

# FACTOR 1

## VALUE PROPOSITIONS

Lyft, the ride sharing company, has a simple value proposition, “Rides in Minutes.” It addresses an urgent need—getting a ride, communicates a benefit—quick service, and differentiates itself from the competition (taxis) with an emphasis on convenience. It conveys everything you need to know in three words. Gusto, another San Francisco company, has a value proposition reflecting the effortlessness of using its services: “The easiest way to pay your employees.” Gusto provides payroll services. Dollar Shave Club, a direct delivery razor blade provider’s value proposition is “Get Ready to Look, Feel, and Smell your Best.” Value propositions summarize why an organization’s product or service is the preferred choice for a customer. Inherent in a value proposition is providing greater value than the competition offers; a value differentiator.

How does this apply to internal audit? Well, it actually applies to all goods and services. Everyone makes choices about resource allocations based on perceived value. When buying a car, people consider: economy, style, special features, quality, acceleration, color, size, whether it’s two-wheel or four-wheel drive, whether it’s a domestic or foreign make, and last but not least, affordability. There is also the intangible factor that makes us decide we want *that* car. A company allocating budgets is no different. Corporate functions are regularly viewed as compulsory overhead costs. It’s become tempting to outsource services such as human resources, information technology, aspects of accounting and finance, facilities management, supply chain, legal, and internal audit. There is also the continued advancement of automation and artificial/augmented intelligence to contend with. Understanding customer needs, proactively addressing the competition, and articulating organizational value is key to remaining relevant and sought-after. Developing a value proposition helps position this success.

SRI International's value proposition is "We invent products and solutions that change the world." SRI is an independent, nonprofit research center. It invents solutions for the most challenging problems today and in the future. For more than 70 years, SRI has led the discovery and design of groundbreaking products, technologies, and industries—from Siri and online banking to medical ultrasound, cancer treatments, and much more. SRI is a diverse business addressing multiple customers and industries. A significant percentage of its funding comes from the federal government, which brings substantial regulatory requirements. It also works with commercial and international customers to innovate products and services. Imagine for a moment a value proposition for SRI's internal audit organization. It has to embrace the customer need—innovation, articulate the value provided, and differentiate from the competition. SRI Internal Audit decided on a value proposition of "Empowering High Value Innovations and Solutions." We use this to market our services and to keep the team focused on customer value. It flows through all that we do. Internal audit team members have specific goals associated with delivering value and customer satisfaction. We layout our vision through our value proposition and then measure our performance in delivering value.

Raytheon Company's value proposition is "Customer Success is Our Mission." Raytheon is a technology and innovation leader specializing in defense, civil, and cybersecurity markets throughout the world. When Larry Harrington was brought in about 15 years ago, the internal audit function had been outsourced with mixed results. Audits and projects were not being completed timely, and there were delays in communicating results to management. Larry had successfully reinvented internal audit organizations twice before at Staples and Aetna Health. He saw an opportunity to rebrand internal audit and disrupt prior perceptions. Larry's value proposition was "Creating Positive Change with a Sense of Urgency." It perfectly captured the customer's need for value—creating positive change, with the need for speed which was a core theme at Raytheon. Understanding the prior outsourced experience, it also stressed that the internal audit organization was better than the competition. His internal audit organization would deliver on or ahead of time. Everyone within

the team was committed to this value proposition. It became our philosophy.

External service providers, internal audit's main competition, have mastered the art of the pitch and value propositions. Value is the central theme in their sales presentations. They do extensive research to prepare marketing materials. This includes sending annual surveys to board of director members, CEOs and CFOs, and internal audit leaders. They ask about top risk concerns, assess whether internal audit is addressing the interests of management and adding value, and whether competent services are being delivered. They package the survey results into white papers, such as PwC's "State of the Internal Audit Profession." It's brilliant. These external service providers are framing the conversation for management and the board about what they need, on their terms. In turn, they shape their offerings to address the perceived gaps in value being delivered.

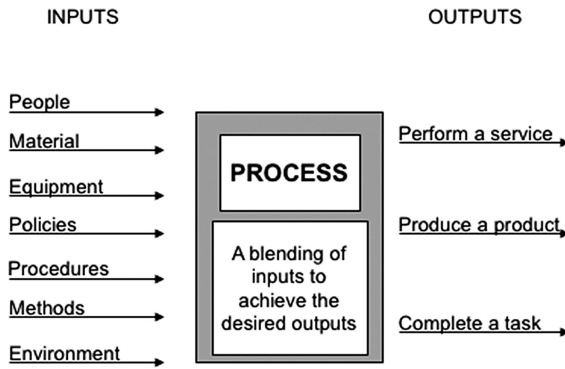
Meanwhile, the typical internal audit organization is playing catchup and not driving the conversation about value. The result is a near constant perception that internal audit is falling behind. To remain relevant, we need to take the helm and proactively identify what customers perceive as value-added. I know, I know, we have all asked the question "what keeps you up at night?" Maybe we're asking the wrong question or collecting the wrong data. Every 2–3 years I send a survey to all of my customers—every employee in the company. One of the questions I typically ask is "If one thing could change to make your job easier, what would it be?" You'd be amazed at the feedback and appreciation for the question. The information being sought is customer and value-centric. It's about what would help *them* (value) in *their* own words. We're not asking how *internal audit* can help them. That's a different question and quickly narrows the thought process. The average employee won't know how *internal audit* can help. The data create ah-ha moments for management. Everyone is focused on execution; we don't step back and ask what would make it easier for employees to accomplish their objectives. Using this survey technique—internal audit is now adding value by providing the executive team with new information, and in turn, crafting an audit plan that addresses some of those needs. External service providers would love to have that information!

We are the only ones holding ourselves back from having well-founded value propositions and understanding what's important to our customers.

### Developing a Value Proposition for Internal Audit

It was my first interview with Dr. Curt Carlson, the former CEO of SRI International. I was in London on vacation with family, and we video conferenced about the opportunity to innovate internal audit at SRI. Internal audit had a reputation of being punitive, and Dr. Carlson was looking for a major change in vision. Interestingly, during the 45 minutes we chatted, the mechanics of internal audit barely came up. Instead, we extensively discussed the importance of innovation and value, and how successful organizations operate. It was refreshing. SRI wanted to innovate all of its corporate functions to better align with its mission. My next several interviews were with business presidents—the leaders at SRI responsible for empowering its researchers to innovate. Again, the discussions focused on how internal audit could deliver value for the organization. By this time, I had a keen awareness about the criticality of innovation for the company.

One of the first things I did when I joined the company was to better understand the current state of internal audit's brand. I met with the leaders of every business and function, attended town halls to speak with employees, visited regional offices, and met one-on-one with laboratory directors and researchers. I listened. A lot. My first question was simple. What do you think of internal audit? Some people weren't aware of internal audit's purpose. Others had negative views. The one theme that consistently came through was one of constraint. There was a perception that internal audit was at the company to constrain innovation and collaboration because it was focused on compliance. In other words—internal audit's brand was the polar opposite of the company's value proposition and mission. Significant change was needed. I followed basic system theory: inputs, process, and outputs. Inputs are the data and information needed to understand the current state and customer expectations for what a value-added internal audit organization looked like. Process was the infrastructure to enact the change required. Outputs represented the tangible changes and the types of services to be offered by internal audit.



**Exhibit 1.1** Inputs, Process, Outputs.

I evaluated internal audit’s current practices (inputs) and found that there was no methodology, charter, mission statement, performance metrics, or customer feedback loop. No wonder the audit organization was unsuccessful. The prior internal audit organization viewed itself as a necessity, not a source of value for the company. We looked at the company’s strategic plan, goals, and objectives (inputs). We asked customers about their past interactions with the internal audit team. The general perception was that internal audit did a lot of “telling” and not too much “asking.” The final set of inputs was asking about the ideal state. What would the ideal internal audit organization look like? Note that a side benefit of this exercise was raising awareness about internal audit and possibilities for customers. We evaluated all of the inputs and created meaningful outputs as a result of the evaluation.



**Exhibit 1.2** Example of Inputs, Process, Outputs for value proposition development.

The last step in developing the value proposition was market testing. I wanted the value proposition to shock the system and radically challenge the prior perception of internal audit. We asked customers

what they thought about “Empowering High Value Innovations and Solutions.” They loved it! It drove home a new commitment to customer success and value. About 12 months later, I noticed something interesting. The new CIO had adopted our value proposition. As Oscar Wilde wrote, imitation is the sincerest form of flattery.

Going back to Dr. Carlson—he and Dr. Bill Wilmot outlined a value proposition model called NABC (Need, Approach, Benefits per costs, and Competition) in their excellent book *The Five Disciplines of Innovation*. Dr.’s Carlson and Wilmot believed that everyone has customers, and we need to understand the various aspects of value for each of them in order to advance the enterprise’s success. This starts with understanding the customer’s need: what is the important customer and market need? Development continues with approach: what is the unique approach for addressing this need? The B represents benefits: what are the specific benefits per costs that result from the approach? Lastly, consider the competition: how are these benefits per costs superior to the competition and the alternatives?<sup>1</sup> Surely, there was an opportunity for internal audit to leverage this approach in our work.

### Value Propositions for Individual Audits

First and foremost, what is the *need* for the audit or project in terms that relate to the customer’s goals and objectives? Why should they care? The audit may be on the audit plan as a result of the company’s risk assessment—perhaps an urgent or emerging risk or developing regulatory requirement—justifies looking at a particular process or set of controls. It’s important to connect that justification to the customer’s own interests. How does it relate to the customer’s goals, objectives, and strategic plan? Translate the need in customer terms. Having a meaningful value proposition for every audit or project creates buy-in and engagement. Typically, internal audit relies on the enterprise risk assessment or audit plan to justify an audit, yet that may not articulate value for the customer. A value proposition describes how an audit will solve an important problem and benefit the customer.

For example, an audit of information security was included in the audit plan because the cyber threat to the company is constantly evolving and the executive team needs assurance that the program is effective at addressing cyber risks. A value proposition for the executive

team and the Chief Information Security Officer (CISO) could be “Internal Audit will provide assurance about whether the information security program can support customer growth of 25% over the next 24 months.” This example takes the typical audit objective and links to the company’s strategic goals. Now value is evident. Ideally value propositions are developed *before* an audit is added to the audit plan. Each proposed audit or project should be evaluated for its contribution toward supporting strategic goals and objectives as relates to risk management. Some additional examples of value propositions:

*Example—Sarbanes–Oxley Controls*

*Traditional Objective Statement:* “Verify that controls are effective and efficient to comply with Sarbanes–Oxley regulatory requirements.”

*Value Proposition Statement:* “Assess Sarbanes–Oxley controls in preparation for the Company’s initial public offering.”

We could easily substitute the “initial public offering” with whatever the current strategic plan reflects—perhaps its growth, a planned acquisition or merger, or cost optimization effort. The key point is that internal audit is not simply justifying the audit on the grounds of an existing regulatory requirement—we are illustrating value to the customer beyond compliance and approaching the audit with the expectation of value-added deliverables. We’re contributing to the company’s ability to go public, engage in merger activity, or optimize the cost environment. Internal audit is creating value for its customer.

*Example—Business Continuity*

*Traditional Objective Statement:* “Verify that controls are effective and efficient to support continuation of operations in the event of an incident or disaster.”

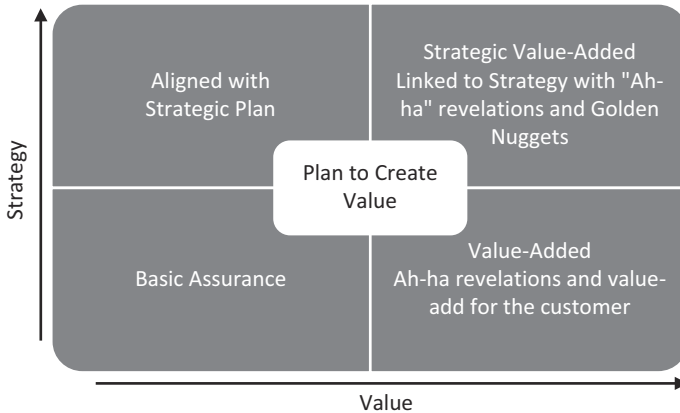
*Value Proposition Statement:* “Assess business continuity practices in support of expansion to Asia.”

The objectives are linked to the strategic plan, so value is immediately evident to the customer. The audit becomes more strategic, is forward looking, and is more valuable. Here again, “expansion of operations to Asia” could be substituted for whatever priority is outlined in the company’s strategic plan.

You may be saying—well, I don't have access to the company's strategic plan and therefore, I'm unable to create a meaningful value proposition. Gaining access to the company's strategic goals may not come in the form of attendance at the CEO's staff meeting, strategic planning meetings, or other high-level executive planning sessions. Depending on company culture, this information may need to be cultivated through other avenues, where a customer relationship has been established and information is willingly shared. Ultimately, hearing firsthand about company strategy is ideal, but there are other means for achieving this objective. Attend company All-Hands meetings. Seek out and develop mentoring relationships with key members of management. Ask for personal briefings on the organization's strategy. Information will also flow once trust has been established as discussed earlier in the chapter.

How we approach the audit is equally important. What specific value-added deliverables will be provided to the customer during the review? Without thoughtful planning, audits may focus entirely on answering questions about compliance or the effectiveness of controls. Every engagement should provide "ah-ha" moments and golden nuggets for the customer. Dr. Carlson described golden nuggets as a key to success that might be in the form of "a new, enabling technology, a relationship, a novel manufacturing process, or a new business model." When we think about value for customers, we need to determine how we will differentiate ourselves from an external provider or other internal or external resource. Dr. Carlson continues, "As in panning for gold, you are always looking for something extremely valuable that others don't have and your customers want."<sup>15</sup> Golden nuggets for audit customers may come in the form of recommendations to optimize cost or increase revenue. For example, performing a process analysis using the SMART system, described in the Change Management and Process Optimization Factor, could reveal low-value activities, duplicative controls, or ways the customer can better meet objectives. Golden nuggets could be provided by enabling customers to better understand their business through data analytics. Benchmark information regarding industry and peer company practices provide valuable insights too. Each of these examples necessitates conscious planning and setting expectations for the audit team early in the audit process.





**Exhibit 1.3** Value proposition quadrant.

The following are examples of basic assurance, strategic, value-added, and strategic value-added approaches to value propositions.

#### *Basic Assurance*

Basic assurance, as given, is the minimal expectation of any audit or project. Internal audit organizations with a primary goal of providing basic assurance are more traditional in nature, tend to be less agile, and may not prioritize customer value. Examples of basic assurance include

- Validating that current Sarbanes–Oxley controls are working as intended.
- Verifying that information system access is appropriate given user roles and responsibilities.

#### *Aligned with Strategic Plan*

- Validating that the Sarbanes–Oxley Program has an effective risk assessment and change management program to respond to changes in business operations and that the design of controls addresses changes in organization strategy.
- Verifying that the information system roadmap considers and is responsive to the organization's strategic plan.

*Value-Added*

- Assessing whether certain Sarbanes–Oxley controls can be automated via Robotic Process Automation or Augmented Intelligence, and thereby deploying organization resources more effectively and efficiently.
- Identifying information system users that never or rarely access system resources, access the system at unusual times, or access system information that is unexpected. Identify users that generate computer processing time that is not aligned with expectations for optimization.

*Strategic Value-Added*

- Verifying that the Sarbanes–Oxley Program has a roadmap to address the strategic plan and optimize the use of resources via Robotic Process Automation or Augmented Intelligence. Assess the program’s efficiency as relates to external benchmarks and make recommendations.
- Verifying that the information systems roadmap is aligned with the organization’s strategic plan and that resources are deployed efficiently. Recommend where Robotic Process Automation or Augmented Intelligence could be deployed to further optimize the use of resources given strategic plan objectives.

With ideal engagement, we move up and to the right in the value proposition quadrant. The goal should always be to move toward more strategic and value-added engagement with the customer. We must be agile and responsive to changing needs to remain relevant and add value. The Change Management and Process Optimization Factor includes many tools to help achieve a value-added approach to audit work.

The benefits per costs associated with audits and audit recommendations are often overlooked. Going back to the Audit Executive Center Survey discussed in the introduction, 71% of Chief Audit Executives did not measure value provided to management through quantitative methods. How can we expect management to understand the value provided by internal audit, if we aren’t telling the story? It’s

imperative that we quantify benefits provided during every engagement. We also need to provide a full accounting of costs too. Audit recommendations tend to be cost additive because new or enhanced controls are being recommended. Helping management understand the net benefit of a change drives buy-in. Make it as easy for customers to understand your value proposition in all that you do.

The last item that Dr. Carlson and Wilmot discussed was competition. What are the alternative solutions (competition) to performing the audit. The company could pull together a cross-sectional project team or hire an external consultant. Maybe there's another group within the company that does special projects. What makes internal audit stand out as the best option and how do you convey that to the customer? For starters, internal audit brings extensive experience in change management, it's a multidisciplinary team, has unfettered access to resources and information, and has a broad understanding of the entire enterprise. I would argue that internal audit is better positioned than most other functional teams to help solve important problems and deliver tangible value. The competition aspect for internal audit is not necessarily about spelling out how much a consultant would charge to perform similar work, it's really about anticipating what a consultant, alternative inside team, or external service provider can offer and building a better proposal, taking those factors into account. Internal audit will almost always be a better value based on pricing (cost). The value proposition for an audit or project should proactively address gaps in knowledge or expertise by bringing in specialized resources to supplement the team. I've often brought in subject-matter experts from external service providers to provide extra technical knowledge. Doing so demonstrates sophistication and willingness to bring the best resources available to increase the likelihood of a value-added outcome.

### Chapter Recap

Value propositions increase the likelihood that your organization will remain relevant and thrive. Value propositions should be linked directly to customer needs. The internal audit value proposition should be aligned and responsive to the company's value proposition and strategic objectives. An effective value proposition succinctly

differentiates internal audit from the competition. Value propositions should also be developed for individual audits to communicate, from the customer's point of view, why an audit is important to them. They should consider customer strategic objectives and how value will be delivered. Identifying a value proposition for individual audits sets an expectation for audit team members about the value to be delivered at the completion of the audit. Strive to move up and to the right in the value proposition quadrant.

### Notes

- 1 Dr. Curtis R. Carlson and William W. Wilmot, *The Five Disciplines of Innovation*, page 88, 145. Crown Business, 2006.

### Bibliography

Dr. Curtis R. Carlson and Dr. William W. Wilmot, *The Five Disciplines of Innovation*, 2006, Crown Business.

<https://gusto.com>.

[www.dollarshaveclub.com](http://www.dollarshaveclub.com).

[www.lyft.com](http://www.lyft.com).

[www.raytheon.com](http://www.raytheon.com).

[www.sri.com](http://www.sri.com).