COO

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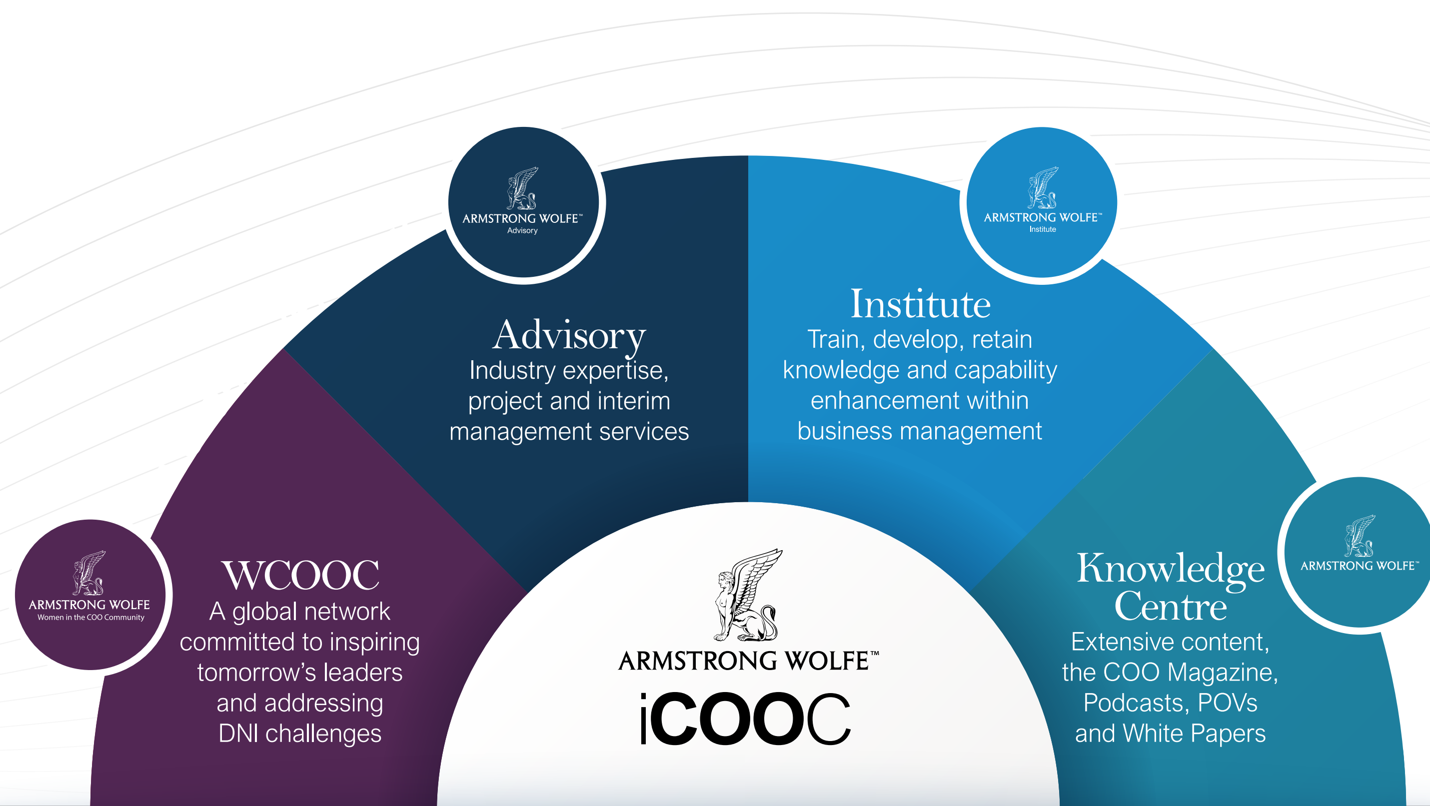
COO NON-FINANCIAL RISK SUMMIT 2023

SPECIAL EDITION

ARMSTRONG WOLFE™

About Armstrong Wolfe



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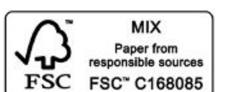


I am delighted to be writing this foreword following the successful 2023 COO Summit we ran in London in early February.

> *"Being part of the Armstrong Wolfe COO Summit helped raise issues of importance to the financial services sector and gave great insights into what matters to its professionals. AW and FMSB share common goals in the promotion of fair and effective markets."* **Myles McGuiness, CEO FMSB**

The COO Summit will become an integral part of what we provide our members through the International COO Community (iCOOC). Our aim is to give our members the opportunity to convene once a year in New York, London, and Singapore.

iCOOC focuses on areas of common challenge for the COO: leadership, performance, productivity, conduct, culture and controls, non-financial risk, and regulation. Additionally, through our diversity initiative, Women in the COO Community (WCOOC), we aim for equity in the finance community, leveraging talent from all groups and communities.

Each summit we will focus on one or more of these subjects. The February summit was spent on debating non-financial risk, following our 2022 Q4 annual COO survey which had 100% of respondents placing non-financial risk or a component part of it in their top 3 considerations for the year ahead.

We were delighted to welcome panellists and keynote speakers from among our members and those that have worked with us for many years, with the quality of debate and discussion setting a very high standard for the future.

I am particularly grateful to Emily Shepperd (COO, FCA) for opening the summit on day 1, for having been a banking COO, Emily's insights and observations were highly relevant to the 150+ COOs and delegates in the audience.

Day 2 my thanks go to Irene Dorner, the former president, CEO HSBC North America Holdings Inc., and HSBC USA, now Chairperson of Control Risks, for her inspiring talk on leadership through crisis and the role of diversity in strengthening leadership.

We were particularly conscious of not saturating the 2 days with well-meaning sponsors, instead focusing on bringing into the debate where applicable our long-term alliance partners, Galaxy Sciences, Control Risks, Sutherland, and Amicus Consulting.

Each has an established long-term relationship with Armstrong Wolfe and our community, and are known as trusted voices and partners in what we do.

> *"Congratulations on a very successful Summit. Immaculate hospitality and organisation. Much enjoyed by all. Some tremendous talks. A privilege for Amicus to take part. Huge thanks to all your team."* **General Sir Peter Wall, CEO Amicus**

The 2 days was concluded with a formal debate, that encompassed the spirit of what we seek to do for our members, in raising key and common challenges and issues in an interactive and progressive format. The debate was so successful we will be establishing the COO Debating Society to be run twice yearly.

> *"An excellent and finely balanced debate on 'Purpose v Controls' with the audience marginally supporting Purpose over Controls but both debating teams ultimately showing that really you need both, and in equal proportions. A great debating format and a lot of fun."* **David Shalders, Group COO, London Stock Exchange** (*one of the three judges on the debate.)*

Perhaps the Summit was best summarised when I received an email stating:

> *"Honestly, this was a great 2 days. I'd have changed nothing. Thank you for pulling this together".* **Derek Pattison - Global Head, GBM Business Risk Controls, Scotiabank**

Maurice Evlyn-Bufton

CEO, Armstrong Wolfe

"A timely, compelling and deeply engaging summit on Non-Financial Risk mitigation convened and facilitated to great effect and action by Armstrong Wolfe"

Michael Cole Fontayn

Chairman and Non-Executive Director The Chartered Institute for Securities & Investments

COO Summit 2023: Non Financial Risk Overview

"Thank you very much for hosting this I had a really enjoyable time and was delighted that my concerns about the timing of the debate were clearly ill founded as it seemed to go swimmingly with great engagement from everyone. Very best wishes, Toby."

Toby Billington Managing Director, ICG Risk & Controls, Citi

"A very big thanks from me, as well. I thoroughly enjoyed the session and hope the audience got as much out of it as I did. Looking forward to keeping in touch until the next time."

Charles Hecker Partner, Global Issues Group, Control Risks

"I thought the quality of speakers and the panel discussion was excellent, so well done. Venue was excellent."

Jason Hope General Manager, Business Controls, Monitoring & Remediation, Westpac International Bank

Opening Address by Emily Shepperd, FCA: How to organise a COO

- The COO Community needs to build integral skills and personality traits. These may include openness and responsiveness to the workforce, keeping clients at the heart of everything they do and every decision they make, and using both soft and hard power to motivate workforces. A key trait required by the COO is the ability to be agile, and about making changes to adapt when things do not work.
- ESG is a key area in which the FCA are taking an interest, they are calling for more action and less talking, and they want the UK to be the first net zero aligned major financial centre in the world. ESG is good for people, good for the planet, and good for business, so fostering good ESG practices is a key responsibility of the COO as part of their address of Non-Financial Risks. As part of ESG there is increasing need to build inclusion in workplaces, as many have now achieved a measure of diversity in their workforces. What matters now is translating that to inclusivity.
- Upcoming regulator focus will be more on the supply chains and networks of firms, and the impact they have on ESG. Third parties and distributors need to be integrated closely with operations and in particular into the management of risks undertaken by organisations, as they are increasingly treated as one and the same.

The 2023 NFR Landscape

Control Risks

- The Control Risks team discussed the top risks that COOs need to have on their radar for 2023 in the major risk categories. The most significant included the risk of escalating geopolitical tension between Russia and NATO/ China and Taiwan/ China and the US; disruption in the global energy market caused by the Ukraine war and the consequences this may have on the use of energy by firms in the winter of 2023; and risks related to increased regulatory stringency implemented by governments that are feeling out how they will operate in the wake of their increased control/intervention during the Covid pandemic.
- Cyberspace weaponisation occurred extensively in the opening of the Ukraine crisis, the effects of which are now being felt in the commercial sector with increasingly frequent and more serious ransomware attacks, particularly levelled against larger organisations.
- Global digital architecture breakdown is another key element of Cyber risk. Accessing data and managing privacy is increasingly difficult across borders, and this is leading to the regionalisation of cyberspace.

Geopolitical Contagion

- It is key to focus in on what the true meanings and possible effects of risks are even when they appear obvious. War is a key geopolitical risk and yet it is vital to understand how it might specifically affect a firm's operations environment. The pandemic and the Ukraine crisis have brought management of risk events to the fore as a concept.
- The question organisations need to consider is ownership of Non-Financial Risk. While it is important for risk to be addressed by everyone it is key also to not let the management of risk be diluted too far through the firm. The Chief Risk Officer, in that case, needs to coordinate this internally, and make agile decisions that can be implemented early on from the top, to react to situations in a unique way.
- Geopolitical risk preparation can be done by simulating crisis events, but there must be a balance between risk simulation and revenue generation, so as to avoid one side of the business fighting the other.

Non-Financial Risk Management

- Culture is absolutely key to the management of Non-Financial risk, and fostering a culture within a company which encourages its employees to keep their minds on potential non-Financial risks is a major achievement. Good business culture means that Non-Financial risk management will not be regarded as 'outside' the purview of particular employees, the culture of collective responsibility will prevent an atmosphere of 'that's not my job so I am not going to help manage it,' which is a key barrier to combatting Non-Financial Risk. The focus should thus be on making employees genuinely care about the management of NFR.
- The key to fostering this culture within a business is managing human capital effectively and sympathetically. This is not just the role of the HR department, but there is a need for the COO to take action as well to make the team feel safe, secure and able to engage in the business. The goal should be the creation of a virtual community, and making the best of office time.
- Operational resilience is important in NFR management, and is what regulators are looking for within organisations, particularly in the wake of the pandemic. But if operational risks were being more effectively controlled through the fostering of risk conscious culture within organisations, there would be less need for the mindset surrounding operational resilience, and less need for such extensive controls within businesses.

New Working Patterns: Is anyone getting it right?

- The interplay between policy and purpose is key, as is relating them to new ways of working that have been adopted since the pandemic. There are logistical concerns to begin with, amounts of desks and meeting room availability being limited. But there is also the question of the interplay of power between employers and employees, whether it is possible to insist on employees returning to the office, or whether it is better to encourage a return to partial in-person working by producing hybrid working guidelines.
- It is important to foster positive working environments, and this can in some ways be facilitated by in-person working, it being much easier to build trust between colleagues, and with clients, through face to face interaction. Employers can develop a sense of community, and an enjoyable working environment, which is a natural consequence of better relationships with co-workers, drives business incentive and pushes employees to perform better. A sense of belonging and fulfilment is thus crucial.
- In order to ascertain whether these measures are being implemented correctly it is vital to accurately measure the effects they have on the workplace environment. The collection of data about employee satisfaction is very important, and asking employees about their morale and experiences through various forms of data collection and especially through surveys can investigate the extent to which they feel empowered, productive and engaged. The degree of employee participation in such measures also acts as a barometer of overall employee engagement in the internal workplace culture.

Servant Leadership: Resilient teams for a turbulent world

- Servant leadership is a growing concept at the moment, and involves taking a step back from an authoritarian style, while devoting time, effort and resources to understanding and meeting the needs of employees to function productively in their roles. This is particularly important in the current employment climate as talent is a commodity and is in short supply, with rates of attrition being high. The idea is to grow within an organisation a feeling of commitment by making employees feel worthwhile and valued in their roles.
- The first step to this is clarity: employees must be given very clear instruction as to what is and isn't their role, and how best they can perform their role so that they feel supported by their manager and capable of achieving their goals. It also helps to establish a sense of belonging, and this can be done by fostering good workplace relations, by engendering good communication through departments, and acknowledging the challenges and workload faced by individuals. Another aspect of leadership is the decisions surrounding levels of autonomy, for though the exact degree of autonomy given to employees is a matter of personal choice for the leader, it is nevertheless important to give full consideration to exactly how much autonomy will produce the most productive results for a given team. This necessitates the building of trust between managers and employees, and a sense of shared belonging.
- The idea that autonomy is total and automatically deserved by employees is incorrect, they need to earn that trust from their manager, and that needs to run both ways, the employee must feel safe and secure enough to trust that they can make mistakes and their manager will respond in a constructive way, allowing them to develop and learn.

Keynote Speech: The Human Dynamic

- Culture and conduct are key to the world of business controls. The fundamental focus of business culture should be engagement, and encouraging inclusion is the key to that, making employees feel supported. Being able to see superiors in positions of power that look like you, and belong to the same groups as you, is a key factor in helping employees to feel like there is a future for them in an organisation. Building engaged workforces drives retention, and retention is the cheapest form of recruitment.
- Firms should be horizon scanning and looking at potential future risks, being prepared to deal with them well before they happen. Firefighting problem areas that emerge rapidly, while not addressing the root cause of control failures, is a major possible weakness. Deep seated culture changes are needed within businesses to drive positive change.
- Humanity is a key element to remember in leadership. Being a leader is about showing one's humanity, and feeling 'shame' and other human emotions is a profound but integral part of leadership. It is important to recognise and address this in order to foster the opposite: pride. Aligning pride with purpose allows everyone to feel included in the conversation surrounding risk management, and in the workplace environment more generally. As the diversity within a business intensifies, the conversation becomes more versatile, and people's willingness to make contributions increases as they feel more comfortable.

ESG: Social and Corporate Governance through a Non-Financial Risk Lens

- ESG brings with it a focus on sustainability, which should be embedded at the heart of what an organisation does, and organisations need to establish what that means for each individual department, and amongst colleagues, in order to build a more sustainable workplace.
- This is an important part of the purview of the COO, who is able to coordinate ESG measures across the organisation as a whole while maintaining a wider perspective, but will also be able to obtain and utilise extensive ESG related data. This is key to grounding any ESG measures, and particularly those relating to 'S', the social element, in facts, and ensuring their permeation right through the organisation. Often ESG programmes look impressive on an organisation's website, and seem to be far reaching and extensive, but the reality of the experience of employees is very different. Microaggressions, like being spoken over or dismissed in meetings, are still prevalent, even in organisations which present themselves as shining proponents of ESG. Actions like these create a sense that employees are not included, which negatively impacts engagement in the business.
- Measuring NFR from an ESG perspective is difficult and the metrics that financial services use are still evolving. Developing more effective measures to allow comparative analysis of ESG progress remains key to developing positive ESG initiatives.

Emerging Risk and Horizon Scanning

- There is a distinction between horizon risks, those which remain in the future, and emerging risks, those which have begun to take effect. As your business model changes, there is a need to be constantly reviewing and updating both the horizon and emerging risks. The individual outcome of each potential risk is not the key, instead focus should be on objectivity.
- When escalating risks, data, news and intelligence collection are all key. Focus shouldn't just be on the delivery of new projects, but on the risks associated with them, which should be weighed and reported to the board. If projects are implemented successfully, there is a tendency not to reflect on what might have gone wrong and how the project's delivery could have failed. Thus, reflection is a key element to a successful review.
- Introversion is a danger in scanning for emerging risk, and many teams managing risks are not trained to look externally where risks can originate. An external perspective can provide a fresh insight and improve capacity to manage risk, especially when paired with extensively collected and collated data. As a discipline, Non-Financial Risk often lacks roots within hard data, usually because it represents only a small part of a parent organisation, which makes larger data sets from external sources all the more important.

Third Party Risk

- When onboarding 3rd parties, banks need to ensure that their onboarding procedures and negotiations are very thorough. These are long term agreements constituting millions of pounds worth of capital transfer, and lasting multiple years, so the risks, and just as importantly the expected outcomes, must remain paramount during the negotiations. The end result of any such agreement should always be client satisfaction and this must be the perspective that firms champion. The terms of the relationship, and the expectations both sides have of each other throughout the agreement, must be very clearly decided upon.
- The aims of the organisation and the vendor must be aligned, and the relationship must be profitable for both in order to ensure that both remain committed. The idea of considering vendors as 'them and us' isn't constructive, and if there are major faults or crises where client services aren't delivered, it will be to the parent firm and not the 3rd party that the news reports and the clients will turn for answers. Fostering a good relationship with 3rd parties can have the opposite effect, as they will do more and go further to support organisations in a crisis.
- Risk management is becoming increasingly focused on third parties and suppliers, and firms need to hold their vendors to the same standards as themselves when it comes to the regulator, to better manage the risks. The whole supply chain must communicate well, and must keep the desired outcomes in mind as fully as possible.

3LoD: A journey not a destination

- The idea of 3 lines of defence grew from a paper, the concept being picked up on by regulators in 2013, who viewed it as having enormous potential value in the controls sphere. The model acts as a lens through which to view your risk framework, and should be treated as such, more like a concept than a tangible system.
- It is key to heavily incorporate people and culture into the 3 LOD, allowing it to function harmoniously. Defining each individual control is important as a way of managing the controls team, who need clear and concise direction as to what their role is and exactly how to execute it.
- Banks have come from an environment where there was limited trust and have spent years building that trust up. Culture is the 'unwritten control' and does not form part of any defined system, but it is key for employees and firms to know right from wrong. Developments in culture have put banks on a much more positive footing now in comparison with even 5 years ago. Positive culture also helps avoid duplication across the different lines of defence, as it allows people to feel empowered enough to speak out and make it clear that a particular angle has already been covered, so there is no need to do so again.

The ROI of Culture and Purpose

- Culture and purpose within businesses are clear objectives of the regulators, but these concepts can easily be shelved when firms are under pressure or major stress. Building inclusive culture where everyone feels comfortable enough to speak up is key, but to do so people in positions of power, like COOs, may have to put themselves in uncomfortable positions to allow others to make themselves heard.
- If business culture is not managed, employees can coagulate into groupings that shut out diverse opinions and encourage group mentality, which can lead to a lack of psychological safety for individuals and to uncomfortable working environments, with microaggressions becoming the daily reality for workers outside the core groups. It is important to develop leaders to be good role models, and train staff to be able to challenge poor conduct professionally and encourage them to feel secure enough to do so.
- Purpose needs to run right through the business, and to form part of the culture. Firms need to develop their employees to achieve this: they need to help them understand what their personal purpose is, what the organisation's purpose is, and how the two can be aligned so that an individual is striving for the success of the organisation. Purpose must sit at the heart of major business decisions, and guide corporate policy, to achieve that.

Debate Controls v Purpose

In an interactive debate session with 2 debating teams, 3 judges and the audience, Purpose won the day 52% to 48%

Judges

Rob Knight
Industry Advisor

Myles McGuinness
CEO
Financial Markets Standards Board

David Shalders
COO & Head of Integration
London Stock Exchange Group

Debating for Controls

Toby Billington
Managing Director
ICG Risk & Controls
Citi

Andrew Brodie
Global Head of GM Business Controls
Bank of America

Debating for Purpose

Martha Fee
SVP, Chief Operating Officer, EMEA
Northern Trust Asset Management

John Rosling
CEO
Contexis

Interested in participating in our next Summit?
To be a speaker, panelist or to attend, contact us
info@armstrongwolfe.com

Press release

Armstrong Wolfe announces a collaboration with Control Risks

Armstrong Wolfe is delighted to announce that the global risk consultancy firm Control Risks [www.controlrisks.com] has become a Strategic Alliance Partner of Armstrong Wolfe with effect from January 1st 2023.

Control Risks focuses on helping its clients assess and then mitigate geopolitical, reputational, security, cyber and operational risks. Founded in 1975 and now with 36 offices and over 3,500 personnel around the world, it works extensively with Fortune 500 clients across a multitude of sectors, including Financial Services. The firm has a strong heritage within crisis management, which has since evolved to ensuring its clients can proactively also become secure, resilient and compliant, and that they are equipped with the information and analysis they need to make better commercial decisions across a wide range of issues. It is acknowledged as one of the world's preeminent non-financial risk consultancies.

Managing Partner of Control Risks' Washington D.C. office Mike Wolff said:

> *"I am thrilled at the opportunity for Control Risks to work with both Armstrong Wolfe and the global membership that they have evolved within the global Chief Operating Officer and Chief Controls Officer communities in Investment Banking & Asset Management to discuss and tackle the wide range of non-financial risk issues that those institutions face. We believe the world is facing some extraordinary pressures at the moment which are only set to multiply and intensify, and it is the COO and CCO community that is regularly being asked to originate and deliver solutions at an organizational level; we hope to assist with that journey as we are doing with many of our other global clients.*
>
> *On a different level I am also delighted to be working once again with Maurice Evlyn-Bufton in supporting on a personal basis his charitable initiative in Bosnia, the Gorazde Childrens Fund. It's where we first met 28 years ago, and I am deeply impressed by the difference his charity has made in recent years to what was once a war-torn community".*

CEO of Armstrong Wolfe Maurice Evlyn-Bufton said:

> *"Whilst we were mobilising the COO and Chief Control Officer Community before the pandemic to look more holistically at threat management, Covid promoted further thought and the Russian - Ukrainian crisis accelerated the need to look at the framework and approach to managing nonfinancial risk. To this end, we could not wish for a better partner than Control Risks to partner to help the COO community navigate the unchartered waters of the very different and challenging world we have found ourselves*
>
> *Control Risks' insights at all levels will enable us to add value to the COO as they look to define, translate, and manage these risks. The quality of Control Risk at all levels, from analyst to partner gives us great confidence this strategic alliance will go from strength to strength as we move into 2023 and beyond."*

To find out more please email g.wilcox@armstrongwolfe.com

Asset Management: Profiling the Global COO

Hollie Wakefield
Armstrong Wolfe Relationship Manager

In recent years, the asset management industry has endured a significant amount of change, accelerated by the pandemic.

At the centre of this trajectory is the COO. However, while there is more familiarity with the role of the COO Markets, the COO Asset Management remains an enigma to most. This research sets out to uncover the profile of the COO Asset Management, giving us a better understanding of the role through the assessment of empirical evidence.

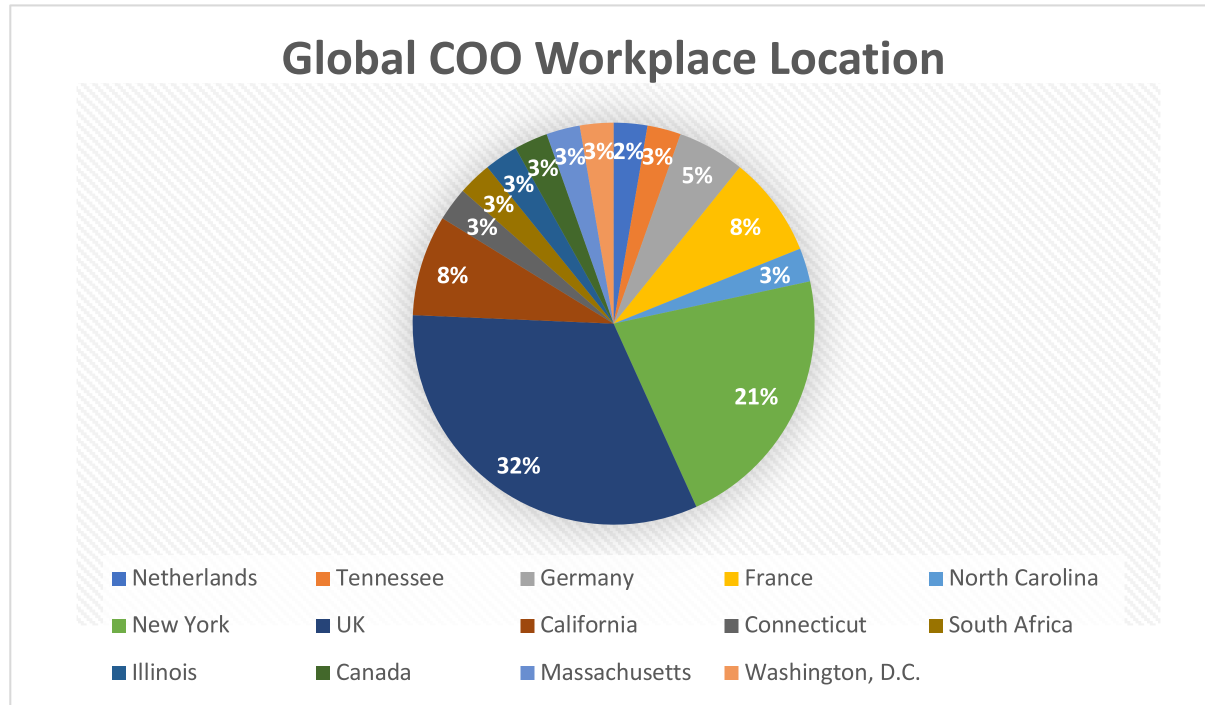
What does the COO Asset Management's profile look like?

The overwhelming commonalities are the evolving consensus that the global COO is geographically located depending on the value of assets under management globally; that the role of the COO requires an innovation mindset; and that the evidence suggests you are just as likely to reach this position if you have remained employed with one asset manager, moved between multiple or had experience within other industries.

One difference between the tenure of a Markets COO compared to an Asset Management COO, is that a Markets COO tends to have more organisational moves during their careers than their peers in Asset Management. Indeed, it is not unusual to find within asset management that the Global COO joined their company at entry level. Conversely, there are examples in asset management where a Global COO has been appointed from the external market, which is extremely unlikely to be found within markets.

It is widely recognised that the industry has some distance to travel if it is going to be truly representative of the societies it serves. Our analysis shows that approximately 90% of the global COO community are white Caucasian, and only 27% of the community are women. This is similar to the Markets COO community, as 94% of this population is white Caucasian, and 33% are women.

Workplace Location and Global Distribution

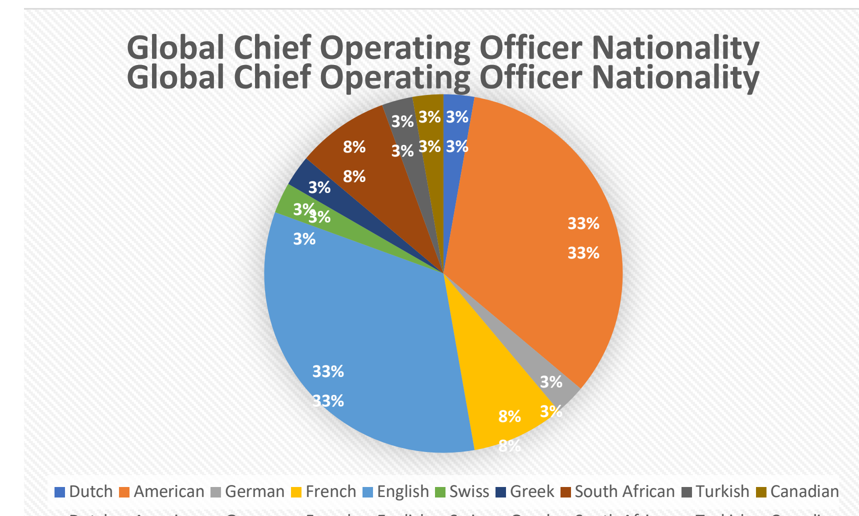


50% of the Global COOs in the sample are based in North America, reflecting its status as the hub to the world's asset management community (by assets under management).

Within the parameters of the organisations researched, the remaining 50% are based in EMEA, the world's second largest asset management region.

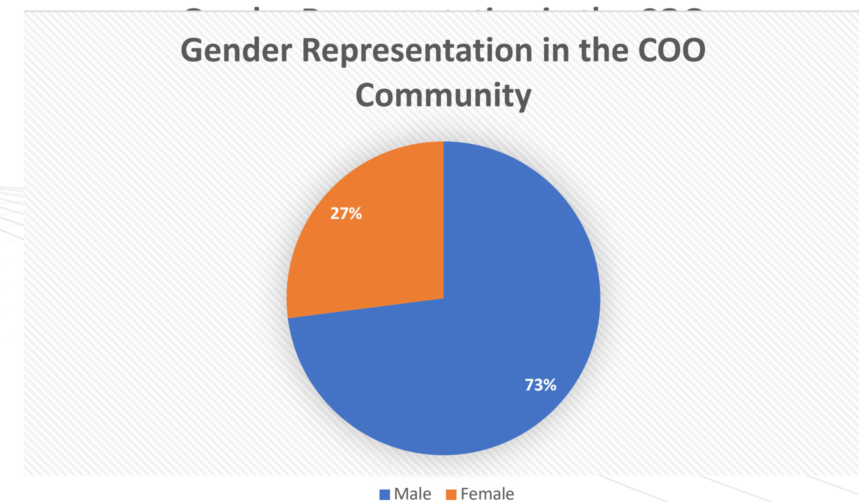
Notably, none of the Global COOs sampled are based in APAC, perhaps reflecting its status of sharing less than 20% of the value of AuM globally. However, the region is forecast to outpace EMEA and North America in growth of AuM in the next five years, and COOs may relocate on this basis.

Nationality & Ethnicity Distribution



Two thirds of the global COOs in the sample are British or American (with an equal split between the two).

Gender Representation

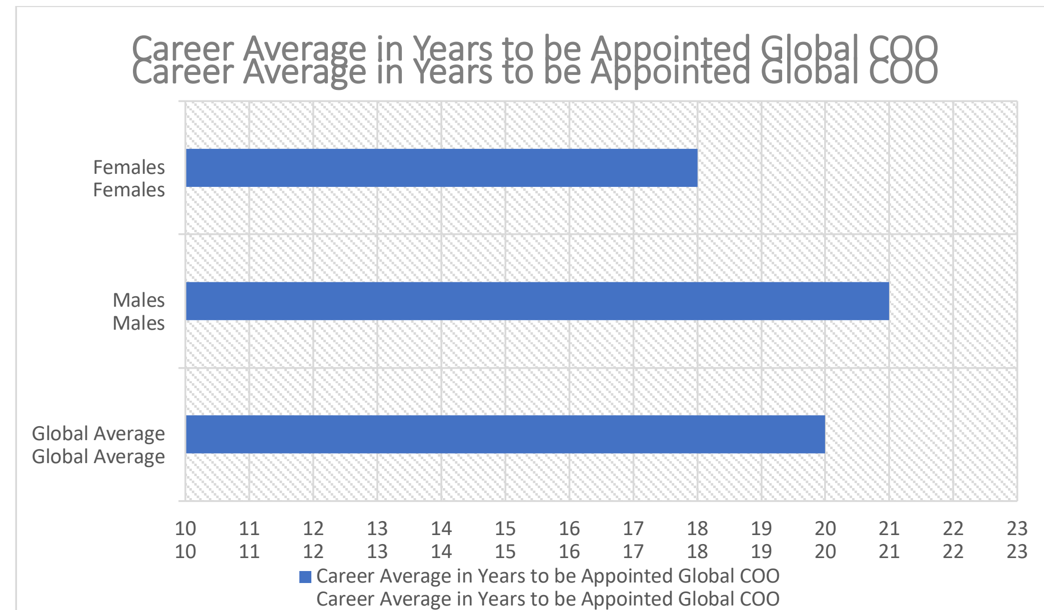


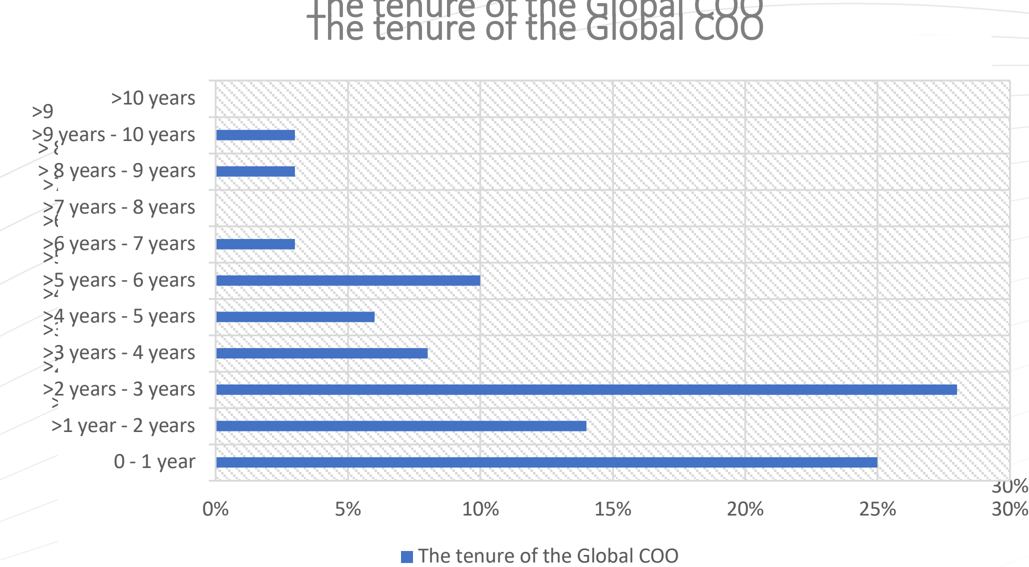
As noted, only 27% of Global COOs in the sample are women. The talent pool of experienced women in asset management is small and this is reflected at lower levels. Citywire's 2022 Alpha Female Report notes that just 12% of the 17,500 portfolio managers on their database are women.

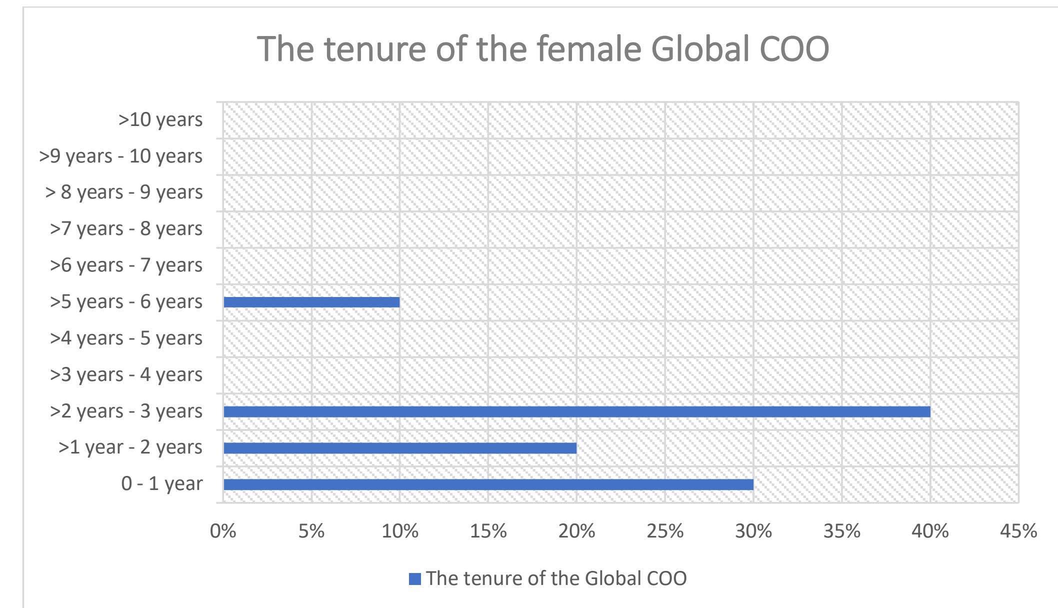
Akin to many other industries such as technology and engineering, whilst there are arguably equal opportunities for women to enter asset management, the asset management community is presently failing to make careers within it attractive to female talent. Until it addresses this issue, there will always be a shortfall in representation of women at the executive table.

Career Average & COO Tenure

Career average in years to being appointed current position as Global COO and length of time in the role







On average, it takes 20 years to be appointed as a global COO, although this journey is shorter for women (18 years), and longer for men (21 years).

In only one case was a global COO appointed not from the asset management industry. Those with experience in other industries (e.g governmental affairs, law, management consultancies, and academia); tend to reach the global COO position a lot more quickly (5-11 years) than those with just asset management experience.

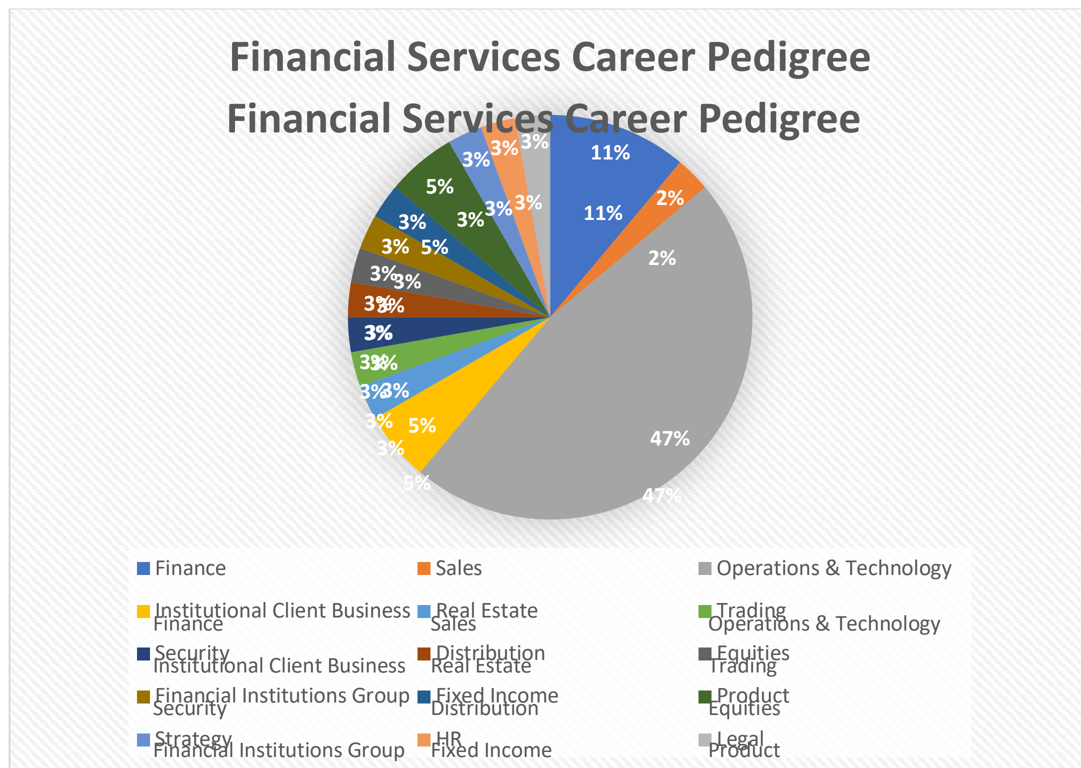
This suggests that a diversity in industry experience enriches a person's capabilities, which is a recognised attribute for being an effective COO.

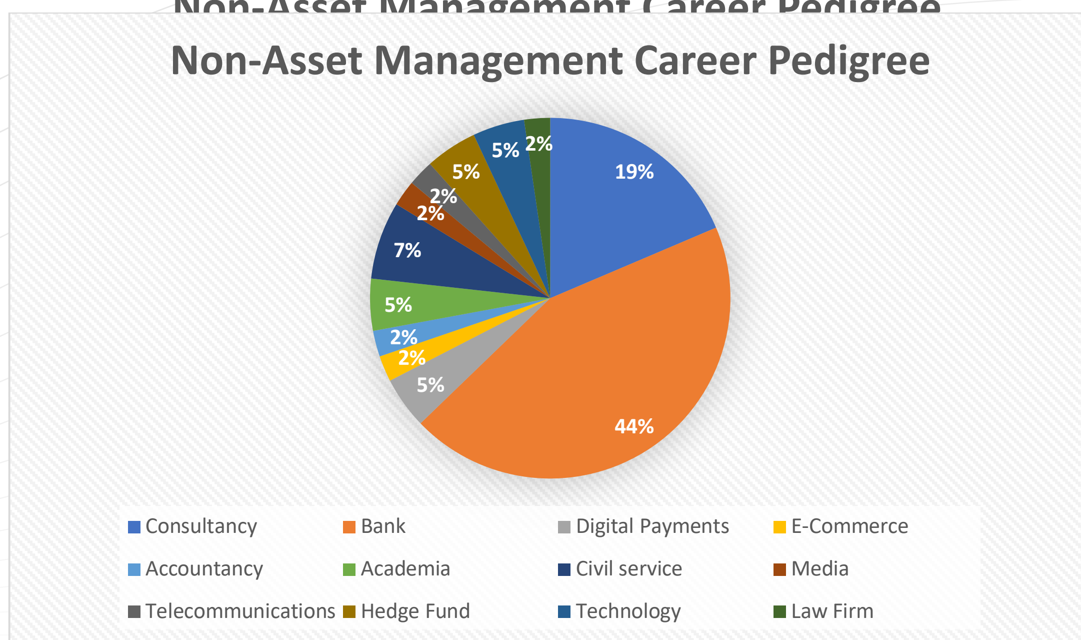
There are of course exceptions to the above, where exceptional people have risen to the position of Global COO from within a single company, or just drawing upon asset management experience.

More than 80% of the global COOs have been in their positions for less than five years (25% for less than a year) and only 6% have remained in their position for more than eight years.

You could argue an industry-wide focus on diversity has had a necessary impact, as 90% of the female global COOs have been appointed in the last three years.

Career & COO Pedigree





55% of the global COOs come from a technology, transformation and/or consulting background, which directly reflects the shift in the role of the COO as an agent of change and transformation. In parallel to the current profile of the COO, BNP Paribas' 2020 report 'The Future COO' noted 59% of asset managers saw delivering change and transformation as a key priority in future. Therefore, the market representation of 55% coming from this background reconciles against the data from BNP Paribas.

Be it by design or accident, there is an additional theme emerging where a reasonable percentage of the population sampled have had buy- and sell-side experience within their careers. Having experience on both sides of the same coin has multiple advantages, although a number of those who have undertaken this migration have found the cultural change from financial markets to asset management somewhat challenging.

A look forward

Where next for the global COO?

Historically, being appointed a Global COO has been seen as the end of the journey, as opposed to a stepping-stone to the next phase of your career. This statement is specifically relevant to financial markets, where the promotion of a Global COO to either Deputy CEO, running a region or being the Global CEO is not a path well-trodden.

Within markets, the COO role can become a cul-de-sac of opportunities. This however is somewhat different in asset management, where 23% of the global CEOs from the sample were promoted from the COO role into the business.

As the sector continues to face a multitude of disruptions in 2023 and beyond, the COO is key to advancing operational resiliency and designing and executing transformation. These responsibilities in turn create an executive pipeline for an asset manager to draw on to lead the business.

To find out more please email h.wakefield@armstrongwolfe.com

Armstrong Wolfe Advisory

3rd Party Risk Management - Why is it so important?

Wade Younger
Managing Partner,
Armstrong Wolfe Advisory

In the 1930s there was a gentleman by the name of Benjamin Klingler. He was a superintendent for an apartment complex and a former toolmaker ftom Germany. He had a plan to build a boat for him and his wife, an 18-foot tub of luxury. It took him four years to build and he christened it by naming the vessel Lillian, after his wife.

Once he celebrated this accomplishment he realized one thing, something very critical. Benjamin had built this boat in his basement, and he didn't think ahead as to how he would get it from that location to the water. Can you imagine that, spending four years on a project and it never comes to fruition? The moral of the story: always plan ahead.

Dealing with third party vendors, to help us be first, best and to be different, is not dissimilar. While we're all looking to make things faster, cheaper, and better for our customers, we have to use outside resources to reach this goal. But in this day and age it is risky to invite someone inside the safety of our 'fortress', hence the need for 3rd party risk assessments. It is about thinking ahead.

Why Should I Care About Third-Party Risk?

With most organisations relying on outsourcing to handle at least some aspects of their day-to-day operations, third-party risk should be at the front of their minds. This is especially true given the rising number of security breaches born from third-party relationships.

A recent study shows that almost a third of third-party vendors would be considered a material risk if a breach occurred. Another study revealed that 80% of surveyed organisations experienced a data breach originating from a third party in 2020.

Ultimately, your organisation's board of directors and senior management are responsible for managing third-party relationships. The identification and control of associated risks should be held to the same standard as the activities of those within the organisation.

Despite the numerous risks that arise from third-party relationships over the vendor life cycle, many organisations still do not manage third-party risks as diligently as internal ones.

Failure to manage these risks can leave organisations exposed to regulatory action, financial action, litigation, reputational damage, and can impair an organisation's ability to gain new, or service existing, customers.

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Types of Third-Party Risks

There are many potential risks that third parties can bring to an organisation, spanning six key areas:

Cybersecurity risk: The risk of exposure or loss resulting from a cyber-attack, data breach, or other security incidents. This risk is often mitigated by performing due diligence before onboarding new vendors and ongoing monitoring over the vendor lifecycle.

Operational risk: The risk that a third party will cause disruption to the business operations. This is generally managed through contractually bound service level agreements (SLAs). Depending on the criticality of the vendor, you may opt to have a backup vendor in place to ensure business continuity. This is common practice for financial institutions.

Legal, regulatory, and compliance risk: The risk that a third party will impact your organisation's compliance with local legislation, regulation, or agreements, e.g. the EU's General Data Protection Regulation (GDPR). This is particularly important for financial services, healthcare, and government organisations as well as their business partners.

Reputational risk: The risk arising from negative public opinion caused by a third party. Dissatisfied customers, inappropriate interactions, and poor recommendations are only the tip of the iceberg. The most damaging events are third-party data breaches resulting from poor security controls.

Financial risk: The risk that a third party will have a detrimental impact on the financial success of your organisation. For example, your organisation may not be able to sell a new product due to poor supply chain management.

Strategic risk: The risk that your organisation will fail to meet its business objectives because of a third-party vendor.

It's worth noting that these areas often overlap, for example, if a business experiences a cybersecurity breach and customer data is compromised, this will also pose operational, compliance, reputational, and financial risks.

How Can I Minimize Third-Party Risks?

The immediate action you will need to take to mitigate third-party risks depends on the status of your organisation's third-party risk management (TPRM) program. First, you should assess your current TPRM program to identify which security measures, if any, you currently have in place. Put simply, the initial stages of the vendor risk management process should cover:

Vendor inventory: Who are your vendors? You need to accurately identify who your vendors are. A third-party vendor is any person or organisation who provides a product or service to your organisation, who does not work at your organisation, e.g. manufacturers and suppliers, service providers, short and long-term contractors, and external staff. The inventory should be kept up-to-date and extend to fourth parties (your third-party vendor's vendors).

Vendor assessment process: After creating a comprehensive inventory of vendors, you need to develop a vendor assessment process. Organisations use this process to assess and approve potential third-party vendors and suppliers to ensure they can meet all contracted stipulations and agreements. At this stage, you should include a vendor questionnaire template to streamline the onboarding of new vendors and the assessment of current vendors.

While these steps are important in establishing a strong foundation for TPRM, they are not enough on their own.

Most large organisations manage hundreds or thousands of vendors, with each posing differing levels of risk. Each risk tier has a unique due diligence and risk assessment process, and other tier-specific requirements, meaning your information security team will need to individually categorize each vendor accordingly. They will also need to engage with vendors to prompt risk profile questionnaire completion and communicate the importance of TPRM within the organisation.

Managing such a large number of vendors also requires prioritisation of higher risk over lower risk vendors. However, it is still essential to regularly assess all vendors against the same standardised checks to ensure nothing falls through the cracks.

Managing third-party risk is not a "set-and-forget" endeavor. Vendor questionnaires should not only be part of the onboarding process but also be completed on at least an annual basis. Vendors require continuous monitoring, with regular assessments and checks to ensure their security posture is healthy.

With these considerations in mind, it is clear that effective TPRM requires significant time and resources. Information security teams must attend to all other facets of your organisation's security program and may not have the necessary capability to thoroughly manage third-party risk.

One motivating factor to consider is that 66% of organisations in 2021 underwent ransomware attacks, which was a 78% increase over 2020. There were 3,729 complaints regarding cyber-attacks and ransomware with a combined loss of over $49 million. Being diligent in this security space for third party vendors is critical to the front line management of this class of risk.

Steps to Manage the Third-Party Vendors

Managing third parties is more than a one-time assessment. It's a relationship that must be managed throughout the third-party management (TPM) lifecycle, from screening, onboarding and assessment, to risk mitigation, monitoring, and offboarding.

There are areas for automation throughout the lifecycle that can help your organisation streamline workflows and scale their TPM program, saving time, resources, and reducing risk.

Why does the TPM lifecycle matter?

As security and risk management teams spent the last year adapting to rapid digital transformation in the wake of increased, large-scale, successful cyberattacks, TPM has become a key focus for organisations. Security teams are receiving board-level pressure to implement management programmes, causing them to assess all aspects of their TPM lifecycle.

When given a closer look, the importance of the role that the third party and third-party risk assessments play in maintaining a strong security posture across the organisation is magnified. Despite the vendor ecosystem being critical to mitigating risk throughout an enterprise, many organisations aren't appropriately assessing their third parties (and in some cases, aren't at all).

As a result, security teams - unless they own TPM - have little visibility into their organisation's third-party ecosystem, how they're used, and what measures those third parties have in place to protect their data. This leads to an increased risk in cybersecurity, privacy, ethics and compliance, and environmental, social, and governance (ESG) concerns. So, where should organisations start when pivoting to a TPM program built holistically around understanding the lifecycle?

TPM programs and lifecycle

Organisations must have clear visibility into their vendor ecosystem, and this starts with having a strong working knowledge of the TPM lifecycle.

The TPM lifecycle is a series of steps that outlines a typical relationship with a third party. TPRM is sometimes referred to as "third-party relationship management." This term better articulates the ongoing nature of third-party engagements. Typically, the TPM lifecycle is broken down into several stages. These stages include:

- Third-party identification and screening
- Evaluation & selection
- Risk assessment
- Risk mitigation
- Contracting and procurement
- Reporting and Recordkeeping
- Ongoing monitoring
- Third party offboarding

Phase 1: Third Party Identification and Screening

There are many ways to identify the third parties that your organisation is currently working with, as well as ways to identify new third parties that your organisation wants to use. To identify third parties already in use and build a third-party inventory, organisations take multiple approaches, which include:

- Using existing information
- Integrating with existing technologies
- Conducting assessments or interviews
- Leveraging external risk ratings data

Many organisations screen third parties against sanctions lists and other sources at this point to determine if there are any ethical or compliance concerns that would make the relationship too risky to start.

Using this information, you can identify unique risks that vendors may pose to your organisation and create an appropriate assessment and/or monitoring approach that is better aligned with the inherent risk of the relationship. Not all third parties are equally important, which is why it is critical to determine which third parties matter most. To improve efficiency in your TPM program, segment your third parties into criticality tiers.

Phase 2: Evaluation and Selection

During the evaluation and selection phase, organisations consider RFPs (Requests for Proposals) and choose the third parties they want to use. This decision is made using many factors that are unique to the business and its specific needs.

Phase 3: Risk Assessment

Third-party risk assessments take time and are resource intensive, which is why many organisations are using a third-party risk exchange to access pre-completed assessments. Others have focused on automating what once were manual tasks across this portion of the lifecycle. Either way, the primary goal of understanding the risks associated with the third party is the same. These assessments leverage automated risk flagging to identify issues based on third party responses.

When considering a TPM program, many organisations immediately think about cyber risks, but TPM entails so much more, such as having too much confidence in your vendor. For example, recently a large car rental company has been suing a major consultant firm over a website redesign that ended in something that never saw daylight.

With the rapid growth of rideshare apps like Uber and Lift, increased competition, and falling used car prices, the car company had been struggling with profitability over the last five years, and its stock price has fallen since then. The company has replaced its CEO twice over the same period, most recently at the start of 2017.

The car company hired the consulting firm in 2016 to completely revamp its online presence. The new site was due to go live in December 2017, but this had to be delayed to January 2018. A second delay put the new go-live date to April 2018, which was then also missed.

As the car company endured the delays, it realized that there was a nasty situation at hand: the product and design didn't do half of what was specified, and even that was still not finished.

It is now suing for the $32 million it paid the consulting company in fees, and it wants more millions to cover the cost of fixing the mess.

Phase 4: Risk Mitigation

After conducting a control assessment, risks can be calculated, and mitigation can begin. Common risk mitigation workflows include the following stages:

- Risk flagging and score designation
- Evaluation of risk against your organisation's risk appetite
- Treatment and control validation in the scope of your desired residual risk level
- Continual monitoring for increased risk levels (e.g., data breaches)

When a third-party risk is flagged, automatically assign a risk owner to oversee remediation actions. Then, provide remediation advice within any delegated tasks based on regulations, standards and frameworks embedded into your TPM lifecycle. A real-life experience of this process recently involved a major airline company. The company claimed that a disastrous outage which had hit its IT systems, was estimated to have cost them between $15 million and $20 million.

The outage, which the airline sourced to a hardware failure at its outsourced IT systems provider, took down the airline's reservations, check-in, and related systems, resulting in a string of delayed and cancelled flights and a nationwide 11-day outage.

The airline was forced to apologize to customers at the time and provide overnight accommodation and replacement flights to passengers stranded around the nation.

Phase 5: Contracting and Procurement

Sometimes done in parallel with risk mitigation, the contracting and procurement stage is critical from a third-party management perspective. Contracts often contain details that fall outside the realm of TPM. Still, there are key provisions, clauses and terms that TPM teams should look out for when reviewing third party contracts.

Phase 6: Reporting and Recordkeeping

Building a strong TPM program requires organisations to maintain compliance. Maintaining detailed records in spreadsheets is nearly impossible at scale, which is why many organisations implement TPM software. With auditable recordkeeping in place, it becomes much easier to report on critical aspects of your program to identify areas for improvement.

A TPM program can automatically schedule reports to quickly generate and share key details with critical stakeholders. Additionally, metrics can be used as automation triggers. For example, when a new high risk emerges, a notification can be sent automatically to the appropriate stakeholder.

Phase 7: Ongoing Monitoring

An assessment is a "moment-in-time" look into a third party's risks; however, engagements with third parties do not end there - or even after risk mitigation. Ongoing monitoring throughout the life of a third-party relationship is critical, as is adapting when new issues arise. There is a growing field of risk data providers that can greatly enhance real-time monitoring of your riskiest third parties.

Additionally, using contract or security certificate expirations as triggers, can be a useful way to automate the process, so that when a third-party security certification expires, a reaction (creating a new risk, sending a reassessment, or notifying a stakeholder) from the organization is guaranteed. The same can be said of detecting third-party breaches and sanctions.

Phase 8: Third-Party Offboarding

A thorough offboarding procedure is critical, both for security purposes and recordkeeping requirements. Many organisations have developed an offboarding checklist for third parties, which can consist of assessments sent both internally and externally to confirm that all appropriate measures were taken. Critical, too, is the ability to maintain a detailed evidence trail of these activities to demonstrate compliance in the event of regulatory inquiry or audit.

Those who have an ability to leverage data, automate manual tasks and set risk appetites will have an advantage over their peers in the next two to three years, enabling risk-based business decisions to be made quickly.

Beyond security

Evaluating third-party risk is not limited to cybersecurity. Organisations also need to ensure that partners are meeting regulatory compliance requirements because a lack of third-party controls can result in data loss and subsequent regulatory fines.

In addition, companies need to ensure that proper operational controls are in place with third parties, because failures can cause businesses to shut down for extended periods.

Third-party failures in any of these areas can result in lost business, financial damage, and a negative impact on the brand and reputation of any company that deals with the business that experienced a breach or disruption.

Concluding Thoughts

It's important to remember that third-party risk management is not a "set it and forget it" proposition. Since third-party behavior and the threat landscape change over time, organisations need to perform regular assessments of their business partners. They can monitor continuously and in real-time by deploying tools such as vendor risk-management platforms.

The assessment process needs to be repeated for each new third-party partner an organisation hires. By being constantly vigilant, organisations can ensure that the third-party companies they do business with present as little risk as possible.

Third-party risk management takes a lot of effort, but the potential advantages are clear, leading to greater visibility of relationships with partners, which in turn enables companies to better understand the interconnectivity among supply chain parties and the potential risks.

In addition, due diligence allows executives to make more informed decisions about the organisations they do business with. Risks can be identified and controlled. Third-party risk management can also lead to better regulatory compliance because it's a requirement of many regulators.

Perhaps most importantly, managing the risk of third-party relationships will help keep an organisation's resources protected against a variety of threats, and its supply chain operating efficiently. To fail to manage it cogently and diligently is just like building a boat in your basement, it is a failure to plan ahead that will result in wasted time and effort.

Armstrong Wolfe Advisory

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Co-Managing Partners **Wade Younger** and **Piers Murray**

At Armstrong Wolfe Advisory, we understand what it takes to succeed.

We work to leverage our global associate network of former banking COOs, CAOs and SMEs to support banking execution gaps and provide interim expertise.

Our core strategy is to understand your problem statement, articulate your need and fill the gap with the right resource at the right time.

AWA resides at the intersection of what you need and what we do well.

Our goal is to provide supplemental management resources to fill immediate skillset needs, whether for new projects, to temporarily replace exiting staff, or to provide bridge team management while permanent replacements are found.

Our advisors have multi-firm experience and will be able to embed rapidly into the operating framework of the firm.

Armstrong Wolfe Mentoring

Our Mentoring programme provides an opportunity to support your personal and professional development, through the input of perspectives based outside your organisation.

Our mentors experienced Senior Executives from the C Suite Community, located in the United States, Singapore and the United Kingdom, with a wealth of knowledge and experience that you can leverage for your own benefit. Mentoring sessions can be booked as a series of 3 or 6, at a time that suits you.

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Our mentors can:

- Offer guidance on career success.
- Provide input on how to build skills and capabilities.
- Help craft a career vision.
- Help mentee 'skill up'.
- Give suggestions for career advancement and opportunity awareness.
- Support the mentee in how to increase visibility.
- Share the 'unwritten rules' for advancement within the organisation.

By working with our mentors, you are giving yourself an opportunity to improve and be inspired to reach the next level of your career. Working with an external mentor gives you access to a diverse range of experiences and views, injecting your organisation with external input to build in resilience and dynamism.

Please see our Armstrong Wolfe Mentors below:

Laura Ahto

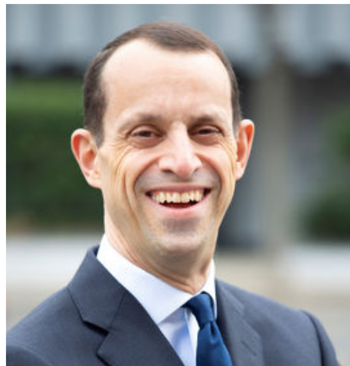
Laura has been especially proud to support the development of women through multiple channels: as Branch Manager in Frankfurt, establishing BNYM's Women's Initiative Network there; as CEO of BNY Mellon's European Bank, initiating the Belgian Women in Finance organization.

Sara Benjamin

Sara has had the opportunity to work for Morgan Stanley, UBS, BNP-Paribas and ING Bank N.V., and has managed her own business. Sara knows what it is like to want to perform under pressure, juggle balls and personalities, achieve both work and personal goals and develop your career

Simon Cleary

Simon's previous roles include Head of Business, Head of Global Products, Global Strategy Head and Country Head for some of the industry's most respected firms. For the last 7 years of Simon's banking career he was the Global COO for Standard Chartered's Financing and Securities Services. Simon's coaching philosophy employs empathy and pragmatism in utilising that experience.



David Ornstein

David Ornstein is currently acting as consultant and advisor to growth companies in various markets. He was formerly at Barclays, where he had a number of other responsibilities including chairing the global regulatory change effort, leading cross-business functions (Strategic Investments, Market Structure, Front Office Risk and Controls, Trade Capture Utility), and several new business initiatives.

Norm Parton

Norm was the Chief Operating Officer for the Global Credit business within the Alternatives division at BlackRock.

Prior to BlackRock, Norm spent 21 years at Credit Suisse, including five years at Donaldson, Lufkin & Jenrette (DLJ) prior to the merger.

Ursula Schleissler

Ursula has senior executive experience in asset management and wealth management, having worked at Citigroup, Morgan Stanley and Legg Mason. Her executive experience included leading global teams across multiple functional areas.

Rick Sears

Rick joined Barclays in 2010 as Chief Operating Officer (COO) for FX Trading and assumed additional responsibility as COO for Commodities and Emerging Markets in 2013. In July 2017, Rick relocated to New York and took on the additional role of senior Business Manager for Markets in the Americas.

Prior to joining Barclays, Rick was President of FXMarketspace.

For any enquiries about our mentorship can help you career development please contact Gwen Wilcox, COO g.wilcox@armstrongwolfe.com for an informal discussion or call M: +44 (0) 7867 424 460

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Sutherland is an experience-led digital transformation company. Our mission is to deliver exceptionally designed and engineered experiences for customers and employees. For over 35 years, we have cared for our client's customers, delivering measurable results and accelerating growth. Our proprietary, AI-based products and platforms are built using robust IP and automation. We are a team of global professionals, operationally effective, culturally meshed, and committed to our clients and to one another. We call it One Sutherland.

Behavioural Risk Management

Developments in big data analytics and behavioural science are driving new approaches to the understanding of culture and behavioural risk within Financial Services.

David Grosse
Advisor to Galaxy Sciences and Armstrong Wolfe Behavioural Science consultant

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Zooming Out and Zooming In on Behaviour

Three weeks in January 2023 and three different stories illustrate the complex and often contradictory picture of how financial services firms are seeking to understand and address culture and behaviour.

- One is the imminent demise of the UK's Financial Services Culture Board (the FSCB), originally set up as the Banking Standards Board (BSB) in 2015. As a not-for-profit and voluntary membership body it appeared that an insufficient number of member banks felt they gained appropriate value out of it, or perhaps otherwise concluded they had the "culture" topic under control, or that it was yesterday's news. I cannot comment on the perceived value-for-money point, although my experience in dealing with the FSCB was always positive. However, it is clear that the journey to better understand, measure and mitigate behavioural risks in banks remains far from mature, and the loss of an expert industry body is disappointing. As both the FSCB and the FCA noted: "the job of developing and maintaining good workplace cultures is not done and indeed will never be complete".
- Reinforcing why corporate culture remains critical is the example of Revolut, who are currently attempting to secure a UK banking licence. An article in the Guardian newspaper highlighted the creation of a new internal team, including psychology and behavioural science experts, as they seek to tackle criticism over an aggressive corporate culture. The company have denied that the formation of this group was directly part of the work to gain the banking licence, but rather a recognition of the need to "shift and change" following continued growth and staff feedback. However, as the FCA mulls a licence application they will doubtless be interested in past controversies over Revolut's working environment, high staff turnover and what actions are being taken to mitigate these.
- At the start of January, the FT ran a piece that detailed the increasing focus of investors on company culture, employee motivation and the "Human Capital Factor" (HCF) as a driver of performance. This is no ephemeral academic theory, with research by JP Morgan highlighting the long-term outperformance of companies with the highest HCF results, and the creation in 2022 of two exchange traded funds that track an index comprised of companies with strong HCF scores. If some in Financial Services doubt the importance of their own corporate culture in risk mitigation and value creation, then they should take time to speak to their own research departments and those tasked with understanding new sources of alpha in stock selection.

Synthesising these recent stories there are two trends for 2023 and beyond that will help inform the approach to cultural and behavioural insight in firms, and by inference will also be critical to their understanding of the drivers of both conduct and performance.

One requires zooming out and understanding the promises and threats of big data analytics; and the other requires zooming in and building internal, behavioural science informed, muscle. In this edition of the COO Magazine, we will focus on the former, and we will return to the latter in Q2.

Zooming Out - Big Data Analytics

The volume of data created, captured, copied, and consumed globally was forecast to be 97 zettabytes (ZB) in 2022 (a ZB being 1 with 21 zeros after it) with 90 % of the data in the world being generated over the last two years. We can safely say that these numbers are guestimates and that a lot of that data is duplicated rather than new. Nonetheless the growth of data is exponential and the analytics to sift and interpret the information are also developing at pace. Within this sea of material is a subset of data that is externally available, and from which interested parties are gaining new insight into the traits, culture and behaviours of companies.

Many people will already have used the Culture 500 website, developed through MIT Sloan in conjunction with Glassdoor, to peek into the perceptions of their own firms, or to help them make decisions on where to move next . But as their January article on HCF highlights, investors are increasingly using similar information. The two newly issued ETFs were developed in partnership with Irrational Capital, an investment research firm employing advanced data science to investigate the relationship between corporate culture and stock price returns.

In a similar vein, Alliance Bernstein have also noted that "the onset of data science has added an important dimension to assessing companies' human capital and corporate culture—with a data-driven lens. With data science, investors can track trends in companies' culture and values ratings over time and compare it with peer firms". One example is the Unobtrusive Corporate Culture Analysis Tool (UCCAT) which is a scientifically tested methodology, developed by academics at the London School of Economics, for analysing and benchmarking corporate culture. UCCAT analyses publicly available data indicative of a company's cultural footprint.

Another illustration is provided by Sparkline Capital, who describe themselves as

> *"…an investment management firm applying state-of-the-art machine learning and computing to uncover alpha in large, unstructured data sets. We are passionate about helping investors navigate the wave of technological innovation transforming financial markets".*

When looking at key indicators of innovation, they noted that, as with culture more generally, they could not simply rely on firms to tell them what was happening. They therefore tracked other markers of investment in a skilled workforce to provide an unfiltered truth.

Inevitably it is not just investors and employees who are exploring the data to gain insight. Regulators, research houses, ratings agencies and activists are all leveraging the approach, and this is radically changing the dynamic on how much of their cultural foibles a firm can realistically keep hidden and away from the public glare.

In 2021 the Bank of England issued a work-paper on the use of multiple, unobtrusive sources of data to gain a deep insight into bank culture, and which also found robust evidence that poor culture leads to substantially higher risk, demonstrating the importance for prudential outcomes. With many other regulators embracing the digital and big data age, and with their access to additional information not in the public domain, their level of detailed insight into cultural and behavioural outliers and risks will rapidly grow.

A further driver will be the demand for accurate and unvarnished Environmental, Social and Governance information (ESG) information which has exploded in recent years, and with which the cultural and behavioural landscape of a company is inextricably intertwined. The data sources used to populate ESG ratings models include public, quasi-public, and private data. Traditionally the public data has included company reported filings, sustainability reports, press, newswires, and media reports. However, data and ratings providers have developed increasingly advanced approaches to mining information.

Examples, including IHS Markit's Research Signals and Refinitiv's MarketPsych Analytics sentiment scores, already collect data from thousands of news and social media sites to create actionable intelligence.

The interest in interrogating these data sets from other societal stakeholders and activists should also not be under-estimated, with latent anger from perceived cultural failings in the Financial Crises of 2008 and the myriad of other conduct failings; to a continued focus on whether a bank's espoused values, in where and how it does business, align with the reality of their business practice. As the global response to the 2022 Russian invasion of Ukraine showed, the spotlight can quickly shine on the behaviour, actions or inactions of companies

Conclusion

Management need to ask themselves and their organisations the following three questions:

» When an investor, regulator, ratings agency or activist asks a detailed question on a behavioural or cultural concern they have identified, through their analysis of big data, how well prepared and informed will your company be?

» To what extent are you using similar techniques to understand what the available public data is revealing, and do you also use parallel big data and AI approaches and insights internally on your own in-house information, to better understand the cultural landscape and to identify outliers?

» If you do identify cultural issues and outliers what do you then do, how do you explore them in more detail and using what expertise?

Answering the third question will be the focus of the next article, highlighting what leading banks and other organisations are doing to dive deeper and to apply scientific rigour.

In a 2022 speech James Hennessy of the Federal Reserve Bank of New York highlighted the key emerging factors he saw as strengthening the study and analysis of culture. This included the increasing use of behavioural science; and the use of big data, in conjunction with artificial intelligence and network analysis. Nonetheless, he also advocated for the continued need for the "human touch" in cultural diagnosis.

Similarly, in his best-selling book "Everybody Lies" Seth Stephens Davidowitz said:

> *"I am predicting a revolution based on the revelations of big data. But this does not mean we can just throw data at any question. And big data does not eliminate the need for all the other ways humans have developed over the millennia to understand the world. They complement each other. "*

After zooming out, we next need to zoom in and better understand the human touch.

David Grosse is an advisor to Galaxy Sciences and Armstrong Wolfe, and runs his own behavioural science consultancy focussing on the challenges of conduct, culture and behavioural risk in the Financial Services industry.

He has held senior roles in London, Hong Kong and Singapore, including the Asia Pacific COO at CLSA and Global Head of Operational Risk at Barclays Capital. In his most recent banking role at HSBC he formed a behavioural risk team in the first line of defence. He also works with regulators, industry bodies and academia in helping develop more advanced approaches to risk management, through the application of behavioural and data science.

Train, develop, retain - knowledge and capability enhancement within business management

Leadership and Performance Training

Royal Military Academy Sandhurst (UK) 14th - 15th June 2023

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Fundamentally, good leaders result in teams that want to follow them, especially in troubled times - whereas poor leaders precipitate those that want to leave, even when the going is good. Attraction and retention of talent has never been more crucial; attrition never more closely monitored.

The leadership expertise that Armstrong Wolfe can call upon is drawn from those who have both led at the highest level and under the greatest pressure - from the worlds of the military, sport, and commerce - and in addition, those individuals who have now made it their life's passion to translate that experience into the world of development.

Armstrong Wolfe's developmental approach is primarily concerned with pragmatism - 'So what, now what? What will I do differently tomorrow?' Years of study is not to be sniffed at, but we take pride in the fact that those who come to us for their development take away pragmatic tools that can be immediately implemented to optimise performance. The AWi and Amicus will be running a 2-day leadership development programme at the Royal Military Academy at Sandhurst on 14th and 15th June 2023, aimed at Financial Services professionals, particularly COOs and their teams.

Programme: Overview

During the 2-day course, we will aim to make use of the unrivalled facilities at Sandhurst in order to explore leading, following, and partnering behaviours. The two-day workshop will include a blend of outdoor team activities (loosely based on military command tasks), expert input, group discussion and individual reflection. We will also host a formal dinner in one of the Academy prestige rooms on the first night.

Themes

- The Sandhurst 'Serve to Lead' Ethos: That leaders are the servants of those they lead, not the other way round
- Leadership by Intent: '1 up and 2 up' organisational context, with a view to creating the conditions for the maximum devolvement of responsibility, and developing focus on the bigger picture: 'What have I been asked to do and why' and to develop this as a culture within the organisation
- Alignment and cascade: Do your people know, understand, and feel connected, to your purpose?
- To provide leadership skills training to improve leadership capability
- Create an environment where leaders understand the importance of their own continuous development within a rapidly changing and dynamic environment
- To ensure leaders who will develop strategic insight; and who are able to develop and motivate their teams, in order to contribute to overall business success

Cost per person:

- £2,500 for the 2 days exc VAT.

This fee imcludes all design, facilities, catering, accommodation and consultants.

To find out more and sign up please email g.wilcox@armstrongwolfe.com

War in Ukraine Some lessons for business leaders

Lance Gerrard-Wright

Head of Leadership and Performance, Armstrong Wolfe

General Sir Peter Wall

Director, Amicus

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Since Russian forces rolled uninvited across the Ukrainian border on 24th February 2022, the eyes of the world have been focussed on that significant area of East European geography.

The history of Ukraine has been a protracted saga of a country constantly in flux, struggling to establish its identity and subject to forces well beyond its control. This is but another chapter in its violent history. Most of us were surprised by the resolve, resilience and sheer determination with which the Russian invaders have been confronted. Leadership is at the absolute core of this phenomenal feat of arms that will surely take a prominent place in the history of conflict.

The subsequent stalling of the Russian campaign has also been the focus of much scrutiny. Below are some observations that seek to explore leadership lessons from the conflict, and which may have relevance to leaders in business.

Ukrainian success has been built on superior leadership at the strategic, operational and tactical levels - whereas the Russian operation has been built on the deceit of a 'special military operation' which allowed for no planning, preparations or rehearsal. Russian soldiers were on training manoeuvres when ordered 'off the line of march' into Ukraine on several axes - none of which were successful. The hubris driving that series of strategic misjudgements on the Russian side was decisive: they weren't nearly as good as they thought they were, neither were the Ukrainians the broken force that their intelligence had anticipated. It has been a bungled operation from the start, based on Vladimir Putin's poor understanding of both the Ukrainian psyche and the pitiful condition and morale of his own forces. Putin has failed in the spring and summer phases of this campaign and is now failing in his desperate autumn mobilisation effort.

Initially western support for Ukraine was tentative, probably very much as Putin had anticipated. Thanks to key western leaders like PM Johnson of UK, support has now become very cohesive. This has undoubtedly been helped by Ukrainian successes, which have inspired western electorates to support the cause, and steel themselves for the privations of inflation and high energy prices. Success begets success, and western military aid has proved decisive.

President Zelensky is now revered for his courageous leadership, and his superb strategic communications. He has played the world stage superbly, delivering nuanced messages to different national audiences to appeal to their specific sentiments. Zelensky's personal influence seems to run through everything the Ukrainians do; he seems omnipresent and very much in tune with his people.

In contrast, Putin has been hiding away in the Kremlin, embracing the Soviet style of warfare modelled by Stalin and controlling the disinformation campaign very tightly. His personal influence has proved corrosive to loyalty - more often eroding it, although he maintains a hard core of brainwashed supporters. He is spared the inconvenience of challenge. There is very limited public access to accurate information, although this may be growing with increasing commentary from Russian journalists in exile, who have fled the regime. So far, however, Putin's public support seems to be holding up; but how long he is able to sustain that for is the key question. The lack of trust in his system is corrosive and ultimately will sow the seeds of his downfall, which could be both dramatic and violent.

The Ukrainian campaign has been smart - and clearly directed, with resources well-matched to goals. The trust between higher commanders and tactical commanders seems to have been strong, and the Ukrainians have been sustained physically and morally by support from their western allies, albeit their appetite is insatiable and will never be fully met.

In contrast Russian operational art seems to have been completely lacking, and commanders have been set up for failure at every turn. They have, in the traditional Russian way of warfare promoted by Stalin, resorted to destroying anything they can't capture through mass artillery and air strikes. This is a familiar gambit for their current generation of commanders with experience of the conflicts in Chechyna and Syria - and is characterised by extreme brutality. (Their attacks on critical energy infrastructure prior to winter are tantamount to war crimes). This indiscriminate behaviour has also served to put Ukraine firmly on the moral high ground with the international community.

At the tactical level Russian forces have been constrained not only by the surprise of the operation but by poor training, poor equipment and lack of logistic and medical support. Commanders aren't trusted and their tactical freedom is negligible. J

unior commanders get little latitude which deprives them of the ability to learn. Motivation is very low and troops have often vanished into the countryside, abandoning their equipment along the way. Dozens of armoured vehicles and large stocks of ammunition were relinquished every day during the more fluid phases of the war. As a result, the largest supplier of military equipment to Ukraine is Russia.

In contrast the Ukrainian success has relied upon plenty of initiative at the lower levels of command, much more akin to the western armies from whom they have been learning since 2014. (Operation Orbital was a UK operation that trained 20,000 Ukrainian officers and soldiers). This gives Ukraine a significant edge and makes them a learning organisation, and they are fast growing in capability as a result.

The benefits have been clear; from the very outset Ukrainian Armed Forces dispersed into small groupings to take on the Russian advances and succeeded in disrupting them very significantly. Putin's major axis towards Kyiv was abandoned fairly early on; this "Main Effort" was under-planned and under-resourced and therefore failed miserably. Ukrainians have since demonstrated the ability to coalesce small groups into larger tactical formations for the counter offensive phases of their campaign. This adaptability has been essential to their success.

At the tactical level Russian forces have been constrained not only by the surprise of the operation but by poor training, poor equipment and lack of logistic and medical support.

Morale has been a decisive factor - poorly-prepared, equipped and demotivated Russians who don't want to be there are no contest for Ukrainians who are fighting for national survival. There's no upside for Russian soldiers - they face the prospect of death or injury and have very sparse medical support. They know this gives them little chance of survival if they are injured badly.

In contrast the Ukrainian Forces are highly adaptable, agile, and very determined. They are exhausted but still going forward. Some would say that defending home territory for survival creates decisive advantage - but it's worth remembering France in 1914 and 1940, or Russia in 1941…where the invaders initially prevailed decisively, albeit losing in the end.

The Ukrainian Armed Forces' achievement has been massive against the supposed might of the Russian Army - and morale and motivation have been decisive factors, coupled with superior military skill at all levels.

This will be a long and gruelling campaign for both sides. The tempo of operations will be more constrained - perhaps to the point of a temporary stalemate. A frozen conflict suits Putin; he can't win, so deferring a recognisable defeat is the best he can hope for. Will western support be sustainable once Ukrainian forces are no longer advancing? Will the negotiation route become more acceptable to Zelensky? Probably not, but international military and political support will be vital to Ukrainian momentum in the next campaigning season.

The decisive factors for Ukrainian success have been, and will probably continue to be, the combination of western military aid and their superior strategic, operational, and tactical leadership.

Using the lessons from this campaign, what questions can businesses ask themselves to enhance performance and win?

- How well do you understand the wider context and the specifics of you r situation? Are your assumptions valid?
- How well do you cascade your purpose and goals from the strategic, through the operational, to the tactical levels in your business?
- Is yours an empowering or constraining leadership culture? Can your junior executives take advantage of a fluid and constantly evolving situation on the ground?
- How adaptable is your business to emerging trends and changing situations?
- How effectively are you communicating both internally and externally?

For further information please email info@armstrongwolfe.com

Striving for authentic leadership

An interview with

Michael Paleos
Chief of Staff, Investment Bank at Deutsche Bank

Interview by
Peter Zorn
Industry Advisor, Armstrong Wolfe & Director, Business Transformation, Mercer

ARMSTRONG WOLFE
Women in the COO Community

Please share your career path to date with any key lessons learned that would be valuable for others

I joined Deutsche Bank straight out of Cornell as a member of the formal HR Graduate training program. The 9/11 attacks happened during the fall semester of my senior year, and job prospects for those of us graduating in the spring were bleak to say the least! Receiving an offer to join a world-class investment bank as part of a formal training program genuinely felt like winning a golden ticket. Looking back on the last 20+ years - the learning, the experiences, and most of all, the people - it still does.

After spending a few years as an HR generalist, a junior business manager position opened up in Research, one of my coverage groups. I had a good relationship with the COO, and he thought I'd be a good fit for the job. I was completely terrified and beyond intimidated, but in the end, I took the plunge.

What followed was an extremely rewarding twelve years in various Research BM/COO roles. A year into my US BM role, my global head tapped me to become the COO of Asia Pacific Research so off I went on a three-year assignment to Hong Kong. Again, I felt like a complete impostor, but recognized it as a once-in-a-lifetime opportunity.

I returned to New York in 2010, and eight years later my career had plateaued somewhat. Once again, I was approached with an international opportunity, this time to join Central Management in London and represent the Corporate & Investment Bank (CIB) in the Bank-wide migration to Workday. I didn't have any formal project management or technology experience to speak of, but by that time I was "bilingual" in the HR and COO domains and had reasonable credibility with both camps so they took a chance on me.

In the summer of 2019, just as Workday was going live, the Bank announced its largest transformation in a generation. When the dust had settled, CIB was no more - it had been split into the Corporate Bank and Investment Bank divisions. The new IB COO was based in London, and he wanted someone who could support the NY-based Head of IB on the ground so that's how my current role as IB Chief of Staff was born.

If I had to pick one "aha" moment from my career, it would be the fact that I have been the beneficiary - many times over - of people taking calculated risks on me. I honestly can't think of a stronger motivator. If someone goes out on a limb for me and trusts in my potential, I would run through a brick wall to prove them right. It's become a sort of "cheat code" for me now as a manager - every single hire I've ever made has been an internal candidate, where I had an opportunity to observe them in action for some period of time before approaching them.

Many didn't have the obvious credentials or pedigree for the role I wanted to fill, but I saw potential in them and the right raw materials for success - intelligence, high EQ, creativity, curiosity, work ethic, coachability, communication skills and kindness. Then you sprinkle in the intrinsic motivation that comes from a stubborn insistence to validate those who take a chance on you and it's an unstoppable combination. I am now the privileged manager of a team of all-stars and immensely proud of what we continue to achieve together.

In recent years, the COO role has become a more formalised career path. What are the most important skills and characteristics you see as essential for someone to be successful in this type of role?

The raw ingredients I just mentioned would be the foundation. But then again I think those would apply to any profession. For the COO role specifically, there are several attributes I consider essential.

First, keen organizational awareness - the structure, the personalities, the ambitions, the dependencies, the politics. One of your core functions as a COO is to help your leadership team navigate complicated matters in a complex environment, often in high-stakes situations with competing interests and little time to spare. It is imperative that you have an intrinsic understanding of the arena in which you operate to make smart decisions in real-time.

Second would be expert analytical skills and a combination of detail orientation with strategic thinking. More specifically, you need to be sufficiently detail-oriented to truly grasp the information you are assembling, reviewing and/or presenting, while also having enough strategic vision to synthesize and articulate what the data is telling you, and what action (or inaction) it suggests. In many cases, just knowing the right questions to ask makes all the difference.

Last, but not least, would be communication and interpersonal skills. Much of what we do as COOs amounts to influencing, negotiation and consensus-building. Inherent to the success of those endeavours is an ability to establish credibility, create a succinct yet compelling narrative, articulate a clear and thoughtful rationale and inspire people to agree.

Underpinning all of this is integrity as well as kindness and respect and not just managing upwards. It's a relationship business and while we should all be kind without expecting anything in return, one of the benefits of kindness becomes the difference between people helping you because they want to, not just because they have to.

What would you say is the true value of the role of the COO when done right? Conversely, what are the pitfalls, especially when transforming and evolving an organisation where the role of an effective COO is absent?

The most effective COOs act as true proxies for their business leaders. They've established the necessary vision, trust, gravitas and agency to speak and act on the business head's behalf. This provides business leadership with tremendous leverage and more hours in their day to focus on other priorities. The COO also enjoys the extra advantage of having extensive operational expertise and a diverse network that they can quickly mobilize to deliver against an objective. When you put that all together it becomes a very powerful combination.

When it comes to motivating, inspiring and leading, I've always thought of people - in both a personal and professional context - as different musical instruments

In simpler terms, an effective COO shields the business head from much of the "noise" in the system and lets them focus on what they do best. The COO can accurately anticipate business needs, challenges, and opportunities - often before the business head is even thinking about them. There is implicit trust in the relationship, they can communicate in shorthand, and it is understood that the COO will escalate problems to the business head as the need arises. Otherwise the standing assumption will be that it's all in hand - because it is.

The pitfalls are essentially the inverse of what I just described. Miscommunication, faulty assumptions, lack of trust, inefficient execution… not a great situation for any organization, least of all one going through any sort of transformation.

How do you personally motivate your people - stakeholders, peers, team members? Regarding motivational skillsets, what is required to keep your workforce engaged and retain your top talent?

When it comes to motivating, inspiring and leading, I've always thought of people - in both a personal and professional context - as different musical instruments. You don't approach a harp the way you would a tuba. The musical theory underpinning the instrumentation is common to both, but the means of getting them to produce music couldn't be more different.

I think the most basic error a lot of managers make is in failing to adapt their management styles to the vast diversity of human beings they're dealing with. Step one has to be gaining a nuanced and individual understanding of what motivates the person across the table from you.

Then you must meet them where they are - what do they care about? What are their objectives? Their strengths? Blind spots? Then, how does that profile align with your own? What do you have in your arsenal that might complement or help them in some way? To me, motivation really boils down to establishing a common purpose with another individual. You can't do that without understanding what they want in the first place.

As it relates to motivation and retention at the firm-wide level, there is always a temptation to cling to the traditional levers of pay and promotion. Those are no doubt important, in our industry especially, but overreliance on these levers is the hallmark of lazy, uninspired management.

We do ourselves a disservice in failing to recognize the profound impact that the "softer" elements can have. We should never underestimate the immense benefits that satisfying basic human needs like respect, belonging, intellectual stimulation, appreciation and camaraderie can bring about in compelling someone to stay in their job.

Thankfully the awareness around these dynamics has grown dramatically in recent years and we are in a much healthier place today than we were even four or five years ago which, of course, is music to my ears, as a true HR practitioner at heart.

Why 2023 is the Perfect Storm against Women in Finance

Norma Gillespie

Chief Executive Officer at Resource Solutions

The unprecedented blend of macroeconomic and geopolitical factors surrounding the global pandemic has resulted in the rolling back of much of the progress made towards gender parity in Finance. Here, Norma Gillespie, Chief Executive Officer at Resource Solutions, explains the impact of the 'Perfect Storm' on the glass ceiling.

The journey towards gender parity in Financial Services has, whilst far from plain sailing, largely seen positive movement and notable progress, particularly over the past 6 years since HM Treasury launched the voluntary Women in Finance Charter.

The Charter requires signatories to pledge commitment to supporting the progression of women, setting targets and, crucially, publicly report on progress.

One of the most positive and impactful data points from the Women in Finance Charter is the rising ambition of these targets – in 2019 only around a third of signatories set a target of at least 40% women in senior management, only 2 years later, the number jumped to almost half.

However, the number that really matters is the percentage of female representation in the industry and in 2022, for the first time, the number remained flat – 33%. There is no single reason for this, rather it is a blend of unusual (and unfavourable) circumstances.

Women left Financial Services during the pandemic (and many haven't returned)

The global pandemic starting in 2020 impacted everyone, but the impact on careers was felt disproportionately by women. Across the UK's five biggest lenders, 10,000 women left banking. 29% women working in financial services left their job either on a permanent basis or took a temporary break during the pandemic whilst 34% of those still working in banking reported that they may consider leaving or moving on from their current firms, according to Accenture.

The 'Shecession' during and following the pandemic

In the first two months of the pandemic, women were more likely to lose their job than men, with 12.2 million over 11.2 million— this may sound comparable, but 1 million people is enough to roll back much of the progress made. Not only were women disproportionately impacted by job losses and redundancies, when the hiring taps were turned back in following lockdowns and hiring freezes, men filled a disproportionate number of these new jobs. In the US during Omicron, the gender difference really became apparent - 875,000 new jobs for men and just 62,000 for women.

WCOOC

Stagnating (and in some cases, increased) gender pay gap

Whilst reporting and tracking is showing some progress in the drive towards gender pay parity, the median gender pay gap across the UK in 2021 was 17% yet in Financial services in 2022 the gap is 33.6% and the bonus gap is 44%. These figures are a slight improvement on 2021, but remain a genuine challenge when attracting and retaining women in to Financial Services.

Offices became more male

Even in 2023, companies are still navigating work location approaches and policies. Most have implemented hybrid working in some form but often employees are not restricted from working in the office. Policies of course apply to men and women, yet the impact is again disproportionate. No demographic is keener to work in the office than white men. Just over 30% white men would like to work in the office full time compared to only 22.5% black women and 22.7% white women (and only 15.9% black men). The risk of this new world of work? Offices become more male and more white.

Presenteeism in the office is rewarded, lowering the glass ceiling

If our offices become more male, this not only impacts the office environment and culture, it also potentially has an impact on the boardroom. Research indicates that office-based employees get promoted more and faster than their working-from-home colleagues. Female representation at C-suite looks set to rise in some markets such as the US but worryingly, in others such as Singapore, the percentage of women holding C-suite roles in financial institutions is expected to decline to 15.3% by 2030, from 20.8% now.

This 'perfect storm' may bring challenges, but the future for women in financial services is far from bleak, particularly if employers deploy strategic interventions – from auditing recruitment processes for hidden bias and barriers, reskilling and upskilling initiatives and mentoring and sponsorship programmes.

As CEO of Resource Solutions, Norma executes the recruitment outsourcing specialist's strategy and vision, while working with a global leadership team to deliver world-class client services and responsible growth.

Norma joined the Robert Walters Group, Resource Solutions' parent organisation, in 2007. She rose rapidly through the business, holding global and regional roles across sales, operational and delivery teams for new and existing clients.

In total, Norma has over 20 years' experience in recruitment, the majority focused on Recruitment Process Outsourcing (RPO) and Managed Service Provider (MSP) solutions. In 2020, Norma was named on the Staffing Industry Analyst (SIA) '2020 Global Power 150 - women in staffing list', among a cohort of women leading the way and pushing boundaries in the recruitment industry.

At Resource Solutions, Norma recently launched a business-wide Global Diversity Council, supporting internal and external initiatives, webinars, online events and 'Cultural Conversations' on issues as diverse as the Black Lives Matter movement and national Pride events.

Norma is also a mentor to several individuals within the business, as part of an ongoing focus on female mentoring. She is incredibly proud and supportive of this initiative, which supports women aspiring to leadership positions.

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