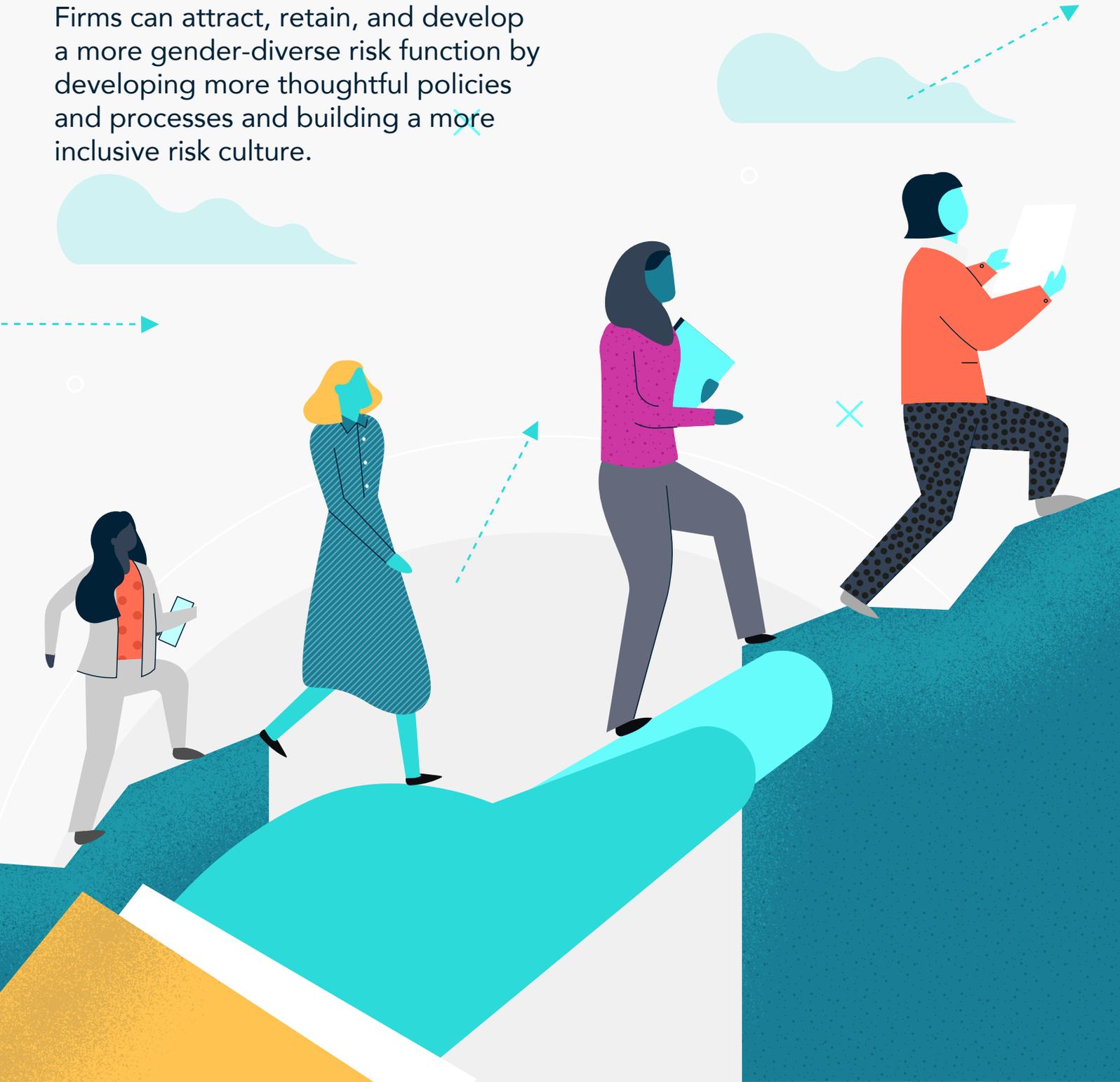


ARTICLE

Creating a more gender-diverse risk function

Firms can attract, retain, and develop a more gender-diverse risk function by developing more thoughtful policies and processes and building a more inclusive risk culture.



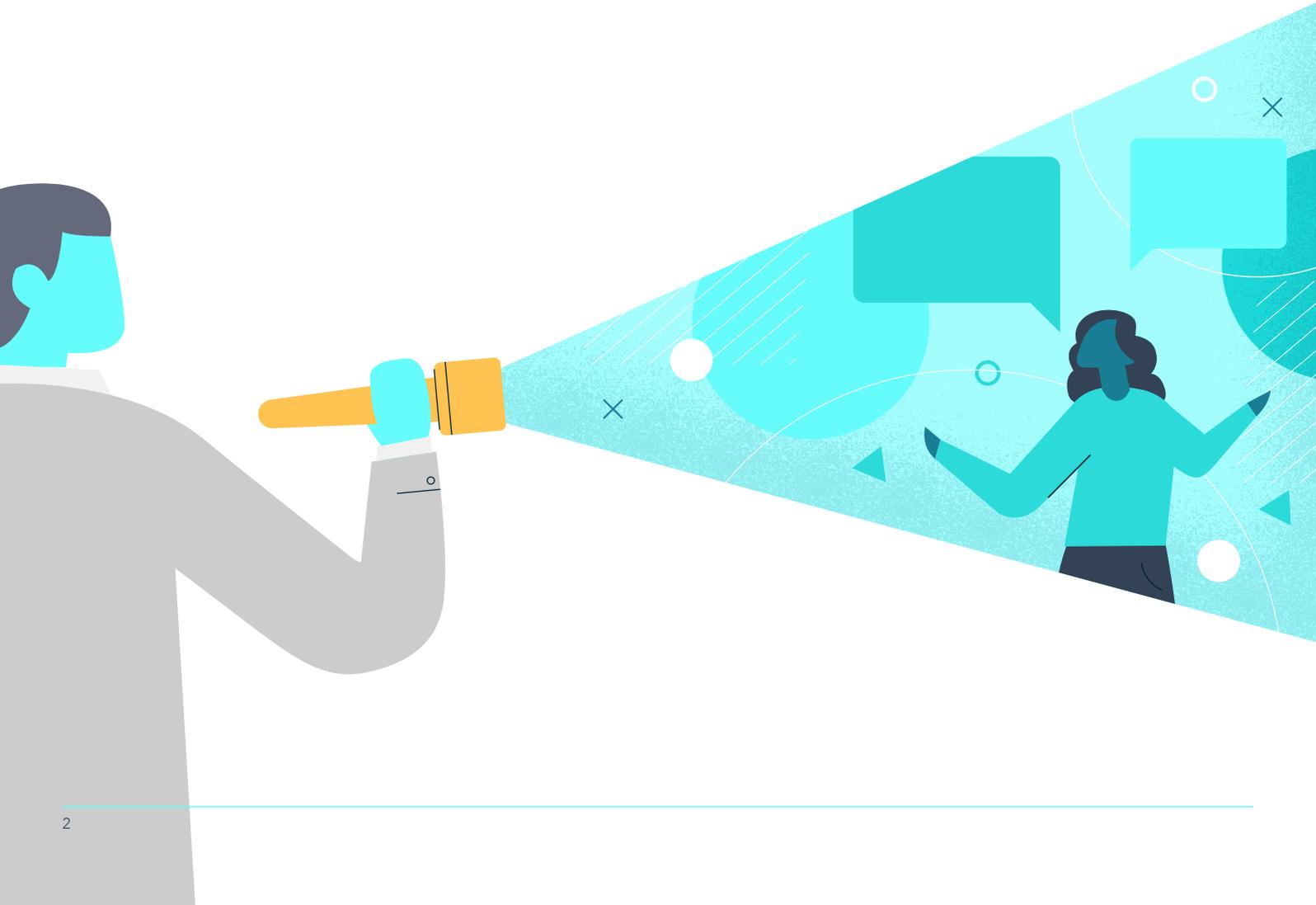
Global banks' risk functions have not made as much progress on gender diversity as many other functions. But risk leaders are truly committed to making significant progress.

Global banks' risk functions have not made as much progress on gender diversity as many other functions. But risk leaders are truly committed to making significant progress, both because progress on diversity, equity, and inclusion (DE&I) is crucial to any company's or function's reputation and because tapping the broadest possible talent pool is the only way to attract and retain the best leadership teams. The most successful organizations are the ones that frame DE&I as a business issue.

Risk has lagged as a function in part because firms have found it challenging to hire women in quantitative and mathematical functions, and small numbers at the junior levels inevitably lead to smaller numbers at the most senior levels, including roles reporting directly to the C-suite and leading relationships with regulators. However, unconscious bias is also a significant challenge to overcome for women risk leaders, because women are not perceived by many in financial firms as being as suited to careers involving STEM.

Therefore, risk function leaders who want to build more gender-diverse teams need to both find and hire young female leaders who have or can build the necessary skills, and then retain those leaders with the right mix of career opportunities and, crucially, inclusive culture. And they must do all in the context of a rapidly changing risk function, which is requiring a new definition of leadership overall.

In order to understand more about what firms are doing and should do, we spoke to several women risk leaders about their experiences, what attracted them to their current companies and has kept them there, and what initiatives, policies, and programs they believe organizations can and should put in place to remove the barriers women face in the risk function.



The contemporary risk leader profile

Risk leaders could once thrive solely on the basis of strong credit- or market-risk expertise. Now, however, these leaders need much more, and firms are having trouble finding people with the right mix of skills. The importance of the technical skills, such as financial and non-financial risk expertise and business acumen, is now matched by a need for softer skills, such as agility, change management, communication, curiosity, influencing, and relationship building.

What's changed? First, the increasing range of material non-financial risks, which includes those created by technology, globalization, climate change, political instability, and even pandemics. Though once these were beyond the scope of the risk function, today many such risks are deeply complex, interrelated, and quickly scalable. In addition, the size of the risk function has grown in response to these new risks as well as to the growth of firms themselves. Regulatory expectations have increased. The general trends still lean toward firms appointing chief risk officers (CROs) whose bulk of experience is in traditional financial risk.¹

In addition to traditional financial risk capabilities, the following are now necessary for successful chief risk officers today:

- **People leadership and training:** Leaders must have a commitment to the development of the team and risk function, as well as strong communication and interpersonal skills.
- **Ethical standards:** Risk leaders must have high ethical standards and credibility.
- **Commitment to best practices and collaboration:** Risk leaders must respect and balance the importance of the independence of the risk function with the ability to partner with and understand the needs of the business as a whole.
- **External relationship management:** Leaders must be able to effectively manage relationships with external auditors, regulators, and other third parties. In addition, they need an executive presence, enabling them to interact effectively with the board, C-suite, and external third parties such as global regulators.
- **Influencing:** Risk leaders must have the ability to take complex information and interpret and translate it in an appropriate manner to influence the right ethical decisions and positive behaviour across an organization.
- **Business knowledge:** Risk leaders must be committed to best-in-class practices and have in-depth knowledge of the key operating and financial levers of core business lines.
- **Functional expertise:** Risk leaders must also possess technical skills, which increasingly include understanding non-financial-risk topics and the ability to leverage technology solutions to improve business efficiency.

The diversifying skill set required to be a successful risk leader is only further proof that the time is now to seek a diverse pool of candidates that may not fit the traditional risk leader profile. Indeed, current leaders and organizations must recognize that a leader with a different set of experiences and perspectives is a benefit, rather than a setback, of hiring diverse talent.

¹ Mark Jackson, "Financial services: Ensuring the next generation of risk leaders is ready," Heidrick & Struggles, heidrick.com.

Developing more thoughtful policies and processes

Financial services institutions have struggled to find the best candidates of any gender with the right balance of skills and capabilities to be a risk leader today. So, at a time when companies across sectors are finding it difficult to retain their best executives in any function, risk leaders are already harder to find. To succeed, firms must do more to identify high-potential individuals much earlier on their career paths; make promotion decisions with a focus on leadership, EQ, communication, innovation, and a macro perspective rather than purely on traditional technical acumen; and create breadth in high performers' career experiences to ensure people can take risks and grow. To make sure high-potential women are fully included throughout these steps, current leaders must start by being willing to examine their own processes both for retaining internal candidates and attracting external talent.

In our experience, organizations that do this well are thoughtful about who they engage their candidates with internally through the recruitment process, and at what stage. Women want to engage with other senior women across the organization throughout the recruitment process. Often, the women they see are from HR or non-financial risk roles. But they want to engage with women who are in P&L roles or financial risk roles as an indication of how the culture nurtures women in leadership roles. Being able to see how others have managed sets the benchmark of what is possible and what they can expect, for better or worse. Women who have been candidates for risk management roles have been quite critical of organizations that, for example, do not involve other women in the interview process. Said one, "If the interview panel is totally men, that is visually a negative reflection on the organization. It is a much better reflection [of a company] to have a woman on the panel or part of the process—but if they're a 'filler,' it does stand out."

In addition, to help address the relative shortage of women with traditional STEM backgrounds, one risk leader we spoke with suggested that organizations "try to come up with recruiting strategies for the quantitative functions—one that perhaps starts [with developing] people from graduate school... or go after the technical people. If you start to dissect some of the more technical areas like model validation and market risk, there are not many female leaders; but if you look at the flip side of this, with credit risk and operational there are many more women. I think you almost have to have a two-fold approach to tackle credit/operational risk areas wherein you can hire senior women. And on the more quantitative side you have to start much earlier in their careers, at grad school."

Today's risk leaders stress that to develop and retain those women after the hiring process, "having a visible network that is led by senior women encouraging and fostering women's growth is extremely helpful," as one put it. "At a senior level," said another leader, "I think the thing women want is sponsors so we know we can continue to develop, and that our point of view is valuable. I'm looking to work with people who ... will help me navigate the politics, and who are interested in my growth." Another leader emphasized the importance of firms demonstrating commitment to their female leaders' success: "[Leaders and even those conducting interviews] need to demonstrate how the organization can make you successful. Will I be supported? What does my trajectory look like? To see this vision is the key hook for ambitious female leaders." One leader even noted that a company's board is also accountable: "Board members are an interesting gauge of the tone across the organization," she said. "Women are taking notice of this."

"Firms that recruit well actively try to create a bond. They are sincere, vulnerable, and sensitive," said one leader. "They just let you know they are there."

The same kinds of robust sponsorship and mentorship programs that allow developing leaders to work across several functions and lines of business or products that are important for developing risk leaders of any gender are particularly important for women. These sponsors need not necessarily be in risk but they must be at a senior enough level to provide advocacy and support. It's important to note that sponsors for women leaders need not also be women. Indeed, a truly inclusive environment is one in which everyone feels equally included and valued.

Firms should also ensure that women have full access to rotational programs that include risk, with the intention of making all potential business leaders become more comfortable with the role of risk.

Building an inclusive risk culture

One hurdle firms face today when building an inclusive risk culture is little or no representation. As one leader bluntly put it, "Financial risk roles are typically held by men, which needs to change."

Indeed, we know that over time, representation creates a virtuous cycle: the more women risk leaders there are the more women will be able to see themselves in leadership roles and will then seek those roles. Representation also reduces the possibility of stereotyping or typecasting, and so, over time, bias as well.

However, firms must also actively address persistent unconscious biases. With so many more male than female leaders in many functions, many women we talked with pointed out a common bias: "I think we take risks on men all the time," said one female leader. "A man doesn't normally see a woman [candidate] in himself and can't relate, [and so] women need to have accomplished more to get a role. With women it is always less about the leadership attributes, and always more about 'has this person done this role, yes or no?'" In addition, there are biases more relevant to risk than to other functions—notably, that it is typically seen as not collaborative, according one leader. A risk leader, she said, can be "viewed as a 'gotcha' person... [And] if I'm an ambitious woman in risk, it can be easy to stereotype me as aggressive as I'm already stereotyped in risk as the function that says no." Another leader added, "I don't think people can be successful in risk without appreciating conflict. [And] I think men can lean into conflict more than women. There can be a perception that a woman has sharp elbows." Other leaders echoed those concerns, expressing concern at the outsized consequences women can face if they are viewed as too aggressive or ambitious.

Successfully shaping inclusive cultures requires a company-wide approach that starts with activating purposeful leadership; and, at the core, building visible representation at all levels and across the business.

A truly inclusive culture will help break down these unconscious biases. One leader explained, "Culture is everything. You need to quietly demonstrate a culture of collaboration, partnership, team and network." Our experience suggests that successfully shaping inclusive cultures requires a company-wide approach that starts with activating purposeful leadership, followed by creating space for personal change; sustaining broad engagement with the whole workforce; embedding inclusion in systems, processes, policies, and day-to-day operations; and, at the core, building visible representation at all levels and across the business.²

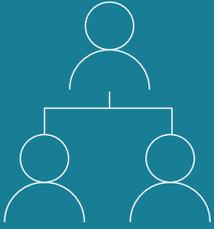
Fostering an inclusive risk culture specifically requires making more of the process shift that is bringing risk closer to the business. As the scope and size of the risk function has grown, risk leaders are more often there at the onset of new ideas, which can help break down perceptions of risk leaders being naysayers rather than strategic business partners for long-term sustainable revenue. When risk is consistently included in the conversation much earlier, perceptions will shift more thoroughly.

² Dustin Seale, "Creating an inclusive culture: Five principles to create significant and sustainable progress," Heidrick & Struggles, heidrick.com.

Five principles for creating an inclusive culture

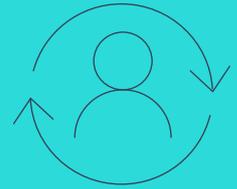
Purposeful leadership

Leaders must connect DE&I efforts to strategic business priorities and outcomes, and then authentically communicate, lead, and role model a compelling purpose for change.



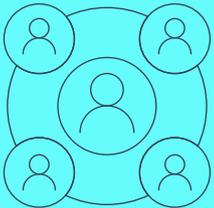
Personal change

Leaders need to make a mindset shift, address blind spots, and change personal behavior to effectively lead 100% of today's talent. By becoming more aware of their leadership shadow, they can understand their impact on shaping an inclusive culture.



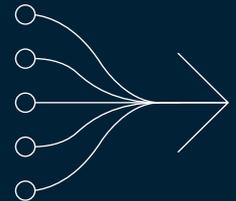
Representation

Building greater diversity and allowing all types of employees to "see" themselves at all levels of the organization enables a truly inclusive culture to flourish.



Broad engagement

Engaging the entire organization and building momentum through a leader-led process results in a greater sense of belonging and engagement in teams.



Systemic alignment

Updating institutional practices, performance drivers, process, and policies to remove any inadvertent bias or preferential treatment will improve equity, transparency, and alignment across the talent life cycle.

Questions and considerations for leaders

Risk leaders today typically know where their function stands in terms of diversity. On that basis, leaders are taking steps to:

- 1. Define aspirations** and targets for gender diversity within the risk function, assess progress regularly, and report transparently on it.
 - Which initiatives meant to attract, retain, and develop women will have the biggest impact in your organization based on your analysis of where you stand today?
 - What goals and benchmarks are realistic?
 - Do your leaders communicate transparently and with empathy whether the news is good or bad?
- 2. Take a systematic, enterprise-wide approach to DE&I** that aligns with the overall business strategy. This means leveraging existing systems for driving change or creating new ones, measuring your progress, and communicating your results to employees.
 - How will you promote and retain female talent at all levels across the organization?
 - Have you de-biased your HR systems and processes?
 - Does your approach to this work look like other major initiatives you have undertaken to change behavior or thinking at scale (such as safety, lean, or agile)? If not, why?
- 3. Engage leaders** in commitment to action.
 - Can your leaders speak convincingly to the business case for gender equity?
 - Are you leveraging your board as effectively as you could?

It's important to note that for diversity to improve in the risk function, current leaders are taking action in all of these areas as they seek to find the right mix of solutions that will work for their specific risk function in the context of the firm as a whole.

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Financial Services Practice

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