The management audit as a tool to foster corporate governance: an inquiry in Switzerland

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Abstract

Purpose – This paper aims to investigate management auditing, a thorough examination of an organization and the management in place, through an empirical research to gather data about how management audits are perceived and implemented among Geneva's (Switzerland) business community. The board of directors is in charge of a corporation's overall supervision. The internal auditing function works under the aegis of the board to ensure that the directors will properly execute their responsibilities as defined by corporate governance rules. Management auditing could thus be used to improve corporation performance. However, management audits are not commonly used or referred to as a tool to address corporate governance. Findings enable the authors to both explain why management audits are not commonly used or referred to as a tool to address corporate governance and generate related research hypotheses.

Design/methodology/approach – In this paper, the authors rely on an ethnographic study aimed at exploring perceptions of management audits in service companies from the Geneva region. This study is based on transcripts from 85 semi-directed interviews, conducted over a three-year period, of professionals with managerial and auditing backgrounds. The economic context during these three years was consistently characterized by the Swiss and international financial crises, ensuring that the findings remain comparable over this time period.

Findings – This paper identified three main factors that influence the integration of management audits into corporate practices: the degree of acceptance of the tools and requirements of management audits, the national culture and values embodied in the practice and the degree of corporate governance maturity. This paper presents the findings in the form of hypotheses that can be tested on any adoption of good corporate governance practices – not on management audits alone.

Research limitations/implications – Notwithstanding the limitations due to its nature and extent, this study's main limitation is its lack of validation of the hypotheses. In further research, the authors intend to use a quantitative survey to validate the research hypotheses and make statistical inferences.

Originality/value – This paper contributes to the literature because it is, to the authors' knowledge, the first study to empirically examine the significant link between management audits and corporate governance. The findings could be interesting for an international audience because they indicate possible action points that boards of directors can leverage to carry out management audits. The findings also bridge a gap between the literature on management audits and the expanding role of the internal audit function. This study also examines the way companies – in the

The authors are thankful for the valuable suggestions made by Florian Dupuy in this version of this paper.

Managerial Auditing Journal
Vol. 30 No. 8/9, 2015
pp. 785-811

0268-6902
DOI 10.1108/MAJ-03-2014-1013

Swiss context – understand, perceive and may be ready to apply management audits as a good corporate governance practice.

Keywords Corporate governance, Ethnomethodology, Internal audit, Management audit, Management, Management skills, Business culture, Swiss-based enterprises

Paper type Research paper

1. Introduction

Recent developments in corporate governance have focused largely on compliance with new legislation and rules, as well as the responsibilities of companies' management and boards of directors. This has promoted the development of compliance and corporate governance audits in addition to regulatory, financial and internal audits. The 2010 Institute of Internal Auditors' (IIA) global internal audit survey showed that the top three audit activities performed in 2010 were related to operations, compliance and financial risks and that corporate governance reviews were expected to increase significantly (IIA, 2011).

While corporate governance and compliance audits are regularly performed at a company level, and individual employee performance reviews at a management level, it appears that examining the performance of management as a team with respect to a company's strategy is only very seldom done. The 2010 National Association of Corporate Directors (NACD) Public Company Survey emphasized the rise of board, committee and director evaluations, but it did not mention management evaluations, which are often limited to individual performance evaluations. Furthermore, the majority of these tend to be self-evaluations, as they are routinely conducted by the evaluated board, committee or directors themselves (NACD, 2010).

Corporate governance reviews have generally consisted of checking whether the procedures, tools and means for achieving a strategy are working effectively at an operational level, thus leaving aside such important management decisions as market positioning and development and allocation of critical resources. However, the board of directors is ultimately responsible for these management decisions and actions. The study of these decisions, and whether they contribute to the realization of a company's strategy or are additional sources of firm risk, is often neglected, and corrective actions are also missing. For example, the Royal Bank of Scotland failure was attributable to poor management decisions. Consequently, the British Financial Services Authority outlined several underlying deficiencies in the banking culture, management's capabilities and style and the overall governance arrangements (FSA, 2011).

A management audit seeks to evaluate whether a company has a suitable organization and appropriate management team in place to achieve its objectives. It focuses on strategic objectives and enables a company to adapt its key human resources to the changing business environment. It not only includes a review of strategy and how it is being implemented but it also involves an evaluation of the profile and competencies (hard and soft skills) of the management teams. A well-conducted management audit uses qualitative criteria to analyze whether management can effectively achieve a company's strategy and to evaluate management's composition, skills and attitudes (Craig-Cooper and De Backer, 1993a).

The scope of the management audit is to evaluate whether the organization has implemented the right and adequate tools for achieving its strategy rather than simply checking that these tools are effectively working at an operational level (Lewington, 1991), thus sometimes questioning the company's strategic course and all the attendant goals set for it. Management audits can, therefore, contribute to explaining past mistakes, but, more importantly, they can also serve as anticipatory measures to provide the board of directors with guarantees about timely and accurate completion of action plans. Finally, management audits are designed to be both prospective and continuous tools for improving management skills and capabilities. They should, thus, become integral instruments of corporate governance for organizational self-reflection and change. This context of controversy over the requirements for good governance in relation to the quality of management leads to our research question (*RQ*):

RQ1. Why are management audits not commonly used or referred to as a tool to address corporate governance?

The purpose of this paper is to investigate how management audits are perceived and how they are being used and implemented among the Geneva (Switzerland) region's business community. Our study is based on 85 semi-directed interviews of professionals with managerial and auditing backgrounds, mostly active within the service industry in the Geneva area, and those who were enrolled in the EMBA program at the Hautes Etudes Commerciales (HEC) University of Geneva during 2008, 2009 and 2010. We apply an ethnomethodological approach to study how management audits are perceived within the Geneva community. We identify three primary reasons why management audits have not been more widely used:

(1) the degree of acceptance of the tools and requirements of management audits;
(2) the national culture and the values embodied in the practice; and
(3) the degree of maturity of corporate governance.

The remainder of this paper is organized as follows. Section 2 presents a literature review, in which we stress the utility of management audits as an effective corporate governance tool and the conditions for diffusion of this practice with an emphasis on the role of the internal audit function in the performance of management audits. After we present the development of the management audit concept and its utility within the corporate governance puzzle, Sections 3 and 4 describe our theoretical framework, research design and methodology. We build on the diffusion of management practices and innovation literature to capture different drivers or barriers in adopting management audits as good corporate governance practices. We distinguish among technical, cultural and political or power-related factors to *make sense* from an ethnomethodological perspective. Section 5 then presents the results of our research using the four open questions of the original questionnaire as an outline. We discuss our findings in relation to the relevant literature and theoretical framework in Section 6 and expose them under the form of hypotheses that can be tested over any good corporate practice adoption by an organization and not on management audits alone. The final section provides our conclusions, the main contributions of our work and related limitations, eventually suggesting potential areas for future research.

2. Literature review

2.1 Management audit as a corporate governance tool

Interest in the concept of corporate governance has grown considerably over the past 10 years, in both academic and professional literature. This is mainly attributable to scandals such as Enron, WorldCom, Parmalat, the subprime mortgage crisis and the ongoing global financial crisis. They were caused by managerial fraud, misconduct and negligence that resulted in loss of shareholder wealth (Baker, 2010). The goal of improving corporate governance to avoid such catastrophes has been invoked as a justification for the fast-growing regulatory requirements in many areas. For example, consider the adoption of the Sarbanes-Oxley Act (SOX) in the USA, which intensified control activities in companies, and the development of the Basel III framework in response to the 2008 financial crisis.

There is no consensus on the definition of corporate governance in the literature, and the IIA position paper on corporate governance outlines the most common and important elements. The IIA, thus, describes corporate governance as a set of "policies, processes, and structures used by the organization to direct and control its activities, achieve its objectives, and protect the interests of its diverse stakeholder groups […]" (IIA, 2006, p. 4). To protect stakeholder interests, and particularly shareholder interests, corporate governance strives to separate and balance power between the executive function (management), the supervision function (board of directors) and the sovereign function (shareholders who express themselves mainly during the General Assembly) (Fama and Jensen, 1983). The concept of corporate governance has progressively been enlarged to encompass the protection of other stakeholder interests, such as customers, employees, suppliers and public authorities (Freeman, 1984). In that sense, it constitutes a set of rules to manage the relationships among the shareholders, management and board of an organization, as well as in relation to other stakeholders, as per the Organisation for Economic Co-operation and Development (OECD) definition (OECD, 2004).

Moreover, corporate governance is often linked with the quality of the financial reporting system or the design and implementation of an internal control system (Wright, 1996; Beasley *et al.*, 2000) and even to the setup of a risk management committee (Brown *et al.*, 2009). Shifts in different national legislations have required that boards of directors have increased oversight over companies' internal control systems – for example, by having external auditors perform annual reviews of a firm's internal controls. In Germany and the USA, corporate governance regulations require an annual audit of internal control systems for listed companies and public companies, respectively. This evolution has fostered the development of compliance and corporate governance audits, which has led to complaints over the additional costs of these practices (Sneller and Langendijk, 2007).

The board of directors is the key player in corporate governance activities (Brown *et al.*, 2009) and in charge of overall supervision of the corporation. Internal auditing provides the board with a reasonable assurance on risk management and compliance to regulations and internal procedures. The board usually delegates its oversight responsibilities in the areas of internal control, financial reporting, risk assessment and compliance to committees such as the audit committee. To fulfill these duties, the audit committee seeks expertise and relies on the work performed by the internal and external audit functions (Rezaee, 2010). External audits are generally conducted by auditing firms, which are often seen as being in competition with the internal audit function. However, recent developments have sought to promote more cooperation between internal and external auditors to improve risk control and compliance (Johl *et al.*, 2013).

For example, SOX prescribes that external and internal audit teams cooperate under the direction of the audit committee (Balkaran, 2008).

Proceeding to management audits is within the scope of action of the corporate governance mission of the board of directors. Management audits can reduce the principal-agency problem and offer an additional and essential guarantee of the quality of corporate governance to the board of directors, which is usually linked to strong financial performance and internal controls. As thorough examinations of the organization and the management are in place, they could thus be used to aid in improving corporation performance (Dann *et al.*, 2002).

Advocates of management audits have emerged in the private sector, and practitioners have performed such audits over the past 10 years. For example, the British Financial Services Authority also audited the management in the case of the failure of the Bank of Scotland. However, the contribution of management audits to the quality of corporate governance by reducing the principal-agency problem and strengthening financial performance and internal controls has remained understudied. In particular, academic research on management audits as a corporate governance tool remains scant. Existing literature on management audits has focused on their practice since it first appeared during the 1930s, but it has become somewhat fragmented over time and, currently, does not systematically relate management audits to corporate governance requirements.

Management audit was defined as "[…] an evaluation of management and the organization's functioning and performance with respect to economy, efficiency, and effectiveness of operating areas, activities, and results" (Parker and Foundation, 1986, cited in Burrowes and Persson, 2000, p. 89) to move to:

> […] one technique that can be used to manage change effectively and contributes to the efficiency of boards and executive teams. It provides an in-depth appraisal of a company, and, more importantly, an evaluation of the management team, including individual assessments of each executive and how well these match the company's strategy (Craig-Cooper and De Backer, 1993c, cover page).

While management audits indeed focus on the effectiveness and the efficiency of management and how they perform overall as a team (Craig-Cooper and De Backer, 1993b; Innes and Lyon, 1994; Parker and Foundation, 1986), they also contribute to fostering corporate governance, in particular the board's effectiveness in fulfilling its strategy mission by bringing the organization toward its objectives. Calls for management audits date back to 1932 in the UK (Rose, 1944). Since then, several British (Baden, 1968; Bishop, 1974; Craig-Cooper and De Backer, 1993c; Glynn, 1987) and American (Benedict, 1948; Robertson and Clarke, 1971; Burton and Fairfield, 1982) authors have further developed proposals on how to perform such audits. Management audits in the public sector were first referred to as *value for money audits* in Australia and *performance audits* in the USA. The practice later spread to the private sector, where, for example, the 1975 Swedish Companies Act mandated that Swedish companies audit boards of directors and managing directors (Burrowes and Persson, 2000).

The development of management audits in the private sector was mainly motivated by the desire to avoid the principal-agency problem, thus enhancing corporate governance. The way shareholders monitor and evaluate management behavior and accountability then became important for good governance (Fama, 1980). The audit function has also done a great deal to reassure shareholders and stakeholders globally about how firms control the operational risks related to financial reporting and control systems (Kirkpatrick, 2009). However, several authors have argued that focusing on operational risk and financial information to evaluate management performance and, by extension, an organization's performance can be insufficient to reduce the information asymmetry between management and shareholders (Richardson, 2000; Banker *et al.*, 2000). For example, Innes and Lyon (1994) argued that the audit function should do more to ensure long-term management performance. They studied the impact of external management audits (defined as independent examinations of an organization resulting in a statement to external users on the performance of the management function) on lending decisions made by external fund providers, and it showed a positive correlation between the results of such audits and the allocation and the conditions of the funds granted. From an investor's viewpoint, this is an important issue. Investors ultimately use the results of external management audits as an assurance about management functions such as finance, marketing and production before making their investment decisions (Innes, 1990). Assessing the quality of the performance of management not only requires the use of qualitative non-financial indicators but also the integration of these indicators in the management decision-making process itself. For example, Govindarajan (1989) argued that management styles and experiences could be directly related to the success of a strategy. He concluded that superior performance can be achieved by selecting managers whose skills, knowledge and behaviors are congruent with a given strategy. When it comes to strategy, the data required to assess the successful management controls should be concerned more with competitive benchmark and non-financial performance measures, as strategic management is future-oriented and is not amenable to control by traditional measures such as budget and profit targets (Goold and Quinn, 1990). Accordingly, Eccles and Pyburn (1992) criticized the rigid nature and the concentration of the financial information as key indicators and indicated that management requires broader measurements to make informed decisions. Even the introduction of the balanced score card by Kaplan and Norton (1996), which was first a reaction to ineffective and dysfunctional management information, was meant to serve as a tool going beyond the strict production of financial indicators that should be used as an informing and learning system rather than a system that strives to evaluate past performance.

2.2 Management audit as internal audit activity

Corporate governance provides the set of rules that will govern the corporation's activities and the relationships between its stakeholders. The board of directors is the guardian of corporate governance and, in particular, of the firm's supervision function, and the internal audit function works under its aegis to ensure that the board properly executes its responsibilities as defined by corporate governance rules. While professional bodies and associations generally advocate for expanding the internal audit function to include corporate governance assessment, in practice, over the past 10 years, internal auditors have remained involved at a mostly operational level (Power, 2005; PwC, 2014).

Management auditing is one of the practices that could allow the internal audit function to play a more proactive and strategic role within the current corporate governance context, thus contributing to improving corporation performance as it:

> […] moves up a level to address control issues arising from managing an activity. It involves an appreciation of the finer points relating to the various managerial processes that move the organization towards its objectives (Pickett and Pickett, 2010, p. 12).

By providing assurance or consulting on various matters relating to the supervision function of the board, such as risk management, control and governance, the audit function, and the internal audit function in particular, has become one of the key cornerstones of effective corporate governance (IIA, 2006). Taken together, both the internal and external audit functions are part of the checks and balances that constitute corporate governance (Wright, 2013), as auditing has even been qualified as a distinctive idea or model of governance itself (Power, 2002).

To recognize the changing role of the internal audit function in contemporary organizations and its expanded scope into risk management and corporate governance, the IIA upgraded the definition of the internal audit function in 2004. The internal audit helps "an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes" (IIA, 2004, p. 19). Moreover, the "International Standards for the Professional Practice of Internal Auditing" (IIA, 2012) are explicit about the role of the internal auditing function regarding corporate governance matters and the fact that it should be equipped with sufficient knowledge, competencies and skills to conduct related audit missions. This standard highlights the increasing role of internal auditing function in improving corporate governance, in particular, in ensuring effective organizational performance management and accountability, as well as promoting appropriate ethics and values within the organization (IIA, 2012, pp. 3-11).

The internal audit function has extended its scope of action to include risk management, process efficiency and corporate governance missions (Goodwin-Stewart and Kent, 2006). Internal audit functions have developed practices that have increasingly taken into account organizational goals and brought added value to the business. They have entered into a partnering approach with management since the beginning of the twenty-first century, which translated into the implementation of more preventive, risk-based practices than detective, control-based measures (Hass *et al.*, 2006; IIA, 1999; Krogstad *et al.*, 1999). The change from a compliance- and control-oriented model to a risk-management model was a major paradigm shift (Selim and McNamee, 1998), which expanded the consultative activities of the internal audit. However, the SOX legislation in the USA and similar laws in other countries reasserted the importance of assurance activities, in particular compliance works related to these regulatory regimes. For instance, a PwC survey of audit managers showed that, in 2002, the internal audit function dedicated, in general, 50 per cent of their resources to compliance works needed for the first year of the SOX implementation (PwC, 2006), which may have diverted internal audit resources from developing more strategic-oriented activities.

Internal auditors were expected to develop innovative ways to better interpret today's business realities (Joscelyne, 2004). Melville (2003), for instance, suggested that the internal audit's involvement in strategic management through the implementation of balanced scorecards as tools to address and report on nonfinancial and qualitative issues has positive implications for the quality of top management. Furthermore, Hyland *et al.* (2003) developed a model that analyzes the potential for value creation of the internal audit function when it is combined with the human resources function at a strategic level. They argued that the application of an audit risk-managing approach can enhance the creation of value in strategically focused human resources management. Internal audit has also been mainly associated with risk management rather than a mechanism of corporate governance (Goodwin-Stewart and Kent, 2006). Finally, Selim *et al.* (2003) highlighted the positive contribution of the internal audit function in collaborating with other functions to the effective deployment of merger and acquisition strategies.

It seems, then, that the internal audit has a dual functionality, as it should, on the one hand, assist the board in discharging properly its increasing legal obligations to assure good corporate governance, and, on the other hand, also help the management to achieve the organization's objectives, thus responding to the added-value philosophy. Consequently, the internal audit function has become one of the four cornerstones of corporate governance, together with the audit committee, the management and the external auditors (Gramling *et al.*, 2004). From this perspective, current literature suggests that further research should address the issues arising in the relationships between these functions, in particular those between the internal auditors and the management (Joscelyne, 2004; PwC, 2007). The question of the independence of the internal audit staff in regard to management as a condition for the quality of internal audits is one of them (San Miguel and Govindarajan, 1984). Furthermore, the overall management support of the internal audit function is considered an important criterion in evaluating the internal audit quality (Clark *et al.*, 1981).

As for the future, the role of the internal audit is expected to increase over the next few years, particularly in strategy development and personnel training (IIA, 2011). The IIA foresees a strengthening of this function in governance-related activities, including evaluations of board structures, objectives and dynamics, as well as management evaluations. According to the Three Lines of Defense model, the internal auditing function (the third line of defense) provides assurance on the effectiveness of governance, risk management and internal controls, including the manner in which the operational management (first line of defense) and the risk management and compliance functions (second line of defense) achieve risk management and control objectives (IIA, 2013). There are high expectations that internal auditors will take a more proactive role to help assure good corporate governance. However, the means to reach these expectations must first be clearly defined (Leung *et al.*, 2011), as well as the question of independence of the internal audit function. An internal audit function directly reporting to the board of directors (IIA, 2013) would be a strong candidate to perform management audits, as it would benefit both from the independence of action and from an in-depth knowledge of the company's business activities and processes compared to external consultants or external auditors.

In addition, while the internal audit is considered a resource of the audit committee and the management within the four cornerstones model of corporate governance, the literature provides little insight on how this resource is being used to satisfy these two functions. Until now, the internal audit mission has revolved more around mid-level, or operational, activities. However, board members' and senior management's current expectations toward internal auditors are rising in terms of value added to the business and advice in strategic activities. In a recent survey (PwC, 2014, p. 10), the internal audit function is considered to be moving from an "assurance provider" to a "trusted advisor" that can provide value-added services and proactive strategic advice to the business.

Particular focus should be put on the revision of practices and techniques to allow internal auditors to play an increased role in upper-level activities within organizations.

In the light of the above discussion, we argue that management audits could not only be used to further reduce the agency problem, the main paradigm in today's accounting theory (Baker, 2010), but also to foster management performance, in particular, in the completion of the company's strategy. In addition, the 2008-2009 financial crisis, as well as the debt crisis, has shown that focusing only on the design and effectiveness of internal controls, especially over financial reporting, may not guarantee efficient risk management or an organization's long-term health within a framework of good governance (Kirkpatrick, 2009).

While the majority of audits address financial and operational risks, few concentrate on strategic risks. But protecting shareholders, preserving and creating company value and developing talent are at the heart of management audits. Thus, these should be integral parts of a company's corporate governance strategy because these can reassure shareholders and stakeholders about an organization's strength and health by addressing strategic risks with anticipatory and qualitative measures (Burrowes and Persson, 2000).

Our literature review reveals that the concept of management audit and its application within the context of intensifying corporate governance practices has been understudied. This point shows the interest of our work to contribute to the literature and its relevance within the corporate governance context. In this paper, we aim to use empirical evidence to demonstrate how management audits are perceived and how they are being used and implemented among the Geneva (Switzerland) region's business community. This paper also contributes to our understanding of the expanded role of the internal audit function in strategic activities by performing management audits.

To our knowledge, this paper is the first to empirically investigate how management audits are perceived through managers' and auditors' experiences within the context of the increasing needs of strategic risk management and growing corporate governance requirements. It aims to unravel the importance of the management audit as a tool to foster corporate governance and the reasons why management audits are not commonly used or referred to as a tool to address corporate governance.

3. Theoretical framework

To address this question, we rely on *perceived meanings* gathered through semi-directed interviews. Managers and auditors have either experienced management audits, performed them or at least considered them. In case they have not, we can still collect relevant information regarding their personal views about the notion of the management audit. We also aim to identify organizational implications related to the conduct of management audit missions within corporations.

Our research consists of an exploratory study, which we use to determine how managers and auditors generally perceive these audits and to obtain indications for further research. We apply an ethnomethodological approach to describe the *social world* of the management audit in the way that the research subjects (managers and auditors) would explain it. This inductive approach assumes *a priori* no theoretical framework. Its main purpose is to generate new research hypotheses. This methodology is particularly relevant when specific scientific knowledge is lacking. Ethnomethodology provides findings that correspond to *meanings of social* *phenomenon*. In our case, the social phenomenon is the fact that corporations do not commonly conduct management audits. As our research question starts with "Why" (i.e. Why are management audits not commonly used or referred to as a tool to address corporate governance?), we want to find out the meanings explaining this social phenomenon. As a matter of fact, we concentrate on the *sense-making* (Heap, 1976) related to the notion of practice (i.e. in our case, management audits) in an intersubjective world created among different groups (i.e. in our case, business managers and auditors) (Garfinkel, 2008; Gephart, 1993; Benson and Hughes, 1983). We would like to stress the limited nature of our study and highlight the fact that our findings cannot be extrapolated to all Swiss companies; however, they allow us to devise a stricter and more rigorous methodology for further studies based on closed-form questionnaires or quantitative surveys. Research hypotheses generated by the ethnomethodology approach can then be validated via statistical inferences.

Ethnomethodology has been chosen as the main research framework for data collection. Ethnomethodology is a qualitative survey research approach that enables the researcher to learn about beliefs systems and social codes of a given organization. Data gathering is mainly realized through interviews and immersions episodes.

Ethnomethodology, as opposed to ethnography, does not make any *a priori* theoretical assumptions. This is the main reason why we have used ethnomethodology. Indeed, in the context of management audit, we wanted to conduct the exploratory research process without any preconceived theory. Consequently, once the gathered data have been analyzed, we have been able to propose new research hypotheses. It is solely afterward that the newly generated hypotheses have been compared to the existing scientific literature.

Our main objective here is to understand the reasons behind the apparent reasons within companies to conduct these audits. To support the identification and the analysis of the relevant dimensions that explain the adoption and diffusion of management auditing, we will use the literature on the diffusion of practices – in particular, the framework developed by Ansari *et al.* (2010). We, thus, need a comprehensive frame of the phenomenon under study to properly conduct appropriate data collection and address the question in a systematic and rigorous manner. Consequently, this inductive approach is the most suitable for our research, considering that our objective is to gain insight into a particular context, to understand it and to interpret it from fieldwork.

A growing body of literature on the diffusion of practices offers considerable insight into why practices are initially adopted by an organization, both from an economic and sociological perspective (Sturdy, 2004). On the one hand, the economists consider the adopters of the practices as rational actors who focus on the presumed benefits that result from the adoption of the given practice. For them, the adoption or the diffusion of the given practice is positively linked with the cost-effectiveness of what is referred to as innovation in this practice (Rogers, 1995). On the other hand, the sociologists challenge the adoption of a practice as the result of rational choices and focus more on the perceptions and the internal dynamic of the adopters. In particular, Sturdy (2004, p. 169) identified the following explanatory factors in regard to the adoption of a practice and argued that "adoption is not based on a systematic assessment of solutions to organizational problems, but on impulse, persuasion, power, cultural resonance, and legitimation, or is subsumed within them".

Building on the technical imperative of the economic perspective and the cultural imperative of the social perspective, Ansari *et al.* (2010) analyzed the diffusion process by focusing on the lack of fit between the characteristics of the practice and the characteristics of the adopting organizations. Furthermore, these authors used Oliver's (1992) categorization of factors influencing organizational practices, suggesting three forms of incompatibilities resulting from technical, cultural and political origins that could possibly explain the adoption and the adaptation of the practices. According to Ansari *et al.*'s (2010) framework, the technical fit relates to the degree to which characteristics of a practice are compatible with the technologies already in use by potential adopters. Based on this model, it seems relevant for our purposes to determine what kinds of skills and tools are specifically required for management audits in comparison to *traditional audits* (e.g. financial audits).

The cultural fit derives from the social perspective that we introduced above and is concerned with the cultural values and meaning structures embodied in the practice, the organizational culture, values and beliefs and also the supra-organizational factors such as society-level phenomena. Haxhi *et al.* (2010), for example, found that national culture may serve as a comprehensive indicator in explaining the diffusion of good corporate governance codes. It is, therefore, important, from our ethnomethodological approach, to evaluate both the perceived meanings and values of the management audit and the implications of the Swiss national and business culture in the adoption of this practice.

The third factor, referred to as political fit, deals more with details about how the balance of power and interests in the adopting organizations is affected by the adoption of the practice. It has been demonstrated that at different levels of the analysis, agents with symbolic power are crucial gatekeepers of diffusion (Guillén, 1994; Buchanan and Badham, 1999). Accordingly, and even more at an organizational level, the formal and informal power structures, resource dependencies and coalitions influence deeply how practices and new ideas are received by the organization (Fligstein, 1996; Mamman, 2002). As management auditing triggers an interaction of the four cornerstones of the corporate governance (audit committee, internal audit, external audit and management), we believe that it is important to analyze how the power structures of these parties affect the perception of management audits and, therefore, may impact the diffusion (or absence of diffusion) of audit practices. In addition, we also find it interesting to address this power notion under the multidimensional definition of national culture of Hofstede (1997). His work pertains to the extent to which the less powerful members of organizations and institutions accept and expect the power to be distributed unequally. Groups may perceive management audits differently, and, depending on their position within the organization, they may either challenge or even prevent their realization.

4. Research design and methodology

Our study is based on a work including 85 semi-directed interviews of professionals with managerial and auditing backgrounds, mostly active within the service industry in the Geneva area and those who were enrolled in the EMBA program at the Hautes Etudes Commerciales (HEC) University of Geneva during 2008, 2009 and 2010 (Figure 2). The economic context over these three years has remained characterized by the financial crisis in the Swiss and international contexts, ensuring that our findings remain comparable over this time period.

Figure 1 shows the sector breakdown of the survey participants' companies. The largest single majority (34 per cent) came from the banking sector, which is consistent with the importance of this sector in the Geneva business region. It represents approximately 19 per cent of Geneva's gross domestic product (GDP), with a total of 173 banks, including 60 foreign-owned institutions (OCSTAT, 2013). An estimated 40 per cent of all assets managed in Switzerland are directly or indirectly controlled from Geneva (Anhorn and Meier, 2012).

The public sector was next, with 19 per cent of participants working mainly for the Geneva Canton (county) administration, especially in the medical, social and education administrations. Few came from the federal administration. The Geneva Canton is in charge of several policy domains as part of the Swiss Confederation, which gives the majority of power to its components, the cantons. The "Others" section, which also totals 34 per cent, comprised various sectors such as watch-making, media, construction and pharmaceutical and biotechnology.

Figure 2 gives the breakdown of the participants by profession. We divided them into three groups, with top-level management representing the highest level of decision-makers among our participants. This group comprised CFOs, CEOs, general directors and senior associates. We then classified the participants with less authority as

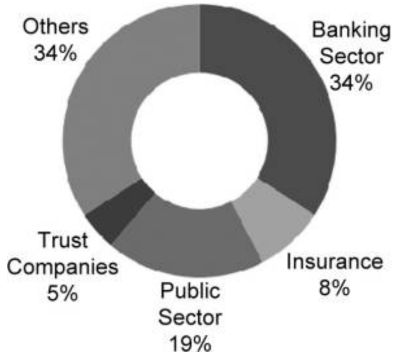

Figure 1.
Participants by sector

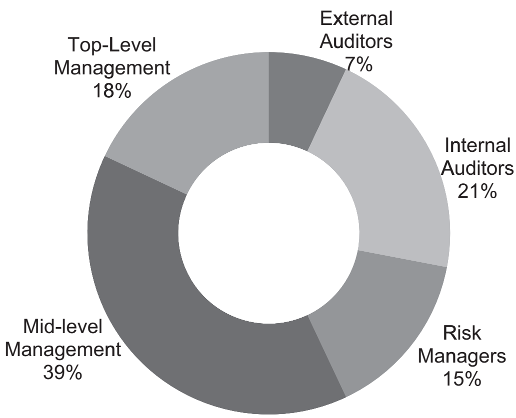

Figure 2.
Participants by profession

mid-level management, including unit directors, team leaders and senior managers, as well as a few junior managers. However, we did not include the risk managers, internal auditors or external auditors in these classifications. Rather, we grouped them according to their profession without regard to the decision-making level. Based on this classification, 57 per cent of our participants are part of a management team, while 43 per cent are auditors and risk managers.

After a presentation and discussion of the management audit concept and framework, the survey participants conducted or responded to a semi-directed interview. The interviews systematically included the following questions:

Q1. What is your experience with management audits?

Our purpose was to determine whether the participants or their interviewees had been faced with management audits in the past and, if so, under what circumstances and with what consequences:

Q2. For what reasons are management audits performed?

Our purpose was to identify whether management audits are performed in the normal course of business activities or whether they are conducted only in special circumstances (e.g. during times of crisis, as part of mergers and acquisitions, as part of succession planning, etc.). We expected answers to be based on and influenced by the personal perceptions of the respondents. Thus, by asking about the reasons behind a management audit, we intended to identify the values embodied in the practice and if these values are compatible with the common beliefs of the participants:

Q3. What are the main characteristics and tools of a management audit?

Our purpose was to determine to what extent our participants consider management audits to be similar or different from *traditional audits*, such as operational or financial audits. By doing so, we intended to explore the technical implications that this practice implies for our participants:

Q4. Who can perform a management audit?

Our purpose was to understand how our participants perceive the requirements for those conducting a management audit, especially those related to the independence of the auditor. Thus, by asking our participants about the requirements for those who perform a management audit, we expected to identify the extent to which they recognize the importance of resource dependencies and the formal or informal power structures in performing the task properly.

These open questions were designed to provide the participants with enough freedom to discuss patterns in the audit management framework or to explore additional ways to make it more effective. The interviews were mostly self-administered because the participants came from two types of populations (business managers and auditors) under investigation. Approximately 70 per cent of the participants answered the questions themselves, with the remaining 30 per cent (all from the manager population) performing interviews with members of their teams or their superiors.

5. Results

In this section, we provide a synthesis of the data collected (i.e. transcripts of semi-directed interviews). To simplify the restitution, we use the four open questions as an outline, and we illustrate it using actual respondent quotes. All the synthesis work is based on a thorough analysis of our transcripts database.

5.1 What is your experience with management audits?

The results of the fieldwork among the survey participants and their interviewees show that most had very little or biased experience with management audits. As a first issue, we observe that managers are not familiar with the notion of management audit, as it is mostly developed and applied in a North American or Anglo-Saxon context. We also notice that respondents even associated it with other activities such as individual performance or team performance reviews, market reviews or governance or internal audits, which are not management audits.

Moreover, respondents are saying that they believe management audits would not be feasible in Switzerland, where confidentiality and a strong respect for hierarchy are very important (for further details, see also Section 5.4, "Who can perform a management audit?"). For example, some survey participants argued that "management audits are not applicable to the banking sector" or to strategic sectors in which public administrations have invested. Even addressing the question of management audit within a company is seen by respondents as being fraught with significantly negative career consequences. Management audit is somehow considered to be somewhat futile, as many respondents note that the control mechanisms in place at companies are sufficient.

Finally, even when the notion of management audit seems to be well understood by our respondents, a certain amount of *taboo* remains in terms of fear regarding the potential consequences (e.g. being fired) related to its actual implementation. Indeed, managers interviewed most often express respect toward the hierarchy already in place. They also tend to believe that the auditing professionals, whether internal or external, would not be sufficiently experienced or knowledgeable about the industry to evaluate management capabilities and decisions.

5.2 For what reasons are management audits performed?

Approximately one-fourth of the survey participants believe management audits should be performed only during times of a major change for a company. Only a small percentage stated that management audits can be useful to help rectify poor managerial performance or assist a company in remaining on track to reach its objectives.

Another issue is that even the survey participants who concede some business utility to management audits seem to perceive in them an ulterior motive. For example, they believe that the real agenda is hidden and may consist of finding a way to fire the top manager or the whole managing team. As a chief quality officer in the watch-making industry notes:

> […] a management audit is used to make sure that the strategy is well understood and well deployed in the whole company. As with any type of audit, it should be considered as a tool for performance improvement […]. Unfortunately, the management audit is sometimes performed on behalf of the board of directors to fire a manager.

Other managers interviewed also believe that management audits are actually a type of sanction, rather than a method to improve risk management and team effectiveness. A top manager in the media sector, who believes that there are positive aspects of continuous improvement to management audits, highlighted that it is often perceived as "another control measure which can be totally intrusive in people's work".

In addition, survey participants do not seem to perceive the value added of management audits that are performed during the normal course of business, particularly when a company is doing well and is not planning to expand or change its strategy. Thus, management audits are sometimes perceived as a means to solve crises, but not envisioned as valuable preventative management practices.

Finally, management auditing is not considered applicable to all industries. Some participants argue that it would be difficult to find competent, knowledgeable and independent auditors in some highly specialized industries. Another issue is the need to preserve confidentiality. Furthermore, the legal structure of Swiss private banks often mandates that owners can be held liable with their personal fortunes. Therefore, it is believed that some companies would not need such audits because of their owners' significant personal involvement in and control of the company.

Although management audits could help identify mistakes in strategy design and implementation, thus becoming an important part of the company's quality improvement process, they are, for the respondents, synonymous with sources of trouble for departments, divisions or management. This is the general perception in the Geneva business area, as our respondents seem to consider management audits as having punitive consequences and occurring primarily during mergers and acquisitions or crises.

5.3 What are the main characteristics and tools of a management audit?

When asked what the respondents perceive as the most important characteristics and tools of a management audit, they propose designs based more on compliance, financial or internal audits. They do not generally adapt to the specificities of management audits for either objectives or methods. In fact, only a few participants propose internal observation of the firm as part of their methodology. Some emphasize the need to rely on interviews, but few use it as their main audit instrument or reflect on how the interviews should be structured and performed.

When explaining how a management audit should be designed, most respondents describe the organization and preparation of the audit, the fieldwork performance, the analysis of the findings and the reporting of audit results. They also highlight the importance of these phases in relation to other types of audits. For example, tests of controls as they are performed in external audits would not be relevant here. In addition, while survey participants tend to agree that the first phase of management audits is gathering the information necessary for the analysis, particularly documentation about a firm's strategy and organizational structure, they do not explain how they would obtain this information or why it would be useful. The survey participants focus mainly on the importance of the collection and the review of the documentation, but they do not explain how the results would guide their empirical work.

Interviews at this stage are also considered primarily as a way to gather information (but not as the primary material of an audit). Several participants suggest proposals on how to conduct them. The most popular ideas are individual formal interviews with members of top management and directors; some propose 360-degree interviews or even informal interviews to compare different viewpoints. Only a small group of participants propose field observation of a firm's activities.

Once information has been gathered, it is important to analyze it. However, this is the most difficult part of the entire process, and, as a whole, survey participants failed to devise an appropriate analysis method. Note that the analysis of the information needs to clearly reflect the audit's objectives, but this point is not systematically stated in the participants' work. Therefore, it becomes difficult to extract the relevant information to analyze, such as the consequences of a strategic decision.

Regarding a more strategic approach, most of the participants propose analyzing the structure and the resources of the firm to assess whether it is effectively capable of reaching its strategic objectives. From this perspective, many tools are proposed, such as the application of the COSO model for evaluating the internal control system or the SWOT diagram for presenting the position of the firm. However, less is done at this level to push the analysis further or to evaluate the strategy formation process, the definition of objectives and their implementation. According to the survey participants, this extremely important step seems to be quite difficult in highly specialized business sectors.

For example, assessing the quality of strategy design and implementation at this level requires in-depth knowledge of a firm's activities, the overall industry in which it operates and the context in which the firm has evolved. The first step may consist of evaluating whether the firm's strategy matches the general expectations of the board of directors or those of the shareholders. Then, benchmarking with industry practices can complement this evaluation. A consultant working for a big trust company, interviewed in the survey, proposes that:

> […] after understanding the business of our clients, their management style, and their procedures, we seek to benchmark them to best practices issued from work with other clients. The main goal is not to make them adopt these practices but rather give them a comparison basis.

It, thus, seems important to obtain a common basis of comparison, illustrated perhaps by other experiences of similar firms or organizations, to adequately evaluate a company's strategy and its objectives.

Another way of understanding and assessing a firm's strategy can be the analysis of a single case study of strategy implementation. Some survey participants propose using fishbone diagrams to analyze the decision-making process and to help identify any weak points or risks that could emerge from them. In some cases, they believe that this can help the management anticipate future problems and improve their strategies accordingly.

Regarding the evaluation of management as a team, the survey participants also find it difficult to design objective ways to evaluate top management's profiles and skills. The majority selects interviews as the prominent evaluation tool, along with, in some cases, balanced scorecards and performance audits. Only a small percentage is able to fully articulate how the interviews should be conducted and how to use the results in the audit process. Some even propose relying on human resources departments to complete these interviews, without providing specific guidelines on how to effectively measure the convergence between the actual managers' profiles or skills and the desired ones.

Few survey participants propose concrete tools like semi-structured or fully structured questionnaires to identify the actual skills of management. One member of the management team from the construction sector has argued that:

> […] to ensure a good communication and a good understanding in our management team, we have to know the management style of each one of the members. This can be done through the analysis of the profiles by an independent consultant.

It is true that the personality of each management team member is important for team performance. In this way, management can become aware more quickly if an important new skill set is lacking in their team.

The same logic can be used to identify skills, which would be a more efficient way to distribute tasks among team members. Furthermore, if the management team can objectively verify what skills are missing compared to the expectations, it would be much easier to enrich the team by adding new human resources or improving the existing ones.

However, this approach, according to the respondents, requires the development of suitable team member profiles and an analysis of team competencies as a whole prior to the performance of the audit. Care should be taken that any necessary actions be viewed as "positive" actions to coach the actual team in how to better meet expectations, rather than threats that will endanger team members' jobs.

As a manager in the media business states:

> […] for me, it is not important who decides for a management audit, what is important is that total transparency should be established by the auditors and a continuous communication should be maintained between auditors and auditees.

So we see that it is extremely important that auditors clearly state their goals at the beginning of an audit and emphasize the importance of improving management capacities. Furthermore, it is crucial too that team members should be informed of the audit results and the proposed actions in a timely manner and be allowed to express their views of them.

5.4 Who can perform a management audit?

We can divide the preferences for the general composition of an audit team into three groups, internal, external and a mix of both, depending on the level of management audited. About one-third of our participants have stated that the composition of the team could be completely internal. According to them, confidentiality prevails over independence from management. This position may be explained by the fact that some of our survey participants viewed the management audit as similar to either a compliance or performance audit. The secretive culture of the banking sector, in particular, is probably also a large factor.

About one-quarter of our participants believe that an external audit or consulting firm should run the management audit, and claim that a guarantee of independence is of high importance. Independence from the board of directors is considered particularly important when the audit is done at the board level on behalf of the shareholders. The same group of participants acknowledges that an internal audit team can perform management audits, but only at a department level. They also perceive the internal audit function as inappropriate for strategy and management evaluation because the personnel of the internal audit function would not have the necessary credentials.

Note that less than one-quarter of our participants consider it possible to use a mixed team composed of internal and external auditors. This option could be desirable because it can ensure both the legitimacy inside the firm with the involvement of internal staff and the required competencies of experienced and independent professionals. This approach would apply mainly to companies that have a strong internal audit function; however, alternatives would need to be considered for smaller companies. A mixed team of company personnel and external consultants was also mentioned, but this would raise the question of the audit competencies of the company's personnel.

Regarding public organizations or the public administration, our participants argue that a management audit should be run by public audit agencies, rather than by private auditors. The participants who are working in public administrations cited institutions such as Geneva's Court of Audit (in French, *Cour des Comptes*), which is perceived as an independent agency that has the authority and the competence to audit the management of such organizations.

Finally, there is a consensus among our participants about the requirements for highly specialized competencies: both soft skills (e.g. interviewing, observing) and hard skills (technical knowledge of the market and the industry in which the company operates, knowledge of its key processes) are considered very important to properly understand a firm's strategy. It remains difficult to find all these competencies to perform management audits at the top management level, but even more critically at the board level. The board would first need to be open-minded with regard to its own evaluation. It would also be necessary to find external consultants who are both specialized in the company's business and in performing such audits where the human factor appears to be predominant.

Based on the result developed in the four questions, we have generated research hypotheses that are presented and discussed in the next section.

6. Discussion and hypotheses generation

Our findings outline several reasons for the limited practice of management audits and the overall negative perception in the Geneva business area. First, management auditing as a strategic risk-management approach is not well known among executives. Moreover, the term management audit is often falsely linked with other audit activities such as compliance, financial or corporate governance audits. Also, auditors usually perceive design and implementation issues as rather delicate matters and as additional important obstacles to the successful use of management audits. Furthermore, the management audit implies a set of qualitative techniques for assessing and judging the management team's adequacy and performance, which require a very specific methodology and very specific skills. Ultimately, there is clearly a technical misfit between the after-the-fact approach and characteristics of the traditional audits and the future-oriented and strategically oriented approach of the management audits.

These findings are in line with issues that were brought up in the literature about management audits. Indeed, although management audits could help identify mistakes in strategy design and implementation, thus becoming an important part of the company's quality improvement process, they are often synonymous with sources of trouble for departments, divisions or management (Dann *et al.*, 2002). Regarding the management audit methodology, several authors emphasized the strategic level and prospective characteristic of this activity, therefore requiring highly specialized skills. They also underlined the importance of assessing management performance through the use of specific interviewing techniques and qualitative indicators to analyze management's composition and skills and their capacity to achieve a company's strategy (Burrowes and Persson, 2000; Craig-Cooper and De Backer, 1993a; Lewington, 1991). Finally, the technical fit argument developed by Ansari *et al.* (2010) is confirmed by our findings, in particular the fact that management audit practice does not seem compatible with the traditional audit techniques already in use by potential adopters.

Concerning the cultural fit deriving from a more sociological perspective (Haxhi *et al.*, 2010; Sturdy, 2004), we identify two main obstacles to the implementation of this practice. The first concerns the values that are embodied within the practice, as management audit is often viewed overall as punitive in nature, usually because of the perception of its results (demoting or firing managers). This seems to be an important reason why management audits have not attained the importance we would expect in the current context of increased corporate governance requirements and strategic risk management.

The second concerns more the perception of the power and hierarchy as addressed by Hofstede's power distance criteria. In fact, both managers and auditors believe management audits would not be feasible in Switzerland because of confidentiality and the general respect for hierarchy. Apparently, this seems a very important issue for the participants coming from the banking sector. Furthermore, many of our participants believe that even broaching the question of a management audit may be a somewhat dangerous career move. This seems in accordance with Hofstede's (2001) findings concerning the French-speaking area of Switzerland (*Suisse romande*), where the power distance index is high and differs greatly with the German-speaking part. This means that employees in an organization accept the hierarchical order, which needs less or no justification at all, with the ideal boss being a benevolent autocrat. In this framework, the centralization of power becomes popular; thus, challenges to and criticisms of the existing leadership are very badly received.

As per the political fit, the resource dependencies of the internal audit from the management and the actual formal power structures seem to play an increasing role in the adoption of management audits. Several participants, especially those coming from the auditor population, seem to fear a loss of resources and support from executive management if they engage in these kinds of audits. As the internal audit serves as a resource for both the management and the board, it seems the relationship that the internal audit has with the management influences the extent of the work the first can perform over the last. Although the requirements for good corporate governance state that the internal audit function should report to the board of directors, both the literature and our results show that this is not systematically the case. Furthermore, internal auditors often remain under the administrative control of management, which makes it difficult to ensure their independence and freedom of actions in the auditing process.

Before considering the composition of the audit team, the level of management to be audited needs to be defined. Craig-Cooper and De Backer (1993c) proposed a management audit framework that concentrates on the key executives in each organizational unit. To ensure independence, impartiality and new perspectives, the use of an independent party is then recommended, especially for a large-scale review or for one that is expected to generate controversy (Dann *et al.*, 2002). However, in practice, and despite the fact that hiring an external consultant is often strongly recommended, in-house internal audit staff are usually the ones to perform management audits. For example, Kaiser, a large medical services provider, uses its own internal audit team to perform board reviews (Overmyer and Purcell, 2010). Questions about technical and business competencies and, above all, independence from management remain, and they are important to work out.

Principles of good corporate governance prescribe that the internal audit function should report to the board to ensure adequate independence from management (Joscelyne, 2004). But a PricewaterhouseCoopers survey of 717 internal audit managers showed that only 31 per cent of respondents were effectively reporting to a board level, 47 per cent were reporting to the chief financial officer and the remaining 22 per cent were reporting to the CEO level (PwC, 2007). While the internal audit function could technically perform management audits of top management and the board of directors, the results could be systematically challenged because of the lack of independence. Thus, to guarantee as much independence of the audit team as possible, it is argued that board reviews or CEO reviews should be performed externally (Dann Hield and Clark, 2002). However, the NACD Survey (NACD, 2010) showed that, while 90 per cent of the 701 respondent companies did proceed to board evaluation, the majority were self-evaluations. We also found that the vast majority of our participants considered auditing the board of directors to be very difficult. Only a small percentage considered a management audit that would address the board; the majority preferred to address only the top- or mid-level management.

In light of these findings, we remain convinced that management audits can contribute to the reduction of the principal-agency problem and to more efficient strategic risk management and that they can ensure an organization's long-term health within the overall framework of good corporate governance. The recognition of the internal auditing role in governance-related activities (IIA, 2011) should lead to more systematic evaluations of board structures, objectives and dynamics, as well as management evaluations. Nevertheless, it appears that, despite these positive enhancements, several other factors influence the adoption of this practice. A broader sociological approach should be adopted to consider different cultural, power and technical aspects that can foster the adoption or rejection of different corporate governance good practices. Based on these considerations and on deriving technical, cultural and political findings, we posit three hypotheses (*H.*). We describe and explain below each hypothesis to strengthen the link with our findings:

H1. The resistance to good corporate governance practices such as management audits is related to the degree of acceptance of the specific tools and skills requirements of these practices.

Management techniques are essentially grounded on scientific management (Fayol and Taylor). Auditing practices have evolved based on this paradigm. In the official definition of Internal Auditing, for instance (IIA, 2003, p. 13), the auditing approach, is presented as "systematic and rigorous", which corresponds to the definition of a scientific approach. The goal of scientific management is to come up with objective findings. In the case of management audit, there is a paradigm shift, as tools and skills are of a more qualitative nature. We could thus infer that the resistance to conduct management audits is related to the nature of tools and skills that are more subjective than the ones required in classical audits. This finding is, consequently, related to current cultural traits of corporations, where objective validation is taken for granted in every audit process:

H2. The national culture and the values embodied in the practice influence the resistance to the implementation of good governance practices such as management audits.

There is abundant literature related to culture and organizational traits paved by Hofstede's writings since the 1980s. Hofstede (2001) defines culture as "[…] the collective programming of the mind that distinguishes the members of one group or category of people from another". Hofstede has developed a national culture framework based on four dimensions (power distance, individualism, uncertainty avoidance and masculinity) that has been widely applied to explain differences in management practices between countries. Our survey is based on a sample of Swiss corporations. By Swiss national culture, we mean traits like "consensus" (Linder and Iff, 2011, p. 2) and profound respect for hierarchy that are illustrated by the high power distance index (Hofstede, 2001). As management audits are directly questioning the competency of executive managers, we can then induce that this is one important reason why there is such resistance to conduct management audits in Swiss corporations. We can thus infer that, in a general manner, the national culture can have a deterring effect on the conduct of management audits on related national corporations:

H3. The use of good governance practices such as management audits is related to the degree of corporate governance maturity.

The degree of maturity of corporate governance is also an important factor explaining the conduct of management audits in corporations. This research hypothesis indicates that a high degree of corporate governance maturity favors the conduct of management audits. It means that a company with expertise and experience in dealing with board issues, external and internal auditing roles and functions represents a pre-requisite for management auditing. As seen in *H1*, tools and skills for management audits are more qualitative in nature. So, additionally, we interpret that the corporate governance structure must be in place even if tools and skills are more classical in nature.

7. Conclusions and future research

While management audits can strengthen the management quality and increase the monitoring of the company's strategy and the board's efficiency (Craig-Cooper and De Backer, 1993c), they are not commonly used or referred to as tools to address corporate governance. Based on a qualitative research survey in Geneva, we hypothesize that management audits are not commonly used or referred to as a tool to address corporate governance for the following three main reasons:

(1) tools and skills needed to conduct management audits are different to the ones required for conventional audits;

(2) the national culture also plays an important role due to management audits' notions of hierarchy and authority, as well notions of managerial attitudes; and

(3) without a high corporate governance degree of maturity, corporations' experience difficulties in conducting such sophisticated audits.

Our findings bridge a gap between the literature on management audits and the expanding role of the internal audit function. Our study also examines the way companies – in the Swiss context – understand, perceive and may be ready to apply management audits as a good corporate governance practice. We argue that, despite the positive enhancements and implications that the management audits have for corporate governance, several factors should be considered before applying them. The main contribution of our work relies on the fact that we are bringing new knowledge about management audits based on inductive research.

We should insist on the fact that these research hypotheses need to be validated in subsequent research using quantitative surveys. Therefore, the lack of validation of our hypotheses is the main limitation of our work. Further research should include a survey on management and auditors' perceptions of good corporate governance to confirm these exploratory results.

We also provide practical managerial recommendations based on our findings. Compared to either financial or compliance audits, management audits are fundamentally based on anticipation rather than detection. As a consequence, specific techniques as well as skills need to be developed to assess both the completion of strategic objectives and the behavior of management. Interviews and observation techniques should be used far more, as these audits are more qualitative and participative than traditional audits and have to be tailor-made by industry and company. Our findings indicate that the management audit embodied values that tend to engender mixed feelings of interest and fear, as they are too often associated with punitive actions during company crises. As a consequence, there is a clear need to improve the image of management auditing in the corporate world. Furthermore, the cultural aspect linked with the hierarchy and power seems very important in the acceptance of corporate governance practices. The national power distance index could be a starting point for assessing the potential perceptions of the actors in adopting good governance practices. In addition, considering the formal power structure in a more political perspective, while management audits could be performed by the internal audit function, a company's organizational structure and reporting lines tend to hinder, or even prevent, the required capacity of action of internal auditors. New corporate governance schemes must then be explored and designed, such as relying on specialized and independent firms that could be mandated by the internal auditing department to circumvent this political bias.

Our work on the Geneva area case suggests that the diffusion of management audit practices is not solely related to business or national culture barriers but also and mainly to the degree of corporate governance maturity. Corporate governance has been at the heart of economic debates in Switzerland over the past 10 years, but while Swiss SMI companies have been evolving toward internationally recognized good practices of corporate governance, this evolution remains at an initial stage in many companies and banks. Therefore, the internal audit function that appears as a reasonable candidate to foster the development of management audits and occupies a more strategic position within companies in the context of growing corporate governance requirements is not yet in the position to carry out such audits. Notwithstanding the limitations due to the nature and extent of our study, our findings could be interesting for an international audience because they indicate possible action points to be leveraged by boards of directors to carry out management audits that have mainly been imported from North American, Australian and UK contexts in other national realities with other cultural considerations and beliefs. They should pay attention to the degree of maturity of corporate governance within the country and to how power balances could hamper the diffusion of management audits or other good governance practices.

All these elements show that there is a wide scope for further research about management auditing. Although the Geneva area findings may not be applicable to other developing or advanced countries because cultural traits and corporate governance rules are context-based, there would be a need to conduct similar surveys in different contexts (regional, national and industrial) to generalize such findings.

Future research could more specifically address the following issues: the contribution of management audits in reducing the agency problem, the value added of management audits to companies' performance and the contribution of management audits in monitoring strategic risks. Finally, the question of relationships between the internal audit function, the management and the board, as well as the question of independence of the internal auditors in performing management audits, remains an interesting and understudied area.

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