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Managerial uses of post-completion auditing of capital investments

This paper investigates the different managerial uses of post-completion auditing (PCA) of capital investments. PCA can be described as a formal process that checks the outcomes of individual investment projects after the initial investment is completed and the project is operational. Hence, PCA can be regarded as one formal control system within a company's total management control system package, which comprises various formal and informal controls. Although PCAs are reported to be common in large companies, we still have little empirical evidence about the significance of the different managerial uses of PCA.

Drawing on the concepts of cybernetic control systems, this study assesses the significance of PCA in measuring performance and controlling current investments (assisting correction/abandonment decisions), enhancing the integrity of investment appraisals, and in evaluating personnel. Cybernetic control systems rely on variance information to correct progress in the process in question. The major perceived benefits from PCA are reported to be related to organizational learning (OL). Nevertheless, the practical OL benefits of PCA are still ambiguous. Consequently, this paper also elaborates and maps them and discusses the extent to which they are related to the single/double-loop type of learning. Single-loop learning focuses on problem solving and does not address the causes of problems, whereas in double-loop learning, organizations not only detect and correct errors, but also question underlying assumptions.

The empirical data come from the 16 PCA adopters that were identified in face-to-face interviews conducted in all of the 30 largest Finnish manufacturing companies. The interviews consisted of two parts: a semi-structured interview and a structured questionnaire (which was completed in the presence of a researcher). Altogether 49 interviews were conducted, 25 with the 16 PCA adopters. Typical interviewees were CFOs/controllers and persons in charge of technology, investments, production or business development in corporate management or major divisions. The idea was to identify through press releases, newspapers, phone calls, hints from colleagues in other companies, and seminars the most knowledgeable person with regard to capital investment control in each of the 30 corporations as the main interviewee.

As a contribution to the extant PCA literature, this study provides empirically supported insights with regard to the relevance of different PCA uses. The findings of the study suggest that in addition to inherently inappropriate timing, the alternate ("non-PCA") control mechanisms available to companies diminish the relevance of PCA in controlling current investment, and in enhancing the integrity of investment appraisals. The alternate control mechanisms may include quality systems, routine reporting, visits, presentations, and discussions, for example. Moreover, the findings support the contention that the major benefits of

PCA are related to better planning of future investments, whereas its relevance in controlling current investments can be minor. As an additional contribution, PCA's practical benefits for organizational learning were mapped. ■