

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

By: Wayne F Patenaude, CFA

Former CEO of Cambridge Savings Bank, Cambridge, MA

## Why Succession Planning Matters in Community Banking

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, budget constraints, and limited geographic reach, making them particularly vulnerable to executive transitions.

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

This white paper shares best practices, although not all may be feasible for smaller community banks, at least initially. Succession planning can be effective by taking practical steps suited to your size, complexity, and resources and still build strong leadership pipelines. Together with the framework discussed in this white paper, [Appendix A](#) lists ten strategies that smaller institutions can implement now to improve leadership continuity.

**CEO Insight:** As organizations expand, sustaining a cohesive culture becomes increasingly complex. Robust succession planning is essential to uphold a thriving organizational culture over time, as it aligns hiring, talent development, advancement, and retention strategies with established values and practices.

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## Succession Planning in Community Banks Addresses Five Strategic Needs:

- **Leadership Continuity** – Ensures a seamless transition during retirements, departures, or unforeseen events.
- **Strategic Alignment** – Keeps executive management and the board 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.

- **Cost Management**— On the premise that it can cost up to 7X more to replace talent than it does to retain them.
- **Maintaining Community Engagement** – Ensures preservation of community knowledge and trust. **CEO Insight:** A key competitive advantage over larger money-center and regional banks is your local market knowledge and vested interests in the communities you serve.
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The consequences of neglecting this process are clear—loss of momentum, culture dilution, risk to operational stability, and potential loss of independence. Forward-looking community banks embed succession planning into their core strategic practices.

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## Interim and Planned Succession Path

Succession planning distinguishes between:

- **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. A dynamic approach is vital during major strategic shifts that need new skills and expertise. Showing current and future organizational charts with highlighted updates helps management and the board understand planned openings, timing, and talent requirements.

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## 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 through feedback, mentorship, exposure to projects, and inclusion in strategic meetings. Incentive plans should be designed to motivate this behavior.

**CEO Insight:** This **collective ownership** ensures succession planning is not siloed and that development opportunities cross functional lines and can motivate the best talent to stay with the organization.

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## Identifying Key Management Positions (KMPs)

KMPs 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)

KMPs typically include the CEO, CFO, COO, CLO/CTO/CIO, CHRO, and General Counsel, and depending on the organization, they can also include senior leaders like the Head of Retail Banking, Chief Compliance Officer, or Chief Information Security Officer (CISO).

**CEO Insight:** Criteria for identifying KMPs should align with your organization's strategy, balancing current priorities with forward-looking imperatives. In practice, this often means including roles beyond traditional executives, such as the CISO, given the scarcity and criticality of cybersecurity talent, and regulators have been known to require designating the CISO as a KMP. Additionally, the Bank Auditor, whose direct accountability to the Audit Committee makes the position essential to effective governance.

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## 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, as they are identified. Any KMP without an internal planned successor (Ready Now or a 1-3 year candidate) should be noted as likely filled with an external candidate.

**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 your organization's own circumstances—such as availability of internal talent, unexpected departures, pace of candidate development and evolving strategic direction. This is

why it is so important to have an interim replacement who can bridge the gap until an external candidate is in place.

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## External Search Triggers and Benchmarking

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

Even when aiming to promote from within, it is considered best practice to benchmark internal talent against talent existing in the market. This process provides valuable insight into the capabilities present in the broader market and highlights areas where internal development plans may need refinement.

**CEO Insight:** Your organization may discover candidates from outside the company who represent an excellent fit for a KMP, thereby enhancing the overall capability and diversity of thought within the leadership team—external candidates 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. Executive recruiters can serve as a reliable resource for conducting thorough external benchmarking analyses, offering informed perspectives on market trends and talent availability.

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## Candidate Readiness: Preparing Your Future Leaders

The Tools:

- **Leadership Assessment (see appendix B)** – An individual evaluation of an employee’s leadership capabilities, potential, and readiness. It typically combines qualitative and quantitative tools such as self-assessments, supervisor evaluations, 360° feedback, and behavioral interviews. Assessments should be completed by HR or an independent consultant and are recommended for 1–3-year readiness candidates. Ready Now candidates should have a leadership assessment in place at the time they are so designated.
- **9 Box Talent Matrix (see Appendix C)** – Completed by senior management for their respective areas, it provides a simple, visual framework for identifying where employees fall in terms of current **Performance** (how well they deliver results) and future **Potential**

(their capacity to take on broader or more complex responsibilities). It helps boards and CEOs see “**where the bench is strong or thin**” across functions, often using the Leadership Assessment results as inputs for the **Potential** axis.

- **Development Plan** – Documents areas of focus identified in the assessment with specific actions to be taken by the candidate. Quarterly updates are conducted with manager, candidate and HR (and consultant) to ensure plans remain current and actionable.
- **Talent Profiles (see appendix D)** – 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 an individual’s leadership capability and potential that informs the **9 Box** exercise, 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, 9 Box 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:** Effective succession planning starts with clear criteria that defines “What good looks like” in leadership competencies—tailored by role and level. From there, development plans should intentionally provide successors with the right experiences, even if that means taking calculated risks by assigning them to unfamiliar projects or responsibilities. Cross-functional cooperation is key to creating these growth opportunities, and HR should oversee the process, with consideration of support from an external consultant, to ensure assessments and development remain both rigorous and forward-looking.

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## Governance and Oversight: A Board-Led Imperative

Each year, HR coordinates a comprehensive review of the Management Succession Plan with the CEO and Executive Team, who play active roles in identifying talent, preparing candidates, discussing pressures on retention, and/or the ability to attract talent within functional disciplines, 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, compensation evaluation 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.

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## CEO Succession: A Strategic and Board-Led Process

CEO succession should start ideally five years (but not later than 3 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

**CEO Insight:** Every KMP should have an interim successor, but for the CEO role this planning is especially vital. While a board member can serve in the interim, it is preferable to designate an executive leader, whether or not they are a long-term candidate. To strengthen this process, the Board should establish a CEO success profile, shaped by the question, “What is needed to drive the success of our business in the future?” Again, the Compensation and Governance Committees, acting jointly, or the Executive Committee, can lead this effort on behalf of the Board, ensuring alignment and final board approval.

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## 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 your 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.

## **Appendix A: Practical Steps to Fit Scale and Resources**

Smaller banks may lack the scale of larger institutions, yet they possess agility and a personal approach. Success hinges on deliberate action—prioritizing pivotal areas, fostering experiential growth, and embedding succession as a central element of strategic planning.

### **Right-Sized Succession Planning: Ten effective Approaches for Sustainable Leadership**

#### **1. Initiate with Clarity and Purpose**

The CEO should designate a senior leader(s), commonly the CHRO or jointly with the COO, to oversee the succession planning process and ensure that senior management is fully engaged to deliver consistent, unbiased talent development and evaluation. Incentive plans should be designed to motivate this behavior.

#### **2. Prioritize Key Roles**

Identify critical positions whose absence would significantly affect operations, compliance, or strategic objectives. Develop the succession plan with an initial emphasis on these core management roles—think not just customary executive management roles but other roles such as the CTO or CISO(or a position with these responsibilities).

#### **3. Schedule Regular Talent Reviews**

Hold annual or semiannual reviews among executives and board members to assess leadership readiness, identify developmental needs, and address emerging talent gaps. Talent profiles and a matrix showing KMPs, interim successors and candidates identified in readiness categories are appropriate tools for this exercise.

#### **4. Utilize Board Expertise and Banking Associations**

Engage board members as mentors and advisors. Take advantage of state and national banking associations to facilitate learning and development opportunities through workshops and seminars.

#### **5. Advance Leadership Through Experiential Learning**

Offer cross-training, temporary projects, shadowing, or stretch assignments to KMP candidates. Experiential development is both practical and impactful.

#### **6. Selectively Engage External Advisors**

Periodically seek input from external peer CEO's like [The NBS Group CEO Exchange](#) consultants or executive recruiters, to evaluate succession processes, validate readiness assessments, and provide unbiased feedback.

#### **7. Implement a Succession Dashboard**

Employ Leadership Assessments, the 9 Box, Development Plans, Talent Profile to monitor successor readiness and development initiatives. Note: Leadership Assessments can be costly, especially when done by an outside consultant (industrial psychologist), although there are less costly alternatives that involve a combination of internal HR capabilities, boutique consulting, executive recruiters and/or resources provided by state and national banking associations.

#### **8. Integrate Succession into Strategic Discussions**

Include succession updates in regular management and board meetings, positioning it as a forward-thinking strategic priority rather than solely a regulatory obligation.

#### **9. Align Succession Planning with Organizational Strategy**

Ensure leadership development priorities adapt alongside the bank's strategic direction, targeting skills sets that will drive success, such as in digital acumen, cybersecurity, AI and data analytics, as examples.

#### **10. Commence CEO Succession Planning Well in Advance**

Begin planning for CEO succession at least three years prior to any anticipated transition, identifying both interim and long-term successors to safeguard continuity and preparedness. CEOs should be forthright with their boards regarding their planned departure so the transition process can be managed most effectively.

## Alignment Note: How Appendix B, C and D Work Together

The **Leadership Assessment**, **9 Box**, and **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 **9 Box Matrix** is a *comparative talent management tool* that plots employees on two dimensions—**Performance** (what they deliver) and **Potential** (their ability to grow into bigger or more complex roles). Gives an organizational picture of the gaps and strengths in skills and leadership.
- 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, the assessment informs the 9 Box, 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 B: 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:**

- 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 B: Example Leadership Assessment**

**Candidate Name:** Sarah Jones

**Current Role:** SVP, Retail Banking

**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:**

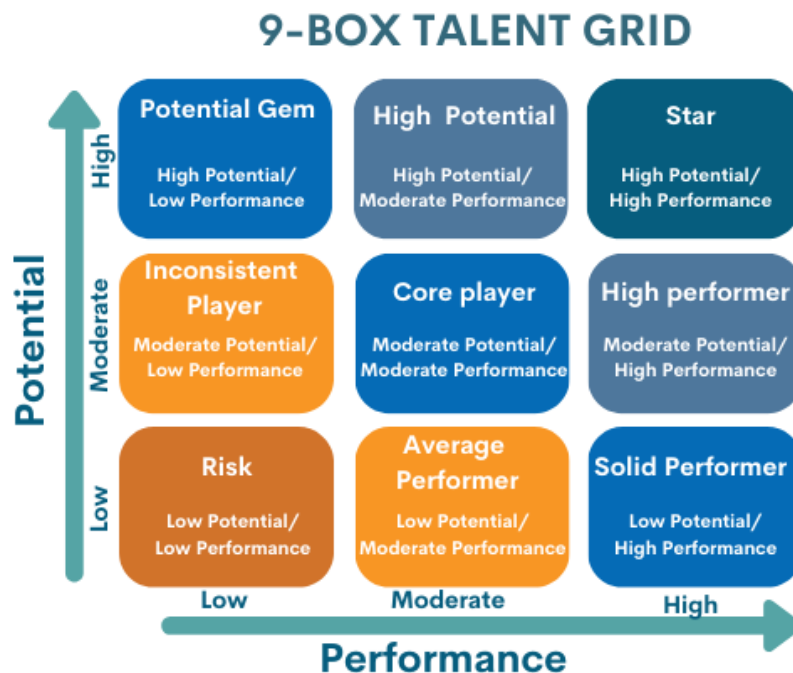
Sarah has strong people leadership and communication skills. With targeted development, particularly in strategic and digital areas, she is well-positioned for executive advancement.

## Appendix C: Understanding the 9-Box Talent Matrix

The **9-Box Talent Matrix** is one of the most widely used tools for evaluating leadership potential and performance.

By plotting individuals into one of nine boxes, leaders can more easily align development actions, succession planning, and resource investment with organizational priorities.

### The 9-Box Framework



#### Dimensions Explained:

- **Performance (Vertical Axis):** Measures how consistently the employee meets or exceeds goals, demonstrates core values, and delivers results.
- **Potential (Horizontal Axis):** Evaluates capability for greater responsibility, learning agility, leadership behaviors, and ability to adapt to change.

Each “box” suggests a different development or management approach.

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### How the 9-Box Supports Succession Planning

1. **Identifies Leadership Bench Strength** – Clarifies who is ready now, who could be ready soon, and where gaps exist.

2. **Prioritizes Development Investment** – Helps direct resources toward high-potential employees.
  3. **Facilitates Honest Conversations** – Promotes shared understanding among executives of talent readiness and gaps across the organization.
  4. **Links to the Readiness Framework** – Complements your “Ready Now / 1-3 Years / 3-5 Years / 5+ Years” readiness model.
  5. **Integrates with Leadership Assessments and Talent Profiles** – The matrix helps visualize assessment results and profiles collectively during annual reviews.
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## Example: Using the 9-Box in a Community Bank

During an annual talent review, a community bank’s executive team evaluates 12 senior managers using the 9-Box. Each manager’s **Leadership Assessment** (Appendix A) and **Talent Profile** (Appendix B) inform their placement.

- **Example Placement:**
  - **Maria Lopez**, SVP of Commercial Lending, is rated *High Performance / High Potential*. She consistently exceeds growth targets and demonstrates strategic thinking and people leadership. She is identified as a **High-Potential Leader** (top-right box) and included in the **1–3 Years Ready** pool for the **Chief Commercial Banking Officer** role.
  - **David Kim**, VP of Operations, shows *Moderate Performance / High Potential*. While strong in process improvement, he needs broader exposure to customer-facing activities. He is placed as an **Emerging Leader**, with a development plan that includes a rotational project in Retail Banking.
  - **Sarah Jones**, SVP of Retail Banking (from your Appendix A example), might be positioned in *High Performance / Moderate Potential*—a **Key Performer**—critical to stability and culture, though less likely to move into a C-suite role.

At year-end, the matrix helps the executive team visualize its leadership bench, determine where to focus development, and communicate a clear succession strategy to the board.

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## CEO Insight

The 9-Box helps you move from subjective impressions to objective, evidence-based talent conversations. It’s not about labeling people—it’s about planning how to grow them.

## Appendix D: 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 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.

### **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 D: 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

- [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:** \_\_\_\_\_