THE MANAGEMENT AUDIT

At several times during a year, my colleagues and I receive requests from area agribusiness managers to visit their firms. As time and resources permit, we answer these requests and eventually find ourselves seated across the desk from the manager exchanging greetings and passing the time of day. Before long, however, the manager will alter the discussion and direct his comments toward the basic reason for his request. Chances are the manager has confronted a problem which requires the attention of an “outside” person. In other words, the manager has realized the need for views from an unbiased source -- someone not intimately involved with the operations of the firm nor economically dependent on the fortunes of the industry.

Instead of measuring progress against established objectives, the agribusiness industry (like many others) is prone to search for organizational stability and follow those courses of action which tend to placate opposing factions, i.e., do that which is least likely to “make waves.” In an attempt to “play it safe,” the firm soon loses sight of its objectives. At this point, a good manager acknowledges the need for an impartial analysis of his firm’s operations and requests a “Management Audit.” What is a management audit and how is it conducted? How can it be useful to a business and what are its limitations? This paper is designed to answer these and other related questions.

What Is It?

For practical purposes, a management audit may be described as a systematic and objective appraisal of the quality of management, aimed both at individual managers and toward the management team as an interlocking system of decision makers. Despite tremendous advances in both management appraisal and training, the need for further improvement in these areas is more evident now than ever before. Many agribusinesses have been moving toward the implementation of a system of appraising managerial performance wherein an outside party compares actual operating results with verifiable quantitative and qualitative goals.

How Is It Useful?

The results of the successful management audit serve a vital control function within an agribusiness firm by providing management with an objective, impartial, and competent appraisal of operational proficiency. It also provides a means for redirecting the firm’s efforts toward those objectives deemed desirable.

With the continued growth of our agribusiness firms, the importance and complexity of control becomes more apparent. As a firm grows, its manager is pushed further away from both daily operations and contacts with employees and customers. Control is even more adversely affected when rapid firm growth is accompanied by a movement toward
managerial decentralization (a phenomena often practiced within the agribusiness industry).

Financial reports can partially describe the status of a particular segment of a firm’s operation. Yet such status reports do not prove as effective when used to describe those agribusiness functions which are not well suited to the fields of finance and accounting. For example, a deterioration in the quality of the contacts between your customers and service personnel will not rapidly appear in any financial status reports. Other similar personnel problems can remain totally undetected by a manager who finds himself too far removed from daily activities.

The question of how much detail to have in the financial reports is also a real question. To cover every aspect of a firm’s operation, the report may be so long and complex as to reduce its effectiveness as a control device. Finally, there always exists the desire on the part of all firm personnel to declare only that information which “looks good” and bury that which is less favorable. The success of the management audit, therefore, is related to its degree of completeness and dependent on its impartiality.

As a tool for effective managerial control, the audit is a relatively new concept. In those cases where it has been used successfully, its form and manner of implementation have varied considerably. In fact, there exist several basic variations in the management audit.

Audit Variations

Complete management audit: The complete management audit evaluates all of the firm’s present activities and attempts to measure differences between existing policies and objectives, and actual practice. Where actual practice does not conform with the firm’s policies and procedures, corrective action is proposed. Simultaneously, the auditor may uncover weaknesses in the policies and objectives themselves, and suggest changes in them regardless of the degree of conformation.

It should be emphasized, however, that the complete audit is not a “systemized witch hunt.” It is not designed to punish the inefficient or reprimand the person who makes an honest mistake. Middle management, in particular, is often fearful that the audit is merely an impersonal means for quickly purging the organization of those who have fallen out of favor with top management. Yet, in truth, the complete management audit is conducted from a positive, not a negative, viewpoint; i.e., when weaknesses in operations or people are uncovered, non-vindictive suggestions are rendered with the hope of improving the operational performance and the productivity of the people concerned. In a similar vein, auditors must be trained to acknowledge superior performance and call this to the attention of the appropriate persons.

Compliance management audit: Under the compliance audit, auditors are asked to identify differences between existing policies and objectives, and actual practice. However, in this case, the auditors are absolved of any responsibility for making recommendations for improvements. Instead, the auditors report the observed differences to top management. Top management must then consult with its personnel to decide if, what, or how corrective action can be taken.

The major attribute of this type of audit is that it eliminates the fear of a series of organizational directives being placed on the
firm by an outside party. However, this attribute may also become the audit’s major limitation because it fails to take advantage of the full background, knowledge and experience of the auditors. Nor does it exploit the possible benefits to be derived from observations made by trained outside specialists.

**Program management audit:** The method and mechanics of the program audit does not differ substantially from those outlined for the complete management or compliance audits except that the scope and the direction of its activities are focused on a specific program. For large diversified agribusiness firms, the program audit is designed to appraise performance within a specified program while in no way disturbing other firm operations. As such, it is well adapted to larger firms which operate multiple in-house programs or deal with several distinctively different commodities or products.

Similarly, for those firms holding different contracts for the sale or purchase of products or services, the program audit is often included as a separate condition for each contract. Since such audits become mandatory, management will generally find it to their advantage to construct an audit design such that the reporting procedure of each is consistent.

**Functional management audit:** As one would expect from the title, the functional audit is designed to measure variations between actual performance and objectives, with a particular emphasis on a specific function rather than a program or total firm operation. For example, those agribusiness firms engaged in food processing may regularly schedule an audit of their quality control function. Such an audit will provide a continual check on the proficiency of internal controls over the quality of products sold. The importance of such a check has become more obvious in this era of increased consumer consciousness, recalls, and court suits.

**Practical Limitations**

Every management audit, no matter how badly needed or efficiently implemented, is likely to generate some human relations problems for the firm concerned.

A generally receptive management attitude must exist throughout a firm if an audit is to prove effective. If an audit is imposed on the firm by a dictatorial management, the chances for success are small, indeed. Line management must not fear the audit nor look upon it as a threat to their job security. If such an attitude does exist, the audit is open to sabotage at numerous phases and the results, therefore, will be lacking in the needed credibility.

A major limitation in implementing a management audit, therefore, is related to the selection of audit personnel. The auditors, of course, must be competent in background, experience, and professional ability. But in addition, they must demonstrate an ability to deal successfully with human relations problems. In other words, they must be able to objectively appraise the actions of others without generating undue suspicions and, thereby, adding to a set of already strained conditions. As already noted, the natural feeling of someone being audited is one of defensiveness; i.e., the auditors are working for the boss who is “out to get me.” This attitude must be avoided. To do so, the better auditors will establish a pre-audit condition expressing their willingness to discuss their evaluation with the affected personnel before it is reported to higher management. In many cases this will evolve
into a negotiation-discussion process whereby those concerned begin to view the audit as a way in which weaknesses may be pinpointed and their performances (and rewards) improved.

Finally, essential to the success of the audit is a willingness by those being audited to accept change. Too many in management positions, particularly those who have risen through the ranks, feel that the current way of doing business is good enough. They may be allowed to retain this belief only if the audit supports their contentions with facts. Rarely will this be the case, and even if it were, the “good enough syndrome” will eventually destroy all desires for continual improvement. The audit is designed to pinpoint strengths and weaknesses in the firm’s operations. It is up to management at all levels to implement rewards or corrective action. If no action is taken in response to the auditor’s findings, then the effort has been wasted.

**Summary**

Many agribusiness firms are inclined to search for organizational stability and bypass those courses of action which are risky and yet contribute most towards achieving the firm’s objectives. In this situation, a management audit may prove very useful. The management audit does vary in scope, direction, and complexity. Basically, however, it is composed of a systematic procedure for objectively appraising the variations (if any) between a firm’s actual performance and that expressed via the firm’s established objectives. A successful audit identifies both strengths and weaknesses. It encourages management to issue rewards and implement changes where desired. Some members of the management team may react in fear of the audit and resist any audit-stimulated change. Yet proper involvement of all management personnel in the audit process will reduce and often eliminate this practical limitation.

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