

FUNCTIONAL MANAGEMENT AUDIT

A BACKGROUND NOTE

by

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Conditions are changing in our fast developing company. Companies are rapidly growing. Demands on the various functional managements are also rapidly changing. If these demands are not noted and provided for **in time**, functional management effectiveness will suffer and to that extent the overall effectiveness of the organisation. Unless consciously attended to, things will not get done **in time** and the resulting consequences cannot be helpful.

Financial audit is not enough

We are long familiar with financial audit. Statutory requirements apart, an annual financial audit by an outside firm does help us. Besides providing a moral force, it presents the true facts of the financial position of the company **at a given moment**.

Only, it talks of the **past**. It establishes, for example, the fact that a loss has been made by a company. Actually, we are interested not so much in knowing history—important as it is—as in making history. We are interested in knowing facts regarding the state of affairs and thereby being enabled to **prevent a financial loss before it occurs**.

Carle C. Conway, Chief of Continental Can Company, once said and rightly: "If it is worth the money for a company to audit its figures which are the **red lights** of the train **that has gone** why isn't it worthwhile to audit your management to give you the **green lights** of the future?"

What is management audit?

We know management of a company is like rearing an apple tree. Anyone who has ever grown an apple tree knows it is necessary every year to go over it thoroughly and prune out all rotten, defective and unnecessary branches in order that the tree may continue to flourish and bear sound fruit.

Much as we would love to, it is not physically feasible for us to be cognisant of all the minor organisation details throughout the undertaking.

** Mr. Atthreya took his professional training in Management consultancy from Mr. Walter Scott and his associates, Sydney and founded his firm Modern Management Counsel (M.M.C. for short) in 1955. In the past 7 years or more, he has done extensive work in his specialist fields, viz., Management Audit, Management Development and Management Selection.

The management Audit—this management process goes by that name—covers the very details which the Chief Executive cannot hope to examine personally but details which may easily destroy the smooth working of the management of the concern.

Management Audit seeks to present the Chief Executive with objective facts with regard to the detailed organisation of the company; it studies and tells him of the current status of the broad groups—as for example, organisation, production, distribution, secretarial, and industrial relations. It tells him of the trends of productivity, profitability and human relations in his company.

In vogue abroad

We know full well that today's decisions determine tomorrow's profitability and prosperity. We are anxious to take TODAY corrective preventive and creative steps—all in relation to the future. Time we make our friend, realising otherwise it turns our enemy.

Management Audit is in great vogue in U. S. A., U.K., Australia and other countries and the benefits are invariably satisfying. Many companies proudly publish the name of The "Management Auditors" (as we do the Financial Auditors) in their Annual Reports.

Staff will not resent

We may wonder: Will not our staff resent this audit—is not like one of those 'efficiency' business? Staff will not resent this audit once they know that it is NOT intended as a criticism of existing methods nor an investigation into the shortcomings of departmental heads. The auditor concerns himself with the procedures, **not the personalities.**

Also, while financial audit does not mean a lack of confidence in the integrity of the accounting staff, why should a Management Audit mean a lack of confidence in the capabilities of the staff in general? Actually, an able executive welcomes any move that might help to make his work more useful, effective and smooth.

Is an outsider necessary?

The 'auditor' need not necessarily be but often is an outsider and this is why:

1. "Companies like people are generally unable to see themselves as others see them".
2. "If they are too close to the picture, even the best executive may overlook serious weakness as well as important profit opportunities. These are readily apparent to the trained outsider."

3. "An outsider specialist can frequently bring to light situations within an organisation which personal interest or company policies or any other reason hides from higher management".

A self-appraisal will certainly do good; an independent Management Audit will do better.

Choose your auditor

What you get out of this 'staff' service depends upon the auditor himself. And you should choose him carefully. He should be able, qualified, trained AND experienced in business and industry. His qualifications should ensure that he had received the approval of the qualifying body with respect to his theoretical knowledge of business management and industrial administration. And his experience should be both intensive and extensive. It will, of course, **be desirable** if he has had special training in this technique of Management Audit under competent hands.

Regularity important

In actual practice, the financial gains that arise out of this audit are sizeable. Even so, it is better to take them as a byproduct. The OBJECTIVE is to reveal the state of affairs so that we may take timely steps to rectify what is necessary.

Just one further point. Medical men have been talking about preventive medicine for some years. Following the lead, management leaders now talk of 'preventive management'. Companies, like people, should see their 'doctors' regularly! In other words, for best results, Management Audit should be as regular as the financial audit.

And why Functional Management Audit?

It is desirable to get the many management functions audited to get an overall management audit picture. But so often under Indian conditions, the feasible turns out to be the management audit of a function—maintenance, office, production planning, industrial engineering, distribution, etc. Also, competent observers opine that even in functional management we have a fair way to go and we will do well to give it the needed emphasis. Functional management audit first and general management audit next seems to be the logical step.