

MANAGEMENT AUDIT AND ORGANISATIONAL EFFECTIVENESS IN INDIA

Dr. Lakshmi S

Associate Professor, Department of Commerce, Government First Grade College, Malur

Abstract

Today's mantra is "survival of the fittest". If we focus on the trends and then speculate about matching the working and operations of our business, our organizations are already too late to keep pace with the changing milieu. To be in the race they must evaluate their weaknesses, utilize their strengths, and improve their performance. In other words, they must undergo a broad examination of their managerial decisions, achievements, failures delays, etc. and provide all findings, favorable or unfavorable, which have a bearing on their performance. All this calls for the conduct of "management audit" in these organizations.

Management audit, therefore, is a future oriented, independent, and systematic evaluation of the activities at all levels of management for the purpose of improving organizational effectiveness through the attainment of the organizational objectives (Anil. B. Roy Chowdhury, 1996). It is considered as a comprehensive and constructive examination of an organization, its plans, objectives and means of operations, and an investigation from top level to lower level of management. It is a critical review of all aspects or processes of management and reviews the performance of various managers and systematically examining, analyzing, and appraising the management's overall performance.

Management audit in India

The Indian companies are growing both organically and inorganically. Many companies are competing with global companies in offering goods and services. The concept of management audit is quite novel in the Indian context. **Satyanarayana Chary T, et.all. (2004)** in their study conducted regarding the implementation of management audit system, indicates that it is still in nascent stage and some companies having foreign collaborations have attempted to implement management audit in all their activities and some are in the process of implementing. **Khan A Q, (1996)** in his study indicate that the accomplishment of systematic management audits are very often caused by major changes in the business such as change in the top management, mergers and acquisitions, succession planning and restructuring/strategic alignment (**Horst Neller**). Some companies conduct management audits only to those activities or functional areas where the performance is poor or needs immediate improvement to maintain a proper rate of growth of business and returns.

To assess the organizational effectiveness few measures such as return on sales, return on equity, market share change and customer satisfaction are considered. **Michita Champathes Rodutti, Fredrick William Swierczek (2002)** indicated organizational effectiveness, capabilities-managerial skills, organization culture, organization communication and perceived organization reputation are other parameters considered in assessing organizational effectiveness. Of late, the competencies very specifically, the core competence enjoyed by an organization is also considered to be other important parameter.

Even though, there is theoretically and logically a clear positive linkage between management audit system and organizational effectiveness, still it is observed that all the companies both public and private sector are not very keen in introducing management audit system. What could be the reason for this? Is management audit system a sound concept? Is there any problem in the introduction of

the management audit system? Or is there a doubt of who is the right person to do this type of audit? And so on. All this led to the necessity of making an empirical study on different aspects of management audit system in the existing scenario relating to implementation of management audit system and its impact on organizational effectiveness.

Statement of the problem

The literature survey on Management Audit and organizational effectiveness indicates a mixed result. Some companies which have adopted Management Audit System have fared remarkably better, whereas, in the case of some companies, in spite of having Management Audit System, these companies have failed to improve their organizational effectiveness. This leads to the necessity of studying important issues and problems relating to the linkage between Management Audit and Organizational Effectiveness.

One of the basic issues relates to the question that, if implementation of Management Audit System is going to improve the organizational effectiveness, then why it is not made mandatory like financial audit. Is it because of the experience of some companies where in spite of introduction of Management Audit System the organizational effectiveness has not improved. Does it mean that Management Audit System does not have any value? Are there problems which make implementation of Management Audit difficult or is Management Audit still not accepted as measurement of management performance tool for improving the organizational effectiveness? Or is it that the cost and time factor which has come in the way of implementing Management Audit System in all organizations or is it because of the non-feasibility in ensuring the co-ordination in the entire organization? Or is it because Management Audit covers non-financial parameters which could be theoretical concepts requiring some more validation and authentication. The other issues could be failure of many companies in not having clear-cut idea about their vision, mission and objectives, organizations feel that the internal audit system automatically takes care of Management Audit and there is no need to have separate Management Audit. These are some of the questions which require an in-depth study. This study is a humble attempt in this direction.

REVIEW OF LITERATURE

Management audit is a “procedure for systematically analyzing and appraising a management’s overall performance”. An effective management audit will induce constructive thinking and reveal the firm’s strong and weak points and it will also increase the firm’s effectiveness and efficiency and thereby, increase the firm’s profit (**Brown, James R. & Jr., Cooper, William D 1988**). To ensure the effectiveness of organisational activities in any organization, syntheses among three different things needs to be established. They are – individual, group and organizational effectiveness. The cause of individual effectiveness includes physical attributes, personality traits, motivation and morale etc., the causes for group effectiveness comprise of leadership, communication and socialization etc., and the causes of organizational effectiveness include technology, environmental conditions, competence and many other variables (**David Lawless, 1972**). **Dale L. Flesher (1993)** claims that the small businesses today could probably benefit from a management audit of the firm’s long-term financial affairs. Management Audit by articulating the missions, objectives and expected results along with the methods of performance evaluation goes a long way towards improving the performance of public enterprises **G S Batra,(1997)**. Management audit helps in examining managerial decisions which have a bearing on the performance of business organizations. The evaluation is more suited as the management of a business enterprise need not be equipped with specialized knowledge of tools such as operations research, advanced statistics etc. they further indicate procedure to conduct management audit and conclude that management audit is a must for every enterprise (**T.Satyanarayana Chary et.all 2004**). Similarly **Joseph Mc Cann,(2004)** while organizational agility is certainly essential, so is organizational resiliency. Further he suggests that academics and practitioners must work even more closely together to understand the trends and to translate theory into usable and practical recommendations for managing highly dynamic organizational environments.

Zhongming Wang,(2005) presents general frame work for understanding the organizational effectiveness which includes three-strategy model for global technology innovation and organizational development. The framework discussed personnel strategy, system strategy, and organizational strategy. He concludes that the personnel strategy could play a crucial role in enhancing the effects of human resources management and entrepreneurship by supporting the main dimensions of HRM. The system strategy was use to facilitate technology innovation through knowledge management while the organizational strategy was adopted to create positive organizational culture and high performance system. **John C Burton**, (1968) reveals how the auditors in future would attest the effectiveness of the management's performance. According to the author there are four areas in developing a framework for management audit. First, the criteria for a management audit must be considered. Second, standards of managerial performance must be developed if the evaluation of management stewardship is to have meaning. Third, a method of reporting must be established, so that the auditor can have a structured means of disclosing the results of his examination, finally, it will be necessary to develop management auditing procedures and standards of documentation to support the report given. The methods of critical path and PERT analysis could be used in office management as well as in other activities. **Theodore R Picketh Jr**,(1968).

Objectives of the study

Based on the research gap found through the literature survey and problem statement the following objectives have been formulated for this study.

- To compare the implementation of Management Audit System between public and private sector company
- To assess the impact of implementation of Management Audit system on organizational effectiveness among public and private sector companies:

Hypotheses

H₁= There is no significant difference in the extent of implementation of Management Audit system between Public and Private Sector Companies.

H₂= There is a positive impact on implementation of Management Audit system on organizational effectiveness between public and private sector companies.

Design of the study

Methodology

This study is based on survey cum analytical method. There are 245 central government and 160 state government public sector companies of which almost 50 percent are not performing well. Bangalore based ten public sector companies were selected. Ten private sector companies were selected from 282 companies which were listed in Bangalore stock exchange. The criteria followed for choosing public and private sector companies were Minimum of ten years in business and 500 employees, existence of all functional departments., Clear organization structure, with regular meeting of board of directors, head office in Bangalore and implementation of Management Audit system partially or fully for at least 3 years.

Organizational effectiveness was measured through financial ratios like Net Asset Ratios, profitability ratios, net sales ratios. Ten years data is taken for calculating financial ratios i.e., from 2003 to 2012. For analysis, the ten years data has been divided into two parts pre-implementation period and post-implementation period. The variables chosen for the management process are objectives, planning, organization, control and systems, and procedures. The functional activities are Production, Marketing, Research and Development, Accounting and Finance, Human Resource Management, and Information Technology.

The data collected has been analyzed using statistical tools such as chi-square test, analysis of variance (ANOVA),

DATA ANALYSIS AND DISCUSSIONS

HYPOTHESIS

H₁= There is no significant difference in the extent of implementation of Management Audit system between Public and Private Sector Companies.

Table showing the extent of implementation of Management Audit System in Public and Private sector companies.

Variables	Mean Scores (%)						't' test
	Public Sector (n=10)		Private Sector (n=10)		Combined (n=20)		
	Mean	SD	Mean	SD	Mean	SD	
Management Process	77.02	11.0	74.86	20.8	75.94	16.3	0.29 ^{NS}
Production	80.10	8.5	74.30	17.9	77.20	13.9	0.93 ^{NS}
Marketing	75.76	12.7	72.76	20.8	74.26	16.8	0.36 ^{NS}
Research & Development	71.13	22.0	74.00	17.0	72.57	19.2	0.33 ^{NS}
Financial Accounting	79.02	15.7	76.10	21.9	77.56	18.6	0.34 ^{NS}
Human Resource	79.38	15.3	73.06	19.7	76.22	17.4	0.80 ^{NS}
Information Technology	80.51	16.4	80.34	23.1	80.42	19.5	0.02 ^{NS}
Total	77.90	11.5	74.51	19.1	76.21	15.8	0.47 ^{NS}
F-Value	0.48 ^{NS}		0.16 ^{NS}		0.41 ^{NS}		

NS: Non-significant

Table above reveals the level of implementation of Management Audit System overall variable wise mean scores in public and private sector companies. It shows that when public and private sector companies are compared, in public sector management process production, marketing, financial accounting, human resource, and information technology are 77.02 percent, 80.10 percent, 75.76 percent, 79.02 percent, 89.38 percent and 80.51 percent respectively, which are greater than the private sector companies. In the private sector research and development which is 74 percent is greater compared to public sector with 71.13 percent. It is evident from the statistical results that the mean response on management audit system between public and private sector companies for all the seven different aspects of study are found to be non-significant (P<0.05). It further reveals the data subjected for statistical test indicate the mean response under different variable of Management Audit for the Public sector (F=0.48^{NS}), private sector (F=0.16^{NS}) and combined (F=0.41^{NS}).

H₂= There is a positive impact in the extent of implantation of Management Audit system between public and private sector companies.

Impact of Implementation of Management Audit System :

Evaluation through ratio analysis for Public and Private Sector Companies

Number of Cos.	Management Process	Production	Marketing	Accounting & Finance	Research & Development	Total
Number of ratios	9	8	5	9	6	37
BHEL	9	4	2	8	4	27
BEL	6	4	4	8	-	22
BEML	2	5	2	8	2	19
HAL	5	4	1	7	-	17
HMT (MT)	8	7	1	7	2	25
HMT	2	3	2	3	-	10
ITI	5	5	1	3	-	14
KAPL	4	2	3	5	-	15
KIOCL	5	2	2	6	1	16

KSDL	5	5	5	8	-	23
TOTAL	51/90	41/80	23/50	63/90	14/60	193/370
Percentage	57	51	46	70	23	52
ABB	6	4	3	8	-	21
Astra	8	6	3	6	-	23
Bal Pharma	4	6	2	1	6	19
Biocon	4	7	2	5	6	24
Dynamatic	8	1	2	7	-	18
Federal	6	2	3	1	-	15
Himat	0	2	1	1	-	4
Opto Circuits	6	6	3	7	-	22
Suprajit	5	9	1	3	-	9
VST	8	4	2	8	-	22
Total	55/90	38/80	22/50	47/90	12/60	174/370
Percentage	61	47	44	52	20	47

Table above shows impact of implementation of Management Audit System (Overall) taking both public and private sector companies on the organizational effectiveness. It is evident from the table that the percentage of impact of implementation of Management Audit System (MAS) pertaining to management process is more in private sector companies compared to public sector companies with 61 percent and 57 percent respectively. Production shows that public sector organization effectiveness has been impacted by Management Audit System to extent of 51 percent compared to private sector companies with 47 percent. Similar is the case with marketing with 46 percent in public sector companies compared to private sector companies with 44 percent. Accounting and Finance has shown a greater impact of MAS on organizational with 70 percent public sector companies and just 52 percent in the case of private sector companies. Further analysis indicate that the impact of Management Audit System on organizational effectiveness is more in public sector companies with 58 percent compared to 52 percent in public sector companies.

Impact of Implementation of Management Audit System on the Organisational Effectiveness

Variables	Public Sector			Private Sector			Consolidated		
	R Value	P value		R Value	P value		R Value	P value	
Management Process	0.085	0.815	NS	0.541	0.023	Sig	0.364	0.115	NS
Production	0.225	0.533	NS	0.39	0.265	NS	0.214	0.365	NS
Marketing	0.314	0.376	NS	0.153	0.673	NS	0.208	0.378	NS
Accounting & Finance	0.564	0.021	Sig	0.747	0.013	Sig	0.678	0.001	Sig

Table indicates the impact between implementation of MAS on the organizational effectiveness through Ratio Analysis. This table reveals that there is significant impact of MAS on Accounting and Finance in both public and private sector companies and Management process in the case of Private Sector companies ($p < 0.05$). Apart from these, there is no impact of MAS on the Management Process in public sector companies, production in both the sectors, marketing in both the sectors.

Conclusion

The study leads to conclude that the management audit system is still at the infancy stage, because not even one company out of twenty sample companies have implemented management audit system

fully. The process of liberalization and globalization has gained momentum in India, hence, foreign investors, non-resident Indians and multi-national companies are showing keen interest in establishing joint venture, independent enterprises and investments through capital market. Today, the changes that have taken place in the organizations reflect only the attitudes and perspectives of the individuals who make isolated decisions. How the decision will affect the organization's overall performance is not assessed very few organizations having foreign collaborations have attempted to implement management audit system. It is high time that the management audit system is used for assessing managerial efficiency.

Therefore, this study leads to conclude that the parameters such as management process which consists of objectives, planning, organization, control and systems and procedures and functional activities which consists of production, marketing, research and development, accounting and finance, human resource management and information technology are to be thoroughly examined under management audit system and its impact should be measured through effectiveness of organization. The study reveals the positive impact of management audit system on organizational effectiveness in both public and private sector companies, but it is not significant. When we compare the implementation of management audit system among public and private sector companies, public sector companies are better. The impact of implementation management audit system is seen on the functional activities except on research and development in both public and private sector companies.

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