



Disruptive business models

Change is important. But is it enough? If the latest thinking is to be believed, then the answer is no. Disruption is the key. Disruptive technology. Disruptive business models. Disruptive thinking.

In this paper we explore what disruptive means and its implications for internal audit's role to enhance and protect an organisation.



What is meant by disruptive?

Disruption in the context of technology or business models is something that makes what came before obsolete. It replaces a process or way of thinking rather than builds on it for improvement.

It is radical. It is new. It is unsettling. It disturbs the status-quo.

Disruption is readily evidenced in the private sector, yet, in the public sector, digital transformation has proved slow. Only in 2018 were the NHS told to stop buying and using fax machines – and that's just one example.

Could rising costs, social unrest and political change cause the protectionism of the public sector to breakdown? Will disruption be the route to survival?

Classic examples include:

- Before Airbnb, few people thought of offering their spare room to a stranger. From humble beginnings in 2008 it is now a rental portal with over 5m properties across nearly 200 countries. Demolishing

barriers to entry in the market for business and leisure accommodation worldwide.

- The 90's spawned the coffee shop phenomenon. Prior to this the choice was principally between a thermos flask and a traditional teashop in the UK, invariably for tea, not coffee. Starbucks and Costa changed this. They revolutionised the market.
- In 2010, Metro Bank UK was the first high street bank to be licenced in almost 100 years. In a market where establishing credibility takes time, its disruption impact is open to interpretation, particularly following a regulatory breach in 2019.
- Lovefilm first disrupted the movie rental market with a DVD subscription service by post in 2002, then a streaming service Lovefilm Instant, bought by Amazon and renamed Prime. The biggest player in the video rental age, Blockbuster, went bankrupt soon after rejecting a partnership deal with the then fledgling Netflix.
- Not all disruptors recognise their power. Kodak, the pioneers of photography, invented the digital camera in 1975, reporting it internally as "a first attempt demonstrating a photographic system which may, with improvements in technology, substantially impact the way pictures will be taken in the future." They maintained confidence in camera film and finally went bankrupt in 2012.
- Around the 5th century AD a Chinese invention made its way West. It replaced a blanket and made it possible to be a competent horse rider in months rather than years. The saddle was a disruptive technology that changed not only transportation but also trading and warfare.

You may be thinking where is Uber, a classic recent disrupter, even causing parliamentary debate? It is contentious; some argue it is a disruptor using technology to challenge the taxi operators' standard model, however, others say it is an improvement, a re-engineering of the existing model using technology.

Is your audit function a Starbucks or an Uber? Or neither?

Disruptive organisations

Like a volcano, disruption requires significant energy. It is also a temporary state.

easyJet disrupted the airline industry with budget travel in 1995. Whilst its founder, entrepreneur Sir Stelios Haji-Ioannou has gone on to create disruptions in other industries, the airline itself is a mainstream organisation having survived its initial entry stage.

Entrepreneurs aside, many disruptions are the result of research and development. Successful organisations **invest** heavily in innovations that have the potential to disrupt and progress; Volkswagen, Toyota and Ford's pursuit of the electric car; Samsung, Apple and Microsoft generating demand for new 'can't live without' technologies; Roche, Merck and Pfizer extending the boundaries of pharmaceuticals ...the list goes on.

Each innovation is a potential game changer. A disruptor.

Audit leaders should be alert to the disruptive qualities within their organisations; whether at the board level, individual potential or discrete siloes.

There is a kind of DNA to disruptive organisations and teams:

1. **Leadership.** Often led by disruptive individuals, characterised by Steve Jobs, the late co-founder of Apple as "the crazy ones, the misfits, the rebels, the troublemakers, the round pegs in square holes." Free thinkers, big picture visionaries rather than in the detail.

2. **Culture.** A place where there are no negative consequences for 'failed projects' within the innovation space (obviously traditional rules apply to functions like accounts payable!). It is a safe environment to learn from mistakes, speak openly about ideas and test out theories.
3. **Diversity.** A broad skills mix builds on divergent qualities. The pragmatist balances the visionary; the disrupter is challenged by those more compliant; while others ensure completion and communicate.

Disruption without purpose, however, is like a revolution without purpose; chaotic and volatile.

Successful disruptions solve a problem that society didn't realise it had, until it was presented with the solution. It is unlikely anyone ever said moving things around was easier before the wheel, yet it took the invention to realise it.

Disruptive or disrupted

Not all organisations will be disruptive.

So, it follows that most will be disrupted, innovating and re-engineering existing ways of working to keep pace with the change around them; evolution not revolution.

Where does your organisation sit on a disruption scale?

The organisation itself may not recognise disruption, in this context, as a risk.

It is paramount that audit leaders do.

Internal audit's role is to enhance and protect the organisation.

Disruption can have a positive effect, enhancing the sustainability of an organisation, or it can have a negative effect with the ultimate impact of obsolescence.

Audit leaders recognise that their risk-based audit plans need to also consider risks that have not been identified by the business. In an era of exponential changes to technology, society, environment and politics, disruption is an important factor.

Internal audit has a diverse remit and there are many ways in which disruption can be 'audited' without the need for a nebulous audit to be proposed and summarily dismissed by the audit committee chair!

Questions to ask of the organisation	Activity for internal audit to think about
Does the board inspire or manage its leadership team?	<ul style="list-style-type: none"> • Conduct or propose a meaningful board effectiveness review • Strategy audit - does the process hinder or aid progress...is the approach to disruption an intentional choice or not? • Market analysis review – does the organisation consider all competitors, potential entrants, new developments, learnings from other sectors, is it learning and keeping pace

Has an external partner ever been engaged to exploit an opportunity?	<ul style="list-style-type: none"> • Third party spend audit - where is expertise sought/avoided, value for money, fraud, exploitation...
What was the last innovative thing that happened?	<ul style="list-style-type: none"> • Agile assurance during projects/developments • Risk workshops to build confidence in informed risk taking • Business case/investment audit - does criteria stifle innovation, is process too slow, are losses sustainable... • Project management methodology audit – is it progressive, effective, utilised
When has change been embraced?	<ul style="list-style-type: none"> • Culture audit - does culture/values support or prevent change, do attitudes differ across the organisation... • Change management audit – process, values, success rate... • HR audit: training/support/advise on change
What is the cultural response to new ideas? – laughed at, explored, avoided	
How diverse is the board?	<ul style="list-style-type: none"> • Diversity and inclusion audit, including the board - beyond legislative compliance to engagement and advantage... who really challenges the board/status quo, could audit recommend recruiting a disruptor (entrepreneurial NED) ...
Who, if any, of the executives are genuine thought leaders?	<ul style="list-style-type: none"> • Support disruptive individuals (mentor/advise) • Lead by example, are you a thought leader?
Is it usual or unusual for executives to have a coach/mentor?	<ul style="list-style-type: none"> • HR audit: talent attraction, recruitment and retention • HR audit: performance management
Is there more focus on process than success?	<ul style="list-style-type: none"> • Performance metric audit – do metrics and values correlate, is compliance balanced with innovation...
Has anyone ever been recruited to 'stir things up' or 'be a rock star'?	<ul style="list-style-type: none"> • HR audit: recruitment - including avoiding bias, disruptive talent, think outside the box...
Who is accountability for innovation?	<ul style="list-style-type: none"> • Innovation audit – values, accountability, reward mechanisms, embedded or separate process, barriers ...

Disruptive business models

Disruption within a sector often comes from transferring a business model that has been successful elsewhere. There are rarely completely new models.

As audit leaders you will be operating strategically with the board. Being familiar with a variety of disruptive business models is useful when talking to executives about risk solutions.

Sharing/Access <i>(AirBnB, Parkopedia)</i> Platforms for convenient renting or sharing of expensive assets such as homes, cars, equipment.	Premium experience <i>(Apple, Tesla)</i> Exceptional user experience adds premium pricing - experiential brands	On demand <i>(Uber, Deliveroo)</i> Time is money, immediacy, from a movie to taxi or food, any product or service only when needed.
Marketplace <i>(Alibaba, Ebay, Fivver)</i> Revenue through fees, commissions, transaction costs, memberships and advertising.	Subscription <i>(Netflix, Prime)</i> Creates long term commitment. Huge growth in subscription boxes; convenient, value, personal.	Growth Pyramid <i>(Amazon, Dropbox)</i> Principally using affiliates, influencers, resellers and employees to drive sales and growth.
Freemium Model <i>(Spotify, LinkedIn)</i> Rapid consumer base by offering free 'basic' product/service. Customer pays for premium content/functions.	Free <i>(Facebook, Pinterest)</i> Not popular with entrepreneurs, useful platform for engaging with consumers; advertising, preferences, personalisation.	Ecosystem <i>(Apple, Google)</i> Binding consumers to a product/lifestyle, change is difficult.

Some of these concepts are familiar. The sharing/access model has been operated on a smaller scale as shared services and outsourcing arrangements. The ecosystem is not dissimilar to the model used by the Big4 firms, building strong relationships for consultancy engagements on a range of issues.

What disruptions could fundamentally shift internal audit?

Disruptive leaders

Should internal audit be a disruptive influence in an organisation?

In his book [Evolving Digital Leadership](#), James Brett identifies preferences that combine to form a disruptive mindset. Many resonate as the qualities of a good audit leader:

- learning from the past while focussed on the future
- early adopter of change (technology, concepts, methods)
- an internal authority, confident to lead, not waiting to be told what to do
- preference to look for differences rather than similarities
- comfortable operating outside the status quo
- optimistic, willing to take significant risk
- unconventional, prepared to stand out, think differently, devil's advocate
- willing to risk reputation, career, success for belief in something.

Only one is not an immediate fit with the role itself but could still be a personal trait.

Audit leaders are natural disruptors.

As with any traits, these are often context bound. For instance, an IT director may be a disruptive leader in the technology arena at work but unadventurous when it comes to food choices for their evening meal.

Disruptive internal audit

Internal auditors operate across an organisation and at all levels. It is a unique remit.

We assess, evaluate, proclaim and propose; could this be a platform for positive disruption?

It is not uncommon for audit suggestions to be met with statements of resistance such as: “it’s a good idea but”, “that’s too idealistic” or “that won’t work here”. But what barriers do we put up as auditors?

Should we invest time in documenting expected controls at the start of an audit or simply discover what is being done to manage risk and evaluate it? Think agile auditing not just in terms of methodology but the audit planning process too.

If we only look for expected controls, are we pre-judging disruptive initiatives?

Do we spend too long creating a plan that we are then reluctant to change?

Audit leaders can encourage their auditors to think outside the box, be creative and push boundaries with initial recommendations. Closure meetings to discuss findings and agree actions are a great opportunity to highlight disruption risk where relevant.

Closing Thoughts

Audit leaders understand their organisation's strategy. Disruption is strategic.

Any organisation that has no intention of being a disruptor must be prepared to be disrupted. The same assurances internal audit provides in relation to business continuity in the event of a natural disaster or system outage need to be made for disruption; technological, societal, environmental and political.

What assurances does your organisation need?

It might not know what it needs but you should as an audit leader.

"Not all storms come to disrupt your life, some come to clear your path"

Unknown

Further reading

Digital disruption in the public sector

Seba Technology Disruption Framework

Accenture's Disruptability Index for all industries