THE EVOLUTION OF THE CFO:
SIX HABITS HELPING TODAY’S CFO AND SHAPING FUTURE FINANCE LEADERS
Overview

To say the role of today’s community bank and credit union CFO has evolved would be an understatement. Fallout from the global financial crisis, combined with current disruptive threats, like digital competition and new regulations, have created higher expectations for CFOs. Today’s high-performing CFO must proactively create value across every business line and operational function.

Evolving from a “numbers-focused” service role to one focused on holistic growth is not always easy for those with an accounting or finance background. Now, in addition to understanding balance sheets, risk, and asset allocation, CFOs need to study non-financial factors, such as the competitive landscape, operations, sourcing, emerging technology, customer wants and needs, and more. They have to think more strategically than ever before.

This evolution is not unique to the financial services industry. Across all industry segments, CFOs are adopting new strategies and habits to adjust to changing market dynamics. For example, when Business Insider recently asked CFOs from a range of industries for their best advice, the responses included: improving leadership, communication, budget management, and making bold business moves.

Key insights from other successful CFOs

“Spend less time with spreadsheets and more time with customers. It will be more uncomfortable but more insightful. Successful CFOs know as much about how their customers make money as they do their own business.”

BRIAN WORRELL, CFO, GE OIL & GAS

“This might sound textbook, but that’s because it’s true. Revenue growth and disciplined expense management will generate the cash a business needs to invest, seize growth opportunities, and return consistent value to owners.”

JOHN STEPHENS, CFO, AT&T

“...you can know the numbers and the strategies behind them better than anyone, but if you can’t communicate well and tell your company’s story in a way that engages the investor and analyst community, you are toast.”

CAROL TOMÉ, CFO, HOME DEPOT

“...finance organizations hold a significant leadership role in developing true value-based cultures. It begins with a strong accountability focus within the organization – a clear understanding of value drivers, coupled with scorecards based on common financial metrics.”

HOWARD UNGERLEIDER, CFO, DOW CHEMICAL
Greater Expectations for Strategic Guidance

A 2015 KPMG study found that CEOs have set a high bar for CFOs. Sixty-three percent of the surveyed CEOs from high-performing organizations believe that the CFO’s role will increase in significance over the next three years, as compared with other C-suite roles.

CEOs will be relying evermore heavily on their CFOs for strategic guidance, especially as it relates to driving performance and growth first.

With immense pressures coming from the environment and CEO expectations, what are highly successful community bank and credit union CFOs doing to evolve and succeed? How are they creating value and strategically driving growth? In the pages that follow, we offer some of the daily habits from the best of the best as a guide to help you achieve more in your role.

Where do you see the CFO’s greatest opportunity to contribute to or impact the value of the organization?

- **35%** Performance/Growth (e.g. M&A, business partnering, strategy, talent management)
- **30%** Governance (e.g. regulatory landscape, board requirements, risk and compliance)
- **16%** Efficiency/Value (e.g. cost optimization, working capital, sourcing)
- **12%** Control (e.g. IT, internal audit)
- **7%** Innovation (e.g. new products/services, new business models, new markets)

Note: Numbers may not add up to 100% as respondents were able to select more than one response.

Source: The View from the Top report, KPMG International, 2015
Habit #1: Help Shape the Culture

Finance has the benefit of having visibility to every aspect of the business. This makes the CFO the ideal conduit for creating a culture of open communication and collaboration across business lines. For example, highly successful CFOs regularly share financial goals and performance information not only with the board, but also with employees from the leadership ranks to the teller windows. This increases employee engagement, as well as accountability for performance.

Some CFOs have demonstrated their commitment to a collaborative, performance-focused culture through the use of technology. They might give managers access to web-based financial performance software so they can monitor and manage performance anytime from anywhere. There is no waiting for spreadsheets that have to be created, vetted, and distributed by email. Additionally, business units can use their software to work together on the budget and forecast in real time.

“In addition to our management team, we purchased iPad® devices for our board members so they could view the financials through the Deluxe Banker’s Dashboard app. We believe this will increase knowledge, engagement, and the quality of the board’s decisions.”

AMY FEAGIN, CONTROLLER & SVP, INDEPENDENT BANK, MCKINNEY, TX

Character traits are also critically important to building a culture of openness, honesty, and integrity.

First and foremost, the CFO has to be trusted. The late Stephen R. Covey, author of The Seven Habits of Highly Successful People, believed that the foundation of trust is credibility. Through his decades of work, Covey identified 13 common behaviors that help leaders to earn and sustain trust.

1. Talk Straight
2. Demonstrate Respect
3. Create Transparency
4. Right Wrongs
5. Show Loyalty
6. Deliver Results
7. Get Better
8. Confront Reality
9. Clarify Expectation
10. Practice Accountability
11. Listen First
12. Keep Commitments
13. Extend Trust
Nearly nine in 10 (89%) finance professionals agree that in the next five years their companies’ success will increasingly depend on their ability to adapt to the rapid pace of change and greater business complexity, according to CFO Research on financial services.

“The banking and credit union industries are battling disruptive forces from many known and unknown sources,” adds Jim Marous in an article for The Financial Brand. These include new non-bank competition, changing consumer expectations, and new technologies, he says.

The most successful CFOs see these disruptive forces as opportunities. For example, they see the rate of change within the financial technology space, and it pushes them to adopt a similarly entrepreneurial mindset. Working with the CEO, they find ways to break traditional barriers in order to cultivate, fund, and implement innovative ideas that lead to market differentiation.

Modern CFOs are becoming innovation and technology evangelists. While this is positive, there is still work to be done in making the CFO’s ambitions a reality. Consider these insights from an Accenture survey of C-suite banking executives:

- 76% say finance understands the opportunities provided by the latest technology trends.
- 70% rate their organization’s performance in various innovation categories as poor or adequate.
- 20% believe their finance functions have leading-edge technologies to bring more business value.

In theory, community banks and credit unions should be more agile than larger institutions, and thus able to change and adopt new ideas more quickly. Instead of saying “no” to advancements based on a balance sheet, highly successful CFOs have a systematic process for evaluating and funding ideas.

Habit #2: Embrace Innovation

The Evolution of The CFO > 5

Key questions to ask when evaluating innovative ideas:

- How closely aligned is it to the needs and desires of consumers?
- What business objectives does it support?
- How forward-looking is it? Does it have a long shelf life?
- How will this provide marketplace differentiation?
- What other options/approaches have we examined?
- Is it scalable? How will it evolve with our business growth?
- What is the risk of ignoring this opportunity?
- What is the balance between opportunity and risk?

Change in Scope of Duties

The already broad role of the financial institution CFO will continue to expand, according to CFO Research. The largest percentage of survey respondents (35%) predict that the IT function will come under finance’s purview, followed by the M&A (32%) and risk management (31%) functions.
Habit #3: Be Adaptable to Change

True leaders like disruption; to shake up the status quo. They know that doing so creates opportunities. Whether it be differentiating their business, creating new markets, or altering the entire trajectory of an industry, great leaders see change as a way to stimulate growth.

The high-performing CFO can be one of the most important champions of change – if they have learned to accept uncertainty and adapt to their changing universe.

But becoming an adaptable leader isn’t always a simple task for CFOs, controllers, and accountants. They may have gravitated to these professions because they are most comfortable crunching numbers, digging through data, and preparing perfect reports. Change is unnerving.

Highly successful community bank and credit union CFOs have accepted that disruption has become part of banking. Instead of putting their heads in the sand and watching their careers whither, they have made the conscious choice to adapt – and to help others adapt, too. Especially the board of directors.

According to an analysis by the Korn Ferry Institute, best-in-class CFOs have a close working relationship with the board, which makes it easier to for them to help board members to adapt to and approve new strategies.

Modern CFOs don’t always play the supporting role in affecting change. In fact, when forward-thinking CFOs come out from under the spreadsheets, they often find that they are the ones advocating for changes rather than just adapting to them.

Among Deluxe’s thousands of community bank and credit union clients, the CFOs who are best at spotting new value-creation opportunities and identifying strategic business ventures are those who:

1. Are voracious readers of industry, business, and consumer news so they stay informed of market trends
2. Use social interactions to learn more about consumers and their changing banking preferences
3. Leverage the board as a source for new ideas, such as niche business opportunities
4. Have anytime, online access to their financial performance so they can monitor daily trends
5. Take time to explore emerging technologies

M&A – A Major Catalyst for Change

Sluggish loan demand, depressed revenues, intense competition, and higher compliance costs have already forced a great deal of consolidation among credit unions and community banks. With these factors still in play, M&A activity is projected to continue as a business strategy for several more years.

Perhaps your institution is actively shopping. A 2016 Bank Director M&A study found that 51 percent of directors said they plan to purchase a healthy bank within the next 12 months. Your ability to adapt to the new environment – and to help others do so – will be critical to the success of the consolidation and your long-term career prospects.
Habit #4: Use technology to enhance performance

A decade ago, CFOs might have winced at the prospect of an IT investment because they were notorious for scope creep and cost overruns. Today, however, high-performing CFOs are among the most visible technology evangelists in the company.

This is because, from a practical standpoint, new cloud-based systems are easier and more cost effective to implement across an organization. But beyond that, they have evolved into tools that maximize operational productivity, efficiency, and profitability – and all the other key metrics tied to the institution’s success.

It’s no longer practical to analyze historical results or rely on spreadsheets filled with data that becomes immediately obsolete. CFOs recognize that the global marketplace moves too quickly now and that they must have instant access to performance data.

In fact, nearly 8 in 10 CFOs say their companies’ very success depends on having instantaneous access to a “single version of the truth” – a unified, comprehensive, and fully up-to-date set of performance and financial data that can inform decisions, according to a 2015 CFO Research survey.

Aberdeen Group demonstrated the powerful association between data-based decisions and company performance in its 2015 study on technology enablement. In short, companies considered best-in-class based on dozens of financial metrics were more likely than laggard performers to be leveraging performance-enhancing technology.

**Technology Adopted by High-Performance Organizations**

<table>
<thead>
<tr>
<th>Data-Driven Decisions Improve Profitability</th>
<th>Percentage of financial institutions engaged in data-driven decision making</th>
</tr>
</thead>
<tbody>
<tr>
<td>Laggard</td>
<td>63%</td>
</tr>
<tr>
<td>Industry Average</td>
<td>72%</td>
</tr>
<tr>
<td>Best-in-class</td>
<td>94%</td>
</tr>
</tbody>
</table>

**Technology Enables Data-Driven Decisions**

<table>
<thead>
<tr>
<th>Key enablers of high-performance organizations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Performance Management</td>
</tr>
<tr>
<td>Forecasting Applications</td>
</tr>
<tr>
<td>Business Analytics</td>
</tr>
<tr>
<td>Dashboards</td>
</tr>
<tr>
<td>Query and reporting tools</td>
</tr>
<tr>
<td>All others</td>
</tr>
<tr>
<td>Best-in-class</td>
</tr>
</tbody>
</table>
Habit #4: Continued

For community banks and credit unions, the technology of choice is often a cloud-based software system accessible via the web or mobile application and specifically geared to their asset size.

With these systems, CFOs and leadership can manage tasks like the following in a matter of minutes – rather than in a matter of days.

- Modeling decision scenarios to optimize profit
- Proactively managing margins to identify and react to trends
- Reviewing the loan pipeline to ensure the financial goals of the institution
- Monitoring and comparing the performance of branches and lenders as a management tool to drive behaviors
- Comparing performance against budget and forecast, and updating the forecast accordingly
- Reviewing the balance sheet and income statement
- Communicating results across the organization

Technology has already transformed the way the finance function is structured and run - but there is more change ahead. According to a 2016 study by Accenture and Oracle, more than 70 percent of finance executives believe the cloud, social, and mobile technology will continue to transform finance. As technology evolves, the modern CFO must be wise to evolve with it. Or better yet, just ahead of it.

---

### Finance in the Cloud

Senior financial executives currently using or planning on using the cloud for:

- Integrated financial management 53%
- Management reporting 49%
- Financial consolidations 46%
- Financial modeling/business analytics 46%
- Budgeting, planning and forecasting up 45%
- Board books 30%
- SEC submissions, XBRL assignment 20%

Source: Gartner (August 2015)
Habit #5: Work to minimize the burden of regulatory compliance

Put a group of community bank CFOs in a room together and before long they’ll start reminiscing about the good old days when regulatory “guidance” was a list of suggestions rather than requirements. Next, they’ll commiserate about the impact of regulations on their ROA.

Nearly 97 percent of community banks say their overall compliance costs increased between 2012 and 2014, according to the latest Federal Reserve Community Banking study. The same study found that compliance costs for community banks represented 22 percent of their net income.

Modern community bank CFOs recognize that their challenge is to manage the risk and compliance organization efficiently, while helping to generate profits that offset the increasing costs.

CFOs need to drive the cost benefit analysis that determines whether incremental compliance requirements can be handled internally, or whether it’s best to co-source or outsource. Part of the analysis includes evaluating any changes in cost or income due to effects on the product or its delivery.

For example, well ahead of proposed amendments to Regulation E and Regulation Z, proactive community banks are assembling cross-functional teams to:

1. Understand the implications of regulatory changes
2. Define what compliance means to your institution
3. Map the old and new compliance delivery and product delivery processes
4. Study the effects on financial and human resources
5. Identify opportunities to create value and income
6. Work toward the most cost-effective streamlined approaches

Although the burdens of compliance weigh heavily on the CFO, what distinguishes a high-performing CFO from an average one is the ability to help keep the institution focused on its reason for being: their account holders. If compliance is handled poorly, you risk losing your customers to the host of traditional and non-traditional competitors vying for their business.

What is the effect of the more stringent regulatory environment on the CFO’s role?

Some post-crisis regulatory changes have dovetailed nicely with the push for best practices at many financial institutions – and led to an expansion of the finance function.

- It is an opportunity to derive competitive advantage from the regulatory environment 61%
- It is an opportunity to utilize data analytics 51%
- It adds to the authority of the CFO role 40%
- It is impeding the CFO’s ability to focus on other areas 37%
- It adds to the responsibilities of the CFO role 36%
American business magnate Russell Simmons said it best: “Surround yourself with people who are smarter than you.” High-performing CFOs prefer to hire their own teams, ensuring that they have people who can cover their weaknesses and complement their own strengths today – and in the future.

What particular strengths should top-performing CFOs keep an eye out for when hiring? According to John Percival, Ph.D., adjunct professor of Finance, The Wharton School, it’s important to have team members who can build trust and collegial relationships across the company. They need to build a team that “technically is very good but can think beyond the pure accounting aspects of the business, think about the future and deal with issues like organic growth versus acquisition.”

Additionally, the required technical competencies have evolved. With so many finance departments relying on automated systems, financial professionals need to be technicians of:

- Maximizing the value of their investments
- Analyzing and interpreting data
- Turning insight into action
- Communicating information to multiple audiences

More and more, those from the Millennial generation are helping to reshape the finance function. One of the defining characteristics of this generation is its affinity with the digital world. According to research by PwC, they grew up expecting instant access to information and view data as a key business tool.

As Robert Half senior executive director Paul McDonald suggests in a blog post about the April jobs report, many organizations can strengthen their teams by recruiting promising new grads and training them to help them build certain skills. Although they may lack significant real-world experience, they may have the raw talent to evolve into future leaders, he says.

High-performing CFOs also place great value on cross-functional banking knowledge. This philosophy is very much in line with recommendations published by PwC analysts. When it comes to building bench strength and managing talent, PwC recommends a planned approach to moving people in and out of the finance function, with stints served in line operations as well as in different geographies. This, they say, helps create a better alignment between the goals of the business and the career aspirations of finance talent.

Habit #6: Build bench strength

97% of CEOs say that talent management is the most or equally important factor in improving the finance function, yet only 33% give their CFOs a passing grade in talent management.

There are dozens of habits that do not rise to the top. Not because they aren’t valuable or critical, but because they are considered the CFO’s “price to play.” These habits include:

- Establishing, measuring, and reevaluating strategic and tactical metrics
- Fostering collaboration on rolling forecasts
- Maximizing the use of technology for financial reporting, modeling, and planning
- Bringing excellence to enterprise risk management
- Increasing trade knowledge

Deluxe’s century in the financial services industry coupled with its experience with thousands of community banks helped to formulate the six habits that separate the good from the great. These six habits, if pursued diligently, will not only benefit you as a CFO, but also your institution, employees, stakeholders, and customers.

If you need instantaneous access to your financial performance data, Banker’s Dashboard and Credit Union Dashboard are a web- and mobile-enabled software solution that provide actionable insights into your bank or credit union’s financial performance. Easy to integrate, the Dashboard allows your team to access and assess margin components, branch performance, forecasts and more – accurately, quickly, and around the clock with user-friendly, point-and-click simplicity.

What Was Not Listed – And Why?

Deluxe’s century in the financial services industry coupled with its experience with thousands of community banks helped to formulate the six habits that separate the good from the great. These six habits, if pursued diligently, will not only benefit you as a CFO, but also your institution, employees, stakeholders, and customers.

If you need instantaneous access to your financial performance data, Banker’s Dashboard and Credit Union Dashboard are a web- and mobile-enabled software solution that provide actionable insights into your bank or credit union’s financial performance. Easy to integrate, the Dashboard allows your team to access and assess margin components, branch performance, forecasts and more – accurately, quickly, and around the clock with user-friendly, point-and-click simplicity.