



# ORIGAMI RISK

## CHOOSING ERM TECHNOLOGY AND FRAMEWORKS

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## INTRODUCTION

As organizations wrestle with expanding enterprise risk management (ERM) programs, two common areas of focus are selecting a framework and choosing an ERM technology platform. Frequently viewed in combination, these choices are often approached as end goals themselves—implement the framework, roll out the new platform, and then mark the list as complete.

This white paper provides the foundation for an alternative method. Drawing from the experience of ERM experts, spanning years of successful (and less than successful) implementations, we have identified some of the keys that consistently lead to viable, sustainable programs. Framed in the right context, the choices of frameworks and technology become simplified.

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# WHAT TECHNOLOGY CAN (AND CAN'T) FIX

Without integrated communication tools, pushing out the insights and actionable intelligence buried deep within complex spreadsheets becomes time-consuming and inefficient.

## THE CURSE OF THE SPREADSHEET

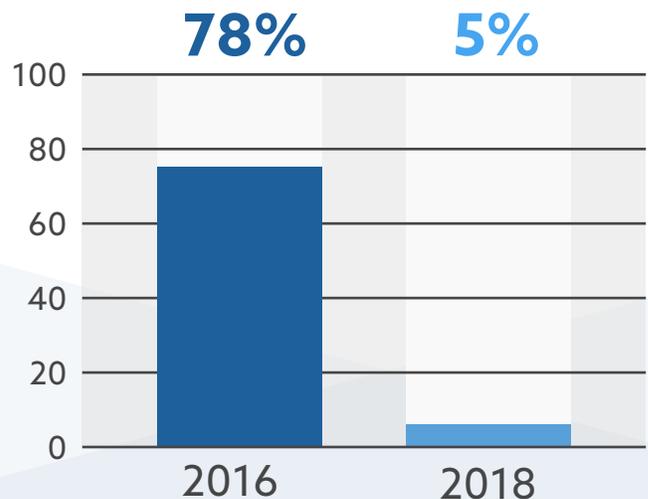
Managing risk management functions via a patchwork of complicated spreadsheets is a recipe for disaster. Mirek Pijanowski states in *Six reasons to avoid spreadsheets in GRC*, "Excel and other spreadsheet software are excellent for handling certain data, calculations and organizing information, but constructing critical business processes based on such limited tools is a sure way of wasting your business' resources."

Those still chained to spreadsheets are familiar with the limitations. Inconsistent data structures, multiple 'versions of the truth,' limited security control, and lack of integration with other systems are just a few of the drawbacks. Functions especially critical to ERM that are difficult manage through spreadsheets are (1) aggregating data across business units and (2) generating trend reporting. Additionally, without integrated communication tools, pushing out the insights and actionable intelligence buried deep within complex spreadsheets becomes time-consuming and inefficient.

## MOVING BEYOND SPREADSHEETS

It is little wonder, then, that the Excel skills once prized by CFOs have rapidly fallen out of favor. According to the recent Accounting Today article *Excel on the way out?*, "Two years ago, 78 percent of CFOs rated Excel proficiency as the most important skill within their finance team, and that percentage has dropped starkly to 5 percent this year, according to surveys conducted by Adaptive Insights."

CFOs rating of Excel proficiency as the most important skill within their team





ERM technology is the next logical step for organizations trying to create a successful program. “Manual methods and spreadsheet solutions have become the high-risk option for managing risks and are no longer up to the job. Only a true enterprise risk-management solution will capture consistent data, provide a single version of the truth, allow access to real-time, trustworthy information and provide the reports required to proactively manage risk and opportunities,” states SC Media magazine.

### **DITCHING SPREADSHEETS IS NOT ENOUGH**

The appeal of leaving behind a jumble of spreadsheets and manual processes for a single, dedicated ERM workhorse is undeniable. Yet, without the right context to shape the selection process, a new technology solution may not help at all. In fact, it could even make matters worse.

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# A DIFFERENT APPROACH

Given the continuing discussion on the new ISO and COSO updates, and the lively "Great Debate," we recently sat down with Michael Yip, Vice President, Risk Management with DFW International Airport to get his thoughts about the new ERM framework updates. With over 20 years of strategic management consulting experience, his frequent speaking engagements and thought leadership on ERM, and his extensive history of domestic and international assignments implementing corporate governance and compliance initiatives dating back to first generation COSO and ISO, he was an ideal choice for this topic.

Leveraging the benefit of developing ERM programs for clients spanning a diverse cross section of industries and vertical markets, Yip has seen which factors contribute directly to viable programs. He makes it clear that before looking at frameworks or technology one should begin by looking inward. "Everything begins with the current state assessment," he says.

## **LOOKING AT ERM STRATEGICALLY**

Yip has been a long-time champion of elevating the role of risk management within organizations. He contends that risk management should be held in the same regard as other key business functions such as legal, finance, and the like. As he sees it, ERM involves the true application of enterprise risk, "not just the mechanics" of doing risk assessments.

To look at ERM strategically, it is necessary to take a wider view and see how it relates to the organization as a whole. ERM can only succeed when it is fully aligned with the organization's objectives and designed to fit in a specific operational environment. However, according to Yip, this aspect of "fit" within the organizational culture is all too often missing in ERM efforts. This is hardly surprising given that neither framework offer any real direction in how to examine that. His advice? Look carefully at what your actual organizational drivers are and how ERM directly affects those. "That is the first connection that needs to be made," he says.



## **ABOUT MICHAEL YIP**

Michael Yip brings over 25 years of experience as a Senior Executive and Global Thought Leader in ERM. Yip specializes in development and implementation of strategic risk management processes and advancing effective risk-based mitigation solutions. He has held senior leadership positions with several major global firms, and is currently Vice President of Risk Management at the DFW International Airport. In his role at DFW, he has transformed the Risk Management department by creating an innovative professional services delivery model centered around delivering practical ERM value in real-time.

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# ESCAPING THE TRAP

## FOCUS ON “NOW”

Instead of rushing straight into risk assessments, Yip recommends making the first step something more fundamental. Start with what your organization is doing right now.

If you rely too heavily on being guided by the framework—not knowing your organization, your organization’s culture and how they embrace risk and opportunity—you’ll come to a fork in the road and some bad decision will be made.

It is very easy to blindly follow a framework or implement new technology without once considering the current state of your organization. This leads to a focus on completing the individual steps instead of looking at each component and asking, “What part is material to my organization?”

Creating a “risk assessments first” scenario was so commonplace in Yip’s ERM consulting engagements, that his initial recommendations typically focused on establishing stakeholder connections. Before conducting the risk assessments, identify the people who will champion this program and understand their motivations. Ultimately, the sustainability and success of this program will depend on their direct engagement and influence.

Next, expand to an examination of the state of risk management within the organization. It may be difficult to build a solid assessment of this. Doing so boils down to two fundamental questions: “What are the many ways we capture risk across the organization?” and “How effective are we at it?” The answers to those questions help you gauge the maturity of your risk management organization, which is something else that neither framework helps to do.

“If you rely too heavily on being guided by the framework—not knowing your organization, your organization’s culture, and how they embrace risk and opportunity—you’ll come to a fork in the road and some bad decision will be made,” says Yip. That means being forced to pick a path without knowing if it will ever be fully embraced.



## SIMPLIFYING ERM

Another pitfall Yip often sees is risk managers making ERM overly complicated. To avoid this, he suggests changing the perspective. ERM does not need to be a complex mystery. "No matter what organization you are a part of," Yip says, "you are already doing some form of it today." He offered the following responses to anyone asking the question, "How are we making business decisions currently?" as proof:

- Identify what the options are
- Analyze choices and decide if one option is beneficial
- Reap benefits (or suffer consequences) from the decision

This simple, familiar process resides at the heart of ERM. Conveying that concept, instead of some x-step process, allows for a much more straightforward conversation: "We are already doing this. I am going to augment it."

Carried a little further, this allows for a much simplified presentation of ERM goals that will resonate with the executive team. Our program is "going to provide a system that will holistically gather the data for us, and then we are going to all speak the same the same terminology, all work towards the same material thresholds, and all go after [the organization's objectives]." Looked at this way, ERM becomes "less a function of risk management and more a function of the organization."

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# ERM TECHNOLOGY SELECTION

ERM technology is essentially a vehicle for producing intelligence that shapes decisions.

Yip notes that successful ERM programs start with an exclusive focus on stakeholders and organizational objectives. Some key questions to ask are:

- Who are those most affected?
- Which organizational priorities are most easily impacted by the ERM program?
- What is the type of information that can lead directly to actionable decisions?
- How can all this be measured and reported?

Armed with answers to these questions, the selection of technology becomes a far more focused process. The ERM platform needs to support providing actionable information to stakeholders. Risk registers and heat maps are not end goals by themselves. It only matters if those elements move the organization towards its objectives in a measurable way. As far as stakeholders are concerned, ERM technology is essentially a vehicle for producing intelligence that shapes decisions.

## UNDERSTANDING LIMITATIONS

The use of frameworks and ERM platforms have the potential to create significant benefits for an organization. However, they face the same challenge any standardized tool faces, which is that they can be an attempt to place a one-size-fits-all model on the real world.

“If every organization was the same, then a standard framework would be perfect,” Yip says. The same holds true for rigid ERM technology. Different organizations have fundamentally different needs based on market cap, specifics of industry, organizational structure, and a host of other unique factors.

Unfortunately, these tools are often not calibrated for any of those differences. That means some components will fit better in one organization than they will another. This is the limitation of a standardized approach in an infinitely varied environment.



## **FLEXIBILITY, THE REAL SILVER BULLET**

When moving beyond a manual, spreadsheet-based process, automation often becomes the driving goal. However, what gets automated should be an equal concern. With a long list of stakeholders, each with their own objectives and communications preferences, one-size-fits-all approaches are likely to miss the mark. Flexible automation, which can be tailored for each stakeholder, is a far stronger option.

Some stakeholders will want dashboards for real-time monitoring of KPIs, while others may prefer event-driven alerts or periodic reports. Additionally, emerging tools such as automated PowerPoint generation can be highly effective when dealing with executive reports. When evaluating what technology will best support your ERM program, look for flexibility in how you automate communication with your stakeholders. Can it be tailored to balance individual preferences with the need to streamline the overall process?

Similarly, system flexibility is also tied to long-term viability of the ERM program. If you are delivering actionable intelligence and genuinely helping units within the organization to make better decisions, the requests for providing even more types of information are inevitable. Having a system that accommodates these requests means that the ERM program stays relevant and pivots as organizational needs change. Whether this means adding risk factors not on today's radar, such as AI or IoT, or changing the organizational structure through merger or acquisition, your ERM program tomorrow may look significantly different than it does today. Without the flexibility to adjust to these types of changes in real-time, the system can become stale and non-responsive.

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# TRANSLATION INTO CONCRETE STEPS

Focusing on results helps identify the components of an ERM platform that will actually have the most impact on the program.

Armed with a current-state assessment, a simplified definition of ERM, and a different perspective on evaluating technology, it can still be overwhelming to try and figure out how to get started. It helps to recognize that the objective of this effort is not to simply check off the steps within a framework or roll out a new ERM platform. Instead, the need is to look at the framework and technology in their entirety and ask, "How can I adopt pieces of that to drive my agenda?"

The key is to look at each proposed component and relate it directly back to objectives the executive team is already focused on. Identifying those areas which most strongly align with organizational targets and goals helps to zero in on those that matter most. Applying the filter of the current-state assessment and your organizational culture ask, "Which one of those elements do you need to do right away?" That converts a potentially complex and sprawling endeavor into a manageable, relevant project—one with results that actually matter.

Following up with the question, "How do I demonstrate that... immediately?" further narrows the focus and ensures that this is a results-focused activity. Focusing on results helps identify the components of an ERM platform that will actually have the most impact on the program. It also places a priority of generating wins quickly.

This speed creates buy-in, visibility, and sustainability. The executive team couldn't care less if you completed all 10 steps or not, or which features in the new ERM technology are launched. According to Yip, they only want to know "What impact are you making on the organization?" For instance, aligning initial steps with driving a culture of safety and security, or supporting a Six Sigma operational excellence initiative, makes it easy for the executive team to absorb ERM goals.

These linkages with objectives are what should drive the entire ERM approach, and that is necessary to avoid the transactional trap. Ask yourself, ultimately, did you drive the bottom line? If instead you remain caught up in moving from step one to step two, or deploying some new technology, as Yip states, "you will never sustain that value proposition."

## CONCLUSION

Technology choices are a critical component when considering how to build a successful ERM program. However, relying solely on technology or frameworks, without first considering exactly what results your organization needs, is likely to lead to increased scrutiny and unmet expectations.

Instead, evaluating how a successful RMIS platform supports the goal of helping stakeholders reach their goals allows you to focus on the aspects that lead directly to the viability and sustainability of the ERM program.

- Will the system help gain buy-in and engage stakeholders?
- Can it measure success in these efforts?
- How responsive will it be when tailoring information flows?

Identifying a solution that answers these questions can be the difference between an ERM program embraced by the organization as a value add and one merely seen as an academic exercise.

Long-term, the flexibility of the system is directly related to how well it adjusts to the unexpected changes of tomorrow. From the adoption of different ERM frameworks, to changes in departmental objectives or personnel, to major shifts in the organizational structure, absorbing these types of events is far easier with a flexible system than a rigid one.

This perspective prioritizes solutions that will provide the added value stakeholders demand in a faster, easier, and more consistent manner. The right technology can put your ERM program on the path to success, but only if viewed as a part of the solution and not the end goal itself.

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**ERM and RMIS resources**

## ABOUT ORIGAMI RISK

Origami Risk is recognized as the #1 software provider for the risk and insurance industry—where system and service come together. The experience and insight of Origami Risk service professionals allows for the optimization of our RMIS system to meet the unique, specific, real-world challenges that each of our clients face.

## CONTACT US

312.546.6515  
info@origamirisk.com  
222 N LaSalle Street  
Suite 2125  
Chicago, IL 60601 USA  
[origamirisk.com](http://origamirisk.com)

