evidenced in the RA speech : *"In the USA I report myself to the Financial Director and Human Resources, which reports it to the General Manager of the subsidiary and, obviously, to the corporate Controllershship in Germany"*. The RB also clarifies this subordination when he says: *"My report is for the General Manager and certainly I can send you the organization chart, you'll see it's a little confusing, because it is considering the subunits as well."*

According to reports, in the American subsidiary there is an administration level between the controller and the general manager, which shows that the size factor has influence on the structuring of activities, authority and autonomy of the Controllershship area. These results reinforce the ideas of Child and Mansfield (1972) that the growth in size has allowed companies to improve their efficiency, providing opportunities for specialization and division of work, where D'Avila (2005), states that the size has been used to explain the variation between management control systems models, the survival of new businesses, and the base model of the life cycle of companies.

The frame 01 presents a summary of reports of the interviewed managers that reinforce the inferences, discussions and statements made until now.

According to the questions and opinions of management presented in Frame 01, it can be said that there is a positive association between the size, functions and activities developed by the Controllershship area. So, it was not possible to find significant differences in activities of planning, control, reporting and interpretation of results, accounting, taxes, strategic planning, cost of goods, safeguarding of assets, internal controls, risks control, government and legal regulations, budget processes and improvement processes. Best interpretation However, there is not a positive association between the size, functions and activities developed by the Controllershship area. So, it was not possible to find significant differences in the structures of activities of planning, control, reporting and interpretation of results, accounting, taxes, strategic planning, cost of goods, safeguarding of assets, internal controls, risks control, government and legal regulations, budget processes and improvement processes.

It was not possible to observe the segregation of the Controllershship and Treasury functions, in the American subsidiary and in the Mexican, because both respondents said on survey responses that these functions are concentrated in the Controllershship area, although in terms of size, the American be much more bigger, which according to Schmidt Neto (2004) there is a paradigm break occurring in the medium and big size companies due to the *downsizing*, as advancement and development of technology, with the fusion of the Controllershship and Treasury areas, affecting the affecting the way the professionals perform.

It was concluded that there is a prominent homogeneity in subsidiaries about the guidance for internal controls, when respondents were asked about the role of the controller and its main responsibilities, the following responses were obtained:

"I think that the assignments are safeguarding the assets, properly record the assets and liabilities, to ensure that regulatory reports and that taxes, fees and licenses are met, ensure that people follow the corporate policies, you know, there are many activities and are important that the established internal controls are sufficiently improved to meet all these assignments". (American Subsidiary - RA).

(...)

"The main activity for the controller is to verify if all operations are being provided correctly, if all the procedures established by the company and if the controls are being monitored to prevent frauds." (Mexican Subsidiary - RB).

As noted in the above reports, it can be perceived in the statements of both respondents the coherence on the issue of the importance of safeguarding assets, denoting the concept of coercive isomorphism where political influence and legitimacy of the headquarters are the result of formal and informal pressures exercised in the organizations. (DiMaggio & Powell, 2003).

#### 4.3.2 - Strategy

Considering the factor **strategy**, in this category it was verified that the Mexican subsidiary is characterized as prospective, in which it is noted a positive association of the Controllership relatively to the informational support linked to the business performance. It can be seen a big valorization of the predictions of the data, careful monitoring of results and budget goals. This statement is in accordance with the response of RB from the Mexican subsidiary when he says that: “[...] *the main change was in terms of the increasing of the employees and increasing of the sales due to well acceptance by our customers, due to the quality of our products*”. In the American subsidiary, according to the questionnaire answer, was identified the general organizational strategy classified by Miles et al. (1978) as **Analyzer** where there is a concern oriented to the products costs. This result is in agreement with the studies presented by Simons (1987) and Smith (1997), despite the Mexican and American subsidiaries adopt different strategies. No differences were observed in relation to the functions and activities of the Controllership, being ratified the orientation by internal controls as well as the segregation of internal areas under the responsibility of the Controllership.

These results reinforce the idea that there is a positive association between the forward-looking strategy and the support of the Controllership to the operation, there is an increasing pressure by performance. Concerning to the budget control, the RB of the Mexican subsidiary says: “*Based on the reports and their bad interpretation, we can establish corrective actions to achieve the company objectives, reduce costs, knowing the result of each sale, check the current position, relatively to the previous year and to the budget.*” According to RB, are made monthly financial analysis and reports about the goals of each seller and are analyzed the contents of each branch and made comparative studies of the three years period as the result of each branch. It was also reported that are made rotating inventories and reported adjustments.

#### 4.3.3 - Structure

About the **structure**, in this category it was verified that the degree of authority, in both subsidiaries, is limited in terms of strategic decision-making, remembering that they are part of a bigger group, where the strategic guidelines are usually directed by the headquarters. In multinational companies there is an ethnocentric vision, where the headquarters executives have a superior vision of the subsidiaries established in foreign countries (Frezatti et al. 2009).

For questions concerning the formalization and authority, about the degree of formalization, the respondent of the Mexican subsidiary says that tasks are clearly specified, with well-established performance criteria, existing manuals for the employees with detailed descriptions of the tasks and that the majority of operational decisions are made by the lowest management level, and is allowed that its management styles vary from informal to formal.

On the other hand, the subject of the American subsidiary believes that there are no formal descriptions of the tasks to be done and that the manual for employees contains only the basics principles, since the operational decisions are taken by senior managers, whose management style expects to be uniform.

Relative to the degree of centralization, it is observed that American subsidiary is characterized as mechanistic, which is more bureaucratic, with detailed division of work, reinforced hierarchy, reinforced authority and more compatible with stable environments; and the Mexican as organic, which are more flexible, with little division of work, decentralization and autonomy. With the decentralization, the tasks become more complex, and responsibilities are delegated to the more operational levels that increases the power of decentralization and responsibilities.

Thus, the Controllership acts to provide informational support giving subsidies and allowing the analysis and the evolution of the results. This apparent contrast presented regarding the formalization by Lawrence and Lorsch (1967) and Chenhall (2003) when analyzed this issue in Mexican subsidiary, according to Gordon and Miller (1976), can be explained by the more dynamic and heterogeneous environment of the Mexican subsidiary that, for being decentralized, there is an increase of the requirements for a more formal control in place of the informal controls.

#### 4.3.4 - Information Technology

Relatively to the **information technology**, the results reveal that the American subsidiary values the information technology on a greater degree that the Mexican subsidiary with significant use of the *e-commerce, Supply Chain Management, Just in Time, Total Quality Management, Customer Relationship Management and the Enterprise Resource Planning*. This standardization of processes that promote systems in a general way, tend to

minimize the risks inherent to operations, facilitating the operational and risk management in the Controllershship, confirming the centralization position in the decisions (Lira, Parisi, Peleias & Peters, 2012).

#### 4.3.5 - Environment

Relatively to the **environment**, the Mexican subsidiary operates in a more hostile and more dynamic environment, while the American subsidiary operates in an environment equally hostile regarding the economy and governmental aspects, but less dynamic in terms of competition, and both act in an environment where there is much heterogeneity in terms of action of customers and suppliers.

For the more dynamic and hostile environments with relation to respect to controls, the management control systems can become more sensitive and sophisticated (Gordon & Miller, 1976). The requirements are increased, for a more formal control in place of informal controls and in these more complex environments there is a greater need of information of control of management systems to evaluate the performance through the business management results, seen in the Mexican subsidiary. In more stable environments the costs controls are appreciated, with standardized reporting, as identified in the American subsidiary.

Aiming to provide a summary of the results and illustrate the points of approach and divergence between the divisional Controllershship analyzed, was elaborated the Frame 02 presented below.

These results are in agreement with the studies of Otley (1980) and Fisher (1995) when they say that the determination of contingent factors can be an interactive process and when combine and identify these contingency factors has been found consistent results regarding the selection and effectiveness of management controls systems, even if its noted that there is a lack of clarity and consistency in the application of contingency theory and that in theory and in practice are fragmented, beyond relations and causes between the contingent variables are still unknown, stating that there was significant advances, but still remains much study field to be explored.

## 5 CONCLUSIONS AND FUTURE SCENARIOS

This research aimed to investigate the influence of contingency factors in Controllershship area in two foreign subsidiaries, one located in the United States and the other in Mexico, belonging to a multinational organization. It was found that the contingency factor **size** influences the organizational structure in the bigger subsidiary (American), where the position in the organization chart determines the controller to a local hierarchical superior which reports to the general manager, existing an intermediate level. In the Mexico unit exists the direct subordination to the executive responsible for the unit. It was not possible to observe the segregation of the Controllershship and Treasury functions, in the Mexican subsidiary and in the American. These functions are concentrated in the Controllershship area, although in terms of size the American is much bigger.

About the **strategy** factor it was verified that the Mexican subsidiary is characterized as prospective, in which is noted a positive association of the Controllershship concerning the informational support linked to the business performance. It is perceived a big appreciation of the data predictions, careful monitoring of results and budget goals. In the American subsidiary it was identified a generic organizational strategy classified as analyzer where there is a concern more focused on the products costs. About the **structure** it was verified that the authority degree in both subsidiaries is limited in terms of strategic decision-making.

About the **Information Technology**, the results reveal that the American subsidiary, values the information technology on a bigger degree that the Mexican subsidiary with significant use of various systems. About the **environment** factor, the Mexican subsidiary operates in a more hostile and more dynamic environment, while the American subsidiary operates in a also hostile environment relative to the economy and governmental aspects, but less dynamic relative to the competition, and both work in an environment where there is not much heterogeneity in terms of customers and suppliers action.

As possible general conclusion of the research is partially confirmed the literature impression referenced in this research about the contingency approach that something is true only under specific conditions, in this sense, to generalize is very complex. This applies in part to the performance of divisional Controllershship depending on the correlations of the various contingency factors that impact its operations and through theoretical and empirical research seeks to know what would be best appropriate under these conditions. But was also clarified the effect of coercive isomorphism in divisional Controllershship, minimizing the effect of contingency variables in its structure.

It is understood that one of the limitations of this study resides in the impossibility of generalizing the results obtained, because it is a qualitative research based on two subsidiaries and on the difficulty of obtaining a wider sample of this specific multinational organization. Another factor to be considered refers to the questionnaire responses in the English language, about the difficulty of translation due to the various meanings that a word can have in another language, although several precautions have been taken for the translation of collected data.

This research contributed to the understanding of the influence of contingency variables in the performance of divisional Controllershship evidencing, for the case studied, which aspects of the Controllershship performance can be partially explained by the contingency theory. As future research are suggested: a) the replication of the study to other enterprises and subsidiaries; b) others researches to investigate which are the effects of coercive isomorphism of the headquarters in subsidiaries; c) research that seek the effects of the influence of organizational culture on the structuring of the divisional Controllershship in the organizations, especially the multinationals.

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Manager of the American Subsidiary (RA)	Manager of the Mexican Subsidiary (RB)
<b>Concerning the planning?</b>	
"Planning is important, although most of the responsibilities are shared with my director, without planning is not possible to administer an enterprise"	"The planning shows the way to fully achieve the objectives proposed by the enterprise."
<b>Concerning the control?</b>	
"Everything needs to be in control, to know what type of action to take, according to the deviations that had to be made to make the analysis to get it right, so planning and control are very important".	"Based on the reports and their interpretation, we can establish corrective actions to achieve the objectives of the enterprise, reduce costs, knowing the result of each sale. Verify the current position and over the previous year and the budget. "
<b>Concerning the reports and interpretation of results?</b>	
"Every time reports with multiple numbers are required, then know how to interpret them and explains them is critical to the controller".	"By the Accounting we can verify the reliability of information for decision-making, payment of taxes and other information, as well as responsibilities with accounts receivable and payable."
<b>Concerning the Accounting?</b>	
"In Accounting, certainly there are a lot of day to day activities, including the registration and control of accounts payable, accounts receivable, accounting sheet, management of fixed asset, etc. It is one of the Controllership basis. "	"Without the Accounting cannot speak in Controllership".
<b>Concerning the taxes?</b>	
"There are a number of losses of cash in enterprises, why taxes are not managed properly. In my opinion, there are two drains where the money vanishes: product costs and taxes. In the USA there are taxes on sales and services and also the income tax, which has its additions and reductions in its calculation, as well as tax records, to manage all this	"In respect of taxes is an important activity relating to the prevention of future contingencies, is fundamental to the Controllership to manage the rates and manage local and federal contributions. Another task is to approve and supervise the payment of import taxes due to the high value of this type of tax. "

we count on consultants to prepare the return of the Federal tax of approximately 33 states ".	
<b>Concerning the strategic planning?</b>	
"Regarding the strategic planning, the majority responsibilities focuses on my management, although it is also an activity of the controller, because on this position we are a consultant and should help the managers and top executives. The professional should work closely with them, to build the best strategies with the stakeholders. "	"In the Mexican subsidiary the strategic planning is not responsibility of Controllership department. This responsibility is of the general manager. "
<b>Concerning the products cost?</b>	
"As mentioned above, the cost of products is a problem, if not well managed".	"The cost of products is important to know the product gross margin, essential to know how the operation is going "
<b>Concerning the safeguarding assets?</b>	
"It is part of the Controllership area the safeguarding of assets, because this area is responsible for generating results for the enterprise, and if the assets are not well protected in all senses, be in purchasing, negotiation, to achieve a good result with good margins.	"We must to ensure that the company's assets are in good conditions and were not stolen illegally from the company. There are the joint work with the general manager and the asset purchase decision and also on the record of the result of the rotating inventories, and must be guaranteed that assets are properly recorded and protected against possible losses. "
<b>Concerning the Internal controls and risks control?</b>	
"The internal controls and risks control. I always say that we are not free of the risk. The risk is everywhere, the idea is how to manage the risks. "	"The internal controls and risks controls are used to determine if the processes are carefully obeyed and we should establish stricter internal controls".
<b>Concerning the government regulations and reports to legal authorities?</b>	
"Perhaps the government reports and reports are one of the first and main activities that we must be careful, because if the rules and reports do not comply with the legal and policy conformities of the government, the company can be excluded, it is a huge responsibility".	"It is important to comply the regulations and legal reports so there are no extra costs when these requirements are satisfied, we must ensure that policies and legal procedures are properly managed and there is adherence to them".
<b>Concerning the budget process?</b>	
"The budget process is linked to the control process, yes, is the responsibility of Controllership".	"The budget process certainly helps us to define the economic course of the company".
<b>Improving in the processes and activities?</b>	
"I believe that improvement processes are the responsibility of any area of the company, and the Controllership must ensure that process improvements are implemented in the best way".	"We seek continuous improvements in operational processes and integrate new technologies into routine operations. We work together with the responsables to achieve the objectives and meet the missions established, on the other hand, through the errors found in the process the corrective actions are established and identified opportunities for its improvement. "

Frame 01- Controllership functions

Source: Research data (2013)

<b>Contingency factors</b>	<b>Influence type of contingency factors in the area of the Controllership</b>	
	<b>AMERICAN SUBSIDIARY</b>	<b>MEXICAN SUBSIDIARY</b>
<b>Size</b>	Big	Medium
<b>Strategy</b>	Analyzer	Prospective
<b>Technology</b>	More use	Less use
Structure	Mechanistic	Organic
Environment	Less Dynamic and Hostile	Dynamic and Hostile

Frame 02- Influence of contingency factors in the performance of divisional Controllership.

**Source:** Research data, (2013).