

Succession Planning for Community Banks: Building Leadership Continuity from the Inside Out

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In today's rapidly evolving banking landscape, community banks must do more than respond to regulation and market changes; they must plan for sustainable leadership. At the heart of long-term institutional resilience lies a vital but often under-prioritized function: succession planning. While larger banks have extensive bench strength and national search capabilities, community banks are frequently defined by smaller leadership teams and tight-knit cultures, making them particularly vulnerable to executive transitions.

A well-designed succession plan does more than name a backup leader. It develops a living, strategic pipeline of talent prepared to guide the institution through the next decade and beyond.

Why Succession Planning Matters in Community Banking

Succession planning in community banks addresses four strategic needs:

- **Leadership Continuity** – Ensures a seamless transition during retirements, departures, or unforeseen events.
- **Strategic Alignment** – Keeps leadership in sync with the bank's evolving goals, culture, and mission.
- **Regulatory Expectations** – Meets increasing scrutiny from regulators who expect a board-approved succession policy and reviewed succession plan for key roles.
- **Maintaining Community Engagement** – Ensures preservation of community knowledge and trust.
 - **CEO Insight:** A key competitive advantage over larger money-center and regional banks is their local knowledge and vested interests in the communities they serve.

The consequences of neglecting this process are clear—loss of momentum, culture dilution, risk to operational stability, and potential of loss of independence. Forward-looking community banks embed succession planning into their core strategic practices.

Interim and Planned Succession Path

Succession planning distinguishes between:

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- **Interim Succession** – Temporary coverage in case of unexpected departures
- **Planned Succession** – Long-term preparation for future role transitions

CEO Insight: The CEO should define a targeted organizational structure with a clear, yet flexible, 3-5 year timeframe that aligns with strategic priorities, including the development of internal talent. This dynamic approach becomes crucial when a significant change in strategy occurs, necessitating new skills and expertise.

Fostering an Enterprise Mindset in Talent Reviews

An effective succession process requires the executive team to view talent as an **enterprise resource**, not merely “their resource.” This mindset creates richer, more strategic discussions—such as a CFO suggesting a special project for a marketing leader to accelerate their readiness.

The HR leader and CEO should emphasize that talent reviews are candid, enterprise-wide discussions of strengths, gaps, and development needs for those identified as successors for Key Management Positions (KMPs). Leaders in current KMP roles should actively contribute to the development of successors outside their function by providing feedback, mentorship, project exposure, and participation in strategic meetings.

CEO Insight: This **collective ownership** ensures succession planning is not siloed and that development opportunities cross functional lines.

Identifying Key Management Positions (KMPs)

KPMs that should be included in a succession plan are assessed through multiple criteria, including:

- Specialized knowledge and experience
- Market scarcity
- Proximity to retirement (within 5 years)
- Operational and strategic importance (e.g., department heads)
- Single-incumbent or hard-to-fill roles
- Regulatory importance (compliance and CISO functions)

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CEO Insight: These criteria should align with the organization's strategy, reflecting current and forward-looking imperatives.

KMPs typically include the CEO, CFO, COO, General Counsel, Chief Technology Officer (CTO), Chief Human Resource Officer (CHRO), and other C-level roles such as Head of Retail Banking, Chief Commercial Banking Officer (CCBO) and Chief Compliance Officer.

CEO Insight: Regulators have been known to require that the Chief Information Security Officer (CISO) be included as a KMP, which makes sense given the importance and scarcity of talent in the market. The Bank Auditor should also be considered, given the audit function's direct accountability to the Audit Committee.

Candidate Readiness: A Tiered Framework and Path to a KMP

Candidates for KMP roles are classified into four readiness categories:

- **Ready Now** – Fully qualified and demonstrated capability to step in immediately
- **1–3 Years Out** – Near-ready, with specific development needs identified
- **3–5 Years Out** – Emerging talent, requiring significant experience growth
- **5+ Years Out** – High-potential, early-career talent

Each KMP must have an interim replacement (who may not be a potential successor) and planned candidates placed in readiness categories. Any KMP without an internal planned successor (Ready Now or a 1-3 year candidate) should be noted.

CEO Insight: It is unlikely all KMPs will have an internal candidate ready within the planned timeframe. This is not a failure of the process, but an expectation given the pace of industry change and the organization's own circumstances—such as unexpected departures, pace of candidate development and evolving strategic direction. Importantly, a KMP filled with an external candidate can bring new ideas and perspectives, especially given the importance of the digital banking channel, the emergence of new payment technologies and seemingly crypto currency (e.g., stablecoin) and AI.

External Search Triggers and Benchmarking

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An external search should be considered when:

- No “Ready Now” internal candidate exists
- 1–3-year candidates require more development than the role’s timeline allows
-

CEO Insight: External Benchmarking: Even when aiming to promote from within, it is best practice to benchmark against external talent to understand market capabilities. This comparison can help refine internal development plans and ensure competitive leadership quality. Again, you may instead find an excellent fit from the outside that bolsters your organization’s capability.

Candidate Readiness: Preparing Your Future Leaders

The Tools:

- **Leadership Assessments (see appendix A)** – completed by an internal HR professional or an independent consultant. Recommended for 1–3-year readiness candidates. Ready Now candidates should have a leadership profile in place at the time they are so designated.
- **Development Plan** – documents areas of focus identified in the assessment with specific actions to be taken by the candidate. Quarterly updates with manager, candidate and HR or consultant to ensure plans remain current and actionable.
- **Talent Profiles (see appendix B)** – a one-page document outlining a candidate’s career history, skills, aspirations, strengths, and areas of development and updated at least annually.

The **Leadership Assessment** is a forward-looking evaluation of leadership capability and potential, while the **Talent Profile** is a comprehensive record of past performance, skills, and aspirations. The **Development Plan** is a roadmap and a bridge or connection between the assessment and the profile. Their alignment ensures that succession planning decisions are **balanced, evidence-based, and actionable**, blending who the leader is today with who they can become tomorrow.

CEO Insight: A development plan best practice should identify and provide the right experiences for successors, even if it means taking small risks by assigning them to unfamiliar projects or responsibilities. Cross-functional cooperation is essential to provide this exposure.

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CEO Insight: All leadership assessments should begin with criteria defining “what good looks like” in terms of leadership competencies. These criteria can be customized by role or by level in the organization. HR should manage this process along with consideration of an outside consultant.

Governance and Oversight: A Board-Led Imperative

Each year, Human Resources coordinates a comprehensive review of the Management Succession Plan with the CEO and Executive Team, who play active roles in identifying talent, preparing candidates, and recommending changes in succession candidates and the policy and plan process. Recommended revisions are presented at a joint meeting of the Corporate Governance and Compensation Committees (or Executive Committee). These bodies meet jointly with the CEO to review candidate development plan progress, readiness tiers, and—importantly—an assessment of the plan’s strategic fit.

Final revisions are typically presented to the Board in the fall to align with the strategic planning and budgeting process.

CEO Insight: The Corporate Governance and Compensation Committees (or Executive Committee) do the “heavy lifting” on behalf of the board, allowing for an appropriate focus on a comprehensive succession planning process.

CEO Succession: A Strategic and Board-Led Process

CEO succession should start ideally five years before a planned transition. The process includes:

- Defining the future CEO success profile
- Maintaining emergency and planned options
- Benchmarking internal talent against external candidates
- Conducting competitive searches when needed
- Ensuring structured onboarding and cultural integration

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CEO Insight: All KMPs should have an interim successor, but for the CEO role, this is especially critical. The interim CEO can be a board member, although ideally is drawn from executive management who may or may not be a candidate for the role.

CEO Insight: Creating a CEO success profile, heavily shaped by the BOD, helps to create alignment with the BOD, as all CEO profiles begin with the question “what is needed to drive the success of our business in the future.” As mentioned above, the Compensation and Governance Committees acting jointly (or Executive Committee) can do this work on behalf of the board with the board’s input and final approval.

Embedding Succession in Strategic Culture

One CEO captures the cultural imperative:

“Succession planning is as important as capital planning. We want to not only know who can fill our leadership roles, but how we’re developing them to lead us into the future.”

Commitment to the process shows up in:

- Cross-functional mentorship and shadowing
- Stretch assignments beyond current scope
- Inclusion in board and community engagements

When succession planning becomes part of the organization’s **strategic rhythm**, it fuels both resilience and growth.

Conclusion: A Blueprint for Resilience

Succession planning is more than a contingency—it’s a development engine. With enterprise-minded talent reviews, clear readiness frameworks, cross-functional cooperation, and regular plan updates, community banks can ensure leadership continuity and strategic momentum for years to come.

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Alignment Note: How Appendix A and Appendix B Work Together

The **Leadership Assessment** and the **Talent Profile** are designed to work in tandem within the succession planning process.

- The Leadership Assessment evaluates an individual's **capabilities, leadership style, key developmental needs, and potential readiness** for greater responsibilities.
- The Talent Profile provides a **holistic record of career history, skills, and aspirations**, offering a factual foundation for succession discussions.

Together, these tools ensure that succession planning decisions are **balanced, evidence-based, and actionable**. The Leadership Assessment highlights who the leader can become, and what experiences are needed to get there, while the Talent Profile grounds that insight into who the leader is today, and what their record is so far. This alignment allows for more accurate readiness classifications and targeted development planning.

Appendix A: Leadership Assessment

A leadership assessment is a structured evaluation used to gauge an individual's leadership potential and capabilities. It helps organizations identify strengths and areas for development in current and aspiring leaders, guiding decisions related to hiring, promotion, and leadership development programs. These assessments can involve various tools like in-depth behavioral interviews, personality tests, 360 feedback processes, skill inventories, and scenario-based evaluations.

Assessment should be conducted by internal HR professional who has the skills and experience or a qualified outside consultant.

What it assesses:

Leadership Skills:

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- Evaluates abilities like decision-making, strategic thinking, communication, people leadership, and the ability to lead and navigate change.
- Examines personality characteristics relevant to leadership, such as emotional intelligence, integrity, resilience, and self-awareness.
- Assesses how an individual is likely to behave in leadership situations.
- Helps determine whether someone is suited for a leadership role and their readiness for advancement, as well as their ‘coachability’ and how they respond to feedback.

How it's used:

- To select candidates for leadership positions and identify high-potential individuals for promotion.
- To prepare for future leadership needs and ensure a smooth transition when leaders retire or leave.
- To create tailored training and development plans for leaders, focusing on areas where they need to improve.
- To understand the overall leadership effectiveness within an organization and identify areas for systemic improvement.

Types of assessments:

- These assess personality traits, cognitive abilities, and behavioral patterns.
- Collects feedback from multiple sources, including peers, subordinates, and superiors.
- Present hypothetical situations to evaluate how an individual would respond in a leadership role.
- Measure an individual's proficiency in specific leadership skills.

In essence, leadership assessments provide valuable insights into an individual's leadership capabilities, helping organizations make informed decisions about talent management and leadership development.

Appendix A: Example Leadership Assessment

Candidate Name: Sarah Jones

Current Role: SVP, Retail Banking

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Assessment Date: July 2025

Assessor: Internal HR professional or Independent Consultant

1. Leadership Skills

- **Decision-Making:** Strong—demonstrated quick, sound judgment in crisis situations.
- **Strategic Thinking:** Emerging—needs broader exposure to enterprise-level planning.
- **Communication:** Excellent—articulate and trusted by staff across levels.
- **People Leadership:** Proven ability to build cohesive branch teams; scored in top quartile on 360 feedback.

2. Personality Traits

- **Emotional Intelligence:** High—empathetic and perceptive.
- **Integrity:** Strong record of ethical decisions.
- **Resilience:** Handles setbacks constructively; maintains composure under pressure.

3. Behavioral Tendencies

- **Collaborative Style:** Works well cross-functionally, though hesitant to delegate strategic tasks.
- **Innovation Orientation:** Conservative; benefits from encouragement to take calculated risks.

4. Leadership Potential

- **Readiness:** 1–3 Years Out for COO or Head of Retail.
- **Key Development Needs:** Greater exposure to enterprise-wide budgeting; project leadership in digital transformation.

Overall Assessment:

Sarah has strong people leadership and communication skills. With targeted development, particularly in strategic and digital areas, she is well-positioned for executive advancement.

Appendix B: Talent Profile

A talent profile is a comprehensive document that summarizes an individual's skills, experience, and qualifications, often used by organizations to identify, assess, and develop their workforce. It

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provides a holistic view of an employee's capabilities and potential, aiding in career development, succession planning, and talent acquisition.

Talent profiles are aligned with a leadership assessment in that the development plan actions created from the assessment are incorporated into a candidate's profile, as is the development plan progress. Additionally, a profile is a concise document for review with the board and executive management.

Key Components of a Talent Profile:

- Work History: Past roles, responsibilities, and accomplishments.
- Education and Certifications: Degrees, diplomas, and professional certifications.
- Skills: Technical and soft skills relevant to current and potential roles.
- Career Interests and Goals: A person's aspirations and desired career paths within the organization.
- Performance Data: Past performance reviews, 360-degree feedback, and other performance indicators.
- Potential and Readiness: Assessments of future potential and readiness for new roles or responsibilities.
- Other Professional Qualifications: Professional affiliations, licenses, and any other relevant qualifications.

Uses of Talent Profiles:

- Internal Mobility: Matching employees with suitable opportunities based on their skills and career goals.
- Succession Planning: Identifying high-potential individuals for future leadership positions.
- Targeted Development: Providing tailored training and development opportunities based on individual needs and aspirations.
- Performance Management: Using performance data to assess strengths and areas for development.
- Recruitment: Identifying potential candidates for open positions based on specific skill sets.

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Benefits of Talent Profiles:

- Improved Decision-Making: More informed decisions about talent development, deployment, and recruitment.
- Increased Employee Engagement: By providing opportunities for growth and development, employees are more likely to feel valued and engaged.
- Enhanced Organizational Performance: By optimizing talent management practices, organizations can improve overall performance.
- Better Resource Allocation: Optimizing the allocation of resources for training and development.
- Increased Transparency: Making talent information more accessible and transparent within the organization.

Appendix B: Talent Profile Template

Candidate Name: _____

Current Role: _____

Date Completed: _____

Work History

- [List of roles, organizations, and key responsibilities]

Education & Certifications

- [Degrees, diplomas, certifications]

Skills

- **Technical Skills:** _____
- **Soft Skills:** _____

Career Interests & Goals

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- [Describe desired career path, leadership aspirations, functional interests]

Performance Data

- [Summaries of performance reviews, key metrics, or 360 feedback]

Potential & Readiness

- [Readiness tier: Ready Now, 1–3 Years, 3–5 Years, 5+ Years]
- [Strengths and development needs]

Other Professional Qualifications

- [Memberships, licenses, board participation]

Reviewer/Manager: _____

Next Review Date: _____