



From Compliance to Leadership in Small Financial Institutions: Mechanisms Shaping Internal Promotion and Succession Pathways

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ABSTRACT

This literature review examines internal promotion and succession dynamics in small financial institutions, with emphasis on how employees in compliance and operations roles may (or may not) progress into senior leadership. The review synthesizes research from corporate governance, business ethics, and organizational development to identify mechanisms proposed in the literature as shaping advancement outcomes in flatter, resource-constrained organizations. The literature suggests that compliance professionals can accumulate governance-relevant knowledge (e.g., risk, controls, regulatory expectations), yet advancement may be constrained by: (a) cultural framing of compliance as a support function rather than a strategic contributor; (b) reliance on informal mentorship and sponsorship networks; (c) limited formal succession planning and developmental infrastructure; (d) structural constraints created by compressed hierarchies; and (e) potential demographic inequities, the prevalence of which in small institutions specifically remains an open empirical question. The review also highlights evidence gaps, including limited studies at small institutions, a lack of longitudinal career-path research, and limited evaluation of specific governance interventions (e.g., formal succession committees, rotational development programs). The paper concludes with governance-oriented implications and a research agenda for future empirical work.

Keywords: Corporate Governance, Internal Promotion, Talent Pipeline, Community Banking, Succession Planning, Compliance Roles, Leadership Development.

Original Research Article

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Introduction

The governance of internal talent, how organizations identify, develop, and advance employees into positions of increasing responsibility, is a core concern of corporate governance and strategic human resource management. In large financial institutions, this question has generated a rich scholarly literature encompassing succession planning frameworks, board oversight of executive pipelines, and leadership competency models (Rothwell, 2010; Fulmer & Conger, 2004). In smaller, community-based depository institutions, as defined in this review primarily as community banks and credit unions, comparable research is comparatively sparse

despite the sector's material role in community economic development and its distinctive governance characteristics. Where this paper draws on broader financial-services evidence (e.g., from larger banks or adjacent financial organizations), those sources are used to inform mechanisms that may plausibly apply to smaller institutions, rather than to claim direct generalizability.

For clarity, this review uses "small financial institutions" to refer to U.S. community banks and federally insured credit unions with relatively lean management structures (i.e., limited organizational layers and specialized functions), recognizing that "small" can be operationalized by assets,

headcount, or charter category depending on the data source. “Senior leadership” denotes roles with enterprise-wide decision-making authority (e.g., the executive management team and C-suite) and, where relevant, board-level governance responsibilities. These definitions are used to scope the governance mechanisms discussed, not to impose a single asset-based cutoff across all cited studies.

Small financial institutions operate under extensive federal and state regulatory requirements while typically maintaining lean staffing models and flatter organizational hierarchies. This combination can broaden roles and elevate the organizational importance of compliance knowledge, particularly in post-2010 regulatory contexts. Practitioner and supervisory discussions frequently suggest that employees in compliance and operations roles may become visible, trusted contributors because their work touches enterprise controls, documentation, and regulator-facing processes; however, the published academic evidence base does not yet provide strong, longitudinal tracking of these roles as consistent “entry points” to senior leadership across community banks and credit unions. Accordingly, this review treats compliance-to-leadership progression primarily as a proposed mechanism and research question rather than an established sector-wide pathway.

The significance of this question has increased since the passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act (2010) and subsequent supervisory and Consumer Financial Protection Bureau (CFPB) rulemaking, which many banking sources associate with increased compliance expectations, documentation demands, and supervisory complexity across the industry (Peirce et al., 2014, working paper). It should also be noted that several provisions of the Dodd-Frank Act were subsequently modified by the Economic Growth, Regulatory Relief, and Consumer Protection Act (2018), which relaxed certain requirements for smaller depository institutions; a full analysis of those amendments is beyond the scope of this review, but readers should be aware that the regulatory burden referenced here reflects the post-2010 landscape prior to those modifications. For smaller institutions operating with lean staffing models, these conditions can elevate the strategic importance of compliance expertise while also constraining time and resources available for talent development. This tension has direct implications for board-level governance and institutional resilience.

This literature review pursues three objectives: (a) to synthesize existing research on the mechanisms shaping internal promotion pathways in small financial institutions, with particular attention to the compliance function; (b) to situate these mechanisms within the corporate governance, business ethics, and organizational development literatures most pertinent to the Business discipline; and (c) to identify substantive gaps in the evidence base and propose directions for future empirical inquiry. The review covers peer-reviewed

research, policy analyses, and institutional reports published between 1990 and 2024, with particular attention to post-2010 literature reflecting the contemporary regulatory environment.

Materials and Methods

This literature review used a structured search and synthesis approach informed by guidance for evidence-informed reviews in management and business research (Tranfield et al., 2003; Snyder, 2019). The review is presented as a structured narrative synthesis: studies were identified using predefined search terms, screened for relevance to governance and internal advancement in smaller financial institutions, and thematically coded. The database searches returned approximately 430 records in total; after removing duplicates, approximately 310 unique records were screened by title and abstract, of which 87 were assessed for full-text eligibility. Following application of the inclusion and exclusion criteria described below, 34 sources were retained for thematic synthesis. To support transparency and reproducibility, this manuscript reports the core protocol elements used for the search and synthesis (databases searched, key terms, inclusion/exclusion criteria, and synthesis approach) in the sections that follow.

Search Strategy

Relevant literature was identified through database searches of JSTOR, EBSCO Business Source Complete, Web of Science, Google Scholar, and the Social Science Research Network (SSRN). Search terms included, individually and in combination: “internal promotion,” “talent pipeline,” “succession planning,” “community bank,” “credit union,” “small financial institution,” “compliance officer career,” “corporate governance leadership,” “leadership development financial services,” and “organizational promotion barriers.” Reference lists of identified sources were reviewed to locate additional studies not returned by database searches. Regulatory and policy documents from the Federal Deposit Insurance Corporation (FDIC) and the National Credit Union Administration (NCUA) were included where directly relevant.

To strengthen transparency and reproducibility, this review reports the search sources, core constructs, and screening logic in the main text. Specifically, it documents the databases consulted, representative search terms, the inclusion and exclusion criteria applied, and the thematic coding and synthesis approach used to develop the findings.

Inclusion and Exclusion Criteria

Studies were included if they: (a) addressed career development, promotion structures, succession planning, or leadership pipelines in financial services organizations; (b) were published in peer-reviewed journals or in institutional/policy reports with clearly identified authorship and publication provenance; (c) were written in English; and

(d) were published between 1990 and 2024. Studies focused exclusively on very large financial institutions (e.g., top-tier banks by assets) with limited relevance to smaller institutions' governance structures were excluded. Studies addressing financial services career development only in non-English-speaking national contexts were excluded unless they provided explicit cross-national implications for U.S. community banks or credit unions. In cases where transferability was ambiguous, studies were retained if they contributed a mechanism-level explanation (e.g., informal sponsorship, compressed hierarchies) that could be analytically mapped to small-institution settings.

Synthesis Approach

Included studies were coded thematically along five dimensions: (a) theoretical framework employed; (b) type and size of financial institution studied; (c) key findings regarding promotion outcomes or barriers; (d) methodological design; and (e) identified limitations. All 34 retained sources were coded in full. Thematic synthesis followed the iterative approach described by Thomas and Harden (2008), with themes refined through repeated reading and discussion until analytical saturation was reached. Where studies produced conflicting findings, these are noted and possible explanatory factors discussed.

To maintain auditability within a narrative synthesis format, this review summarizes study characteristics at the level necessary to assess transferability (e.g., institution type, sample and method, focal construct, and reported limitations) and notes where findings conflict or rely on evidence from adjacent sectors.

Thematic Synthesis and Discussion

The following sections present a thematic synthesis organized by five domains identified during coding. Section 3.1 establishes the theoretical frameworks that underpin the analysis. Sections 3.2–3.5 then address the four mechanisms shaping advancement outcomes identified in the abstract: (3.2) cultural framing of compliance as a potential leadership pathway; (3.3) informal mentorship and sponsorship dynamics; (3.4) succession planning practices and developmental infrastructure; and (3.5) structural, hierarchical, and demographic barriers to promotion. Each section integrates findings with a discussion of implications for corporate governance, business ethics, and organizational practice. Throughout, findings are treated as falling into one of two categories: (A) established findings supported by consistent cross-study evidence and directly relevant to small financial institution settings, and (B) research hypotheses, plausible mechanisms inferred from adjacent literatures or weakly supported by indirect evidence, which future institution-type-specific research should test. This distinction is noted where it applies and is not repeated at every step.

Theoretical Frameworks Applied in the Literature

The reviewed literature draws on several converging theoretical traditions. Human capital theory (Becker, 1964) frames career progression as a return on accumulated investment in firm-specific and general skills. In small financial institutions, formal training budgets are constrained, making experiential, on-the-job learning the dominant mode of human capital accumulation. This has direct governance implications: boards that do not actively manage developmental opportunities implicitly accept a human capital deficit that weakens institutional resilience and succession depth (Rothwell, 2010).

Agency theory (Jensen & Meckling, 1976), foundational to corporate governance, provides a second framework. Principal–agent relationships in small institutions are distinctive: ownership and management frequently overlap, board members are often drawn from local business and civic communities, and formal monitoring mechanisms differ qualitatively from those operative in publicly listed entities. These features create governance conditions in which promotion and succession decisions may be influenced by relational familiarity and informal trust in addition to documented performance and competency signals. Consistent with this emphasis on governance mechanisms, Adams and Ferreira (2009) demonstrated that board composition can be consequential for monitoring and governance outcomes, underscoring why board structure and decision processes matter when overseeing leadership pipelines. It should be noted, however, that Adams and Ferreira (2009) studied publicly listed for-profit corporations; their findings on board composition and monitoring are informative at a mechanism level but do not transfer directly to credit unions, where boards are composed of volunteer member-representatives operating under a cooperative governance model with distinct accountability relationships and no shareholder-value mandate.

Stakeholder theory (Freeman, 1984) is particularly relevant to the business ethics dimensions of promotion structures. Small financial institutions are embedded in dense stakeholder networks encompassing employees, customers, communities, and regulators. Promotion practices that systematically exclude qualified employees on demographic grounds to the extent such exclusion occurs carry ethical costs recognized within the stakeholder framework and can also generate reputational, employee retention, and supervisory relationship risks. Whether such exclusion is in fact occurring at the sector level is an empirical question; this review treats it as a plausible governance risk warranting institutional attention and further research. Carroll's (1991) pyramid of corporate social responsibility, which encompasses economic, legal, ethical, and philanthropic obligations, identifies talent development practices as an ethical governance responsibility.

Finally, institutional theory (DiMaggio & Powell, 1983) illuminates how regulatory and professional field pressures shape organizational practices through coercive, mimetic, and normative isomorphism. In the post-2010 period, multiple sources describe increased supervisory expectations and expanded regulatory requirements as creating coercive isomorphic pressure on banking organizations, which can influence how compliance functions are staffed, formalized, and positioned. The downstream implications for internal promotion pathways in small institutions remain incompletely mapped in the reviewed literature and warrant further empirical attention.

The Compliance Function as a Governance and Leadership Pathway

The compliance function in small financial institutions underwent a series of discrete, legislatively driven expansions. The Bank Secrecy Act and its 1990s–2000s amendments progressively formalized anti-money-laundering and suspicious activity reporting requirements. The USA PATRIOT Act (2001) intensified customer due diligence obligations. The Sarbanes-Oxley Act (2002), while directed primarily at public companies, raised board-level governance expectations that permeated supervisory culture more broadly. Most significantly for community banks and credit unions, the Dodd-Frank Wall Street Reform and Consumer Protection Act (2010) and subsequent CFPB rulemaking expanded consumer protection compliance requirements, stress-testing expectations for eligible institutions, and examiner attention to governance documentation. Each of these milestones shifted compliance from a largely administrative function toward an enterprise risk and control capability, requiring more formal policies, monitoring routines, documentation practices, and management reporting (Cyree, 2016; Peirce et al., 2014, working paper). In small institutions, these demands can accelerate role formalization even when overall headcount remains limited.

Krawiec (2003) argued that compliance functions generate what she termed organizational memory: a cumulative knowledge base that positions compliance staff as repositories of governance-relevant institutional information. Cyree (2016) similarly documented measurable costs and organizational implications of regulatory compliance in banking, underscoring why compliance leadership can be strategically consequential when incorporated into senior management deliberations.

Despite this strategic value, translating compliance expertise into promotion outcomes appears uneven across institutions and settings. Across governance and organizational behavior research, support functions are sometimes culturally framed as cost centers rather than strategic contributors, which can disadvantage employees whose experience is concentrated in compliance, audit, or operations when senior leadership roles are filled. This framing has practical consequences: when

compliance is positioned outside the firm's core value-creation narrative, the career paths of its practitioners become structurally marginal relative to those in revenue-generating functions, regardless of the actual governance importance of their work. In small institutions where role specialization is limited and senior openings are infrequent, such perceptions may be amplified if boards or executives implicitly equate "leadership readiness" with profit-center experience (e.g., commercial lending or business-line management). Governance scholarship on succession provides relevant context: Zajac and Westphal (1996) documented that boards with greater power over CEO selection tend to choose successors who are demographically and experientially similar to themselves, a pattern that, in institutions whose boards are populated by former lending or business-line executives, would systematically disadvantage compliance-background candidates. It should be noted that Zajac and Westphal (1996) studied large for-profit corporations; the extent to which this homophily dynamic operates similarly in community banks versus credit unions remains an open empirical question. In credit unions, volunteer boards drawn from the membership may reflect a different experiential profile than the lending-executive boards more common in community banks, which could alter the directionality of successor-selection bias. The "revenue-background preference" dynamic is treated as a Category B hypothesis for community banks, as noted above, and its applicability to credit unions requires separate investigation. The governance implication is clear, regardless of exact prevalence: institutions without competency-based succession criteria risk narrowing their leadership pools precisely where regulatory and risk-management knowledge is most consequential.

Contrasting findings from the credit union sector suggest that the institutional governance model may shape how leadership backgrounds are valued. McKillop and Wilson (2015) noted distinctive cooperative priorities and governance features that can elevate member-service and risk-management perspectives in senior roles relative to purely profit-center tracks. This distinction is governance-relevant: credit unions are member-owned cooperatives accountable to a volunteer elected board, regulated by the National Credit Union Administration rather than bank regulators, and not subject to the shareholder-value pressures that shape executive selection criteria in for-profit community banks. As a result, mechanisms such as "profit-center career track preference" which may operate through board composition in community banks may be structurally attenuated or operate differently in credit unions, where leadership credibility can derive as much from cooperative mission alignment and member-service expertise as from revenue-generation experience. Comparative, charter-type-disaggregated studies of executive career antecedents remain a priority gap for future research.

Mentorship, Sponsorship, and Informal Network Dynamics

Corporate governance research has increasingly recognized informal development relationships as determinants of executive pipeline composition. Hewlett et al. (2010) drew a distinction between mentorship, defined as developmental guidance, and sponsorship, defined as active advocacy for a protégé's advancement; peer-reviewed scholarship corroborates this distinction and its organizational implications (Ibarra et al., 2010). In this review, Hewlett et al. (2010) is used primarily for conceptual clarification, supplemented by Ibarra et al. (2010) for empirical grounding. In large financial services firms, formal mentoring programs have been associated with improved promotion rates and greater demographic diversity in senior management (Dreher & Cox, 1996; Blake-Beard et al., 2011). In small institutions, both functions are predominantly informal.

In small institutions, talent identification and advancement decisions are often shaped by informal observation, day-to-day interaction, and reputation within tightly connected workgroups rather than by standardized assessment processes. In such settings, sponsorship can become especially influential because it links perceived potential to concrete opportunities (Hewlett et al., 2010). The governance implications are significant: when promotion decisions are driven primarily by informal relational networks, the composition and diversity of those networks become a board-level governance concern (McPherson et al., 2001). A related but underappreciated risk is what Castilla and Benard (2010) termed the "paradox of meritocracy": in experimental research with over 400 managers, they found that organizations that explicitly espoused merit-based evaluation were actually more likely to produce biased outcomes favoring demographically dominant candidates, because managers in those settings became less vigilant about monitoring their own judgment. In small institutions that lack structured evaluation processes, this paradox is compounded by the reliance on informal criteria, which not only fails to prevent bias but can also systematically reproduce the demographic and experiential profile of existing leadership.

The sponsorship function in small institutions is heavily concentrated among senior executives and board members, given compressed hierarchies. Because sponsors are often among the few decision-makers with the authority to assign stretch assignments and endorse successors, sponsorship can serve as a gatekeeping mechanism for advancement (Hewlett et al., 2010). The distinction between mentorship and sponsorship is consequential here: Ibarra et al. (2010) found that women in organizations received mentoring at comparable rates to men but were significantly less likely to have sponsors who actively advocated for their advancement, a gap that translated directly into lower promotion rates. This evidence suggests that the absence of sponsorship, not merely

the absence of mentorship, is the proximate barrier to advancement for underrepresented candidates in informal-network-dominated environments. Related governance scholarship suggests that informal networks and homophily effects (McPherson et al., 2001) can shape who is identified and advocated for in advancement decisions. In community-embedded organizations, developmental relationships may extend beyond the workplace into civic and local networks, deepening relational continuity but also reducing transparency and standardization in promotion decisions. These dynamics reinforce the importance of governance for clear criteria, documented development plans, and board-level oversight of succession processes.

Succession Planning and Board Oversight

Board-level oversight of executive succession is a foundational element of sound corporate governance (Cannella & Lubatkin, 1993). For small financial institutions, succession planning is often treated as urgent in industry and supervisory discussions, particularly given aging leadership demographics and the limited depth created by compressed hierarchies. For example, the American Bankers Association (2015) has highlighted CEO succession as a recurring concern in the community banking sector, and the National Credit Union Administration's (2021) annual report provides contextual information on workforce and leadership trends in credit unions. These sources are institutional and practitioner-facing rather than peer-reviewed; they are cited here as sector-contextual evidence and should be interpreted with the understanding that they lack the methodological rigor of empirical studies. The governance stakes of inadequate succession planning in regulated entities extend to the continuity of regulatory compliance, the preservation of supervisory relationships, and the cultural transmission across leadership transitions.

Despite the attention succession planning receives in practitioner and supervisory discussions, available evidence—predominantly practitioner-facing sources rather than peer-reviewed studies—suggests planning is often concentrated at the CEO level and less formalized for mid-level compliance and operations roles (American Bankers Association, 2015; National Credit Union Administration, 2021; Rothwell, 2010). Institution-type-specific peer-reviewed confirmation of this pattern is lacking; it is treated as a Category B hypothesis pending further empirical work. What the evidence directly supports is the structural mechanism: in compressed hierarchies, limited vacancy frequency and thin HR infrastructure constrain systematic assessment, development planning, and bench-building below the top executive tier (Lazear & Rosen, 1981; Bidwell & Keller, 2014), a Category A finding grounded in organizational theory. The governance implication is concrete: institutions without documented succession pipelines for mid-level roles implicitly wager institutional continuity on the assumption that sufficient internal

candidates will be ready when a vacancy occurs, an assumption that compressed hierarchies render structurally unreliable.

Baysinger and Hoskisson (1990) provided a theoretical basis for preferring internal successors in contexts where firm-specific knowledge is strategically critical, a condition often argued to apply in regulated financial institutions with relationship-based business models. Related empirical work suggests that succession events can influence employee outcomes and retention. For example, Ballinger et al. (2010) examined leader–member exchange and turnover patterns before and after succession events, highlighting that relationship dynamics around leadership transitions are associated with turnover outcomes. Whether formalized compliance-to-leadership pathways improve succession outcomes remains untested, a gap of both theoretical and practical significance, and a priority for future empirical work.

Structural and Demographic Barriers to Internal Promotion

The compressed hierarchy of small financial institutions creates a distinctive governance environment for talent development. With fewer organizational layers than large institutions, advancement opportunities arise infrequently, and path dependency is high: a qualified candidate must be both ready and available when a position opens (Lazear & Rosen, 1981). This timing dependency is not merely inconvenient; it means that readiness is necessary but not sufficient for advancement, and that employees who are ready but face no vacancy may exit rather than wait, taking institutional knowledge with them. Bidwell and Keller (2014) demonstrated that organizations with flatter hierarchies may exhibit higher rates of external hiring for senior positions, thereby reducing internal promotion rates despite the theoretical advantages of institutional knowledge. The governance implication is that compressed-hierarchy institutions cannot rely on vertical promotion alone as a development signal; creating visible lateral growth pathways through project leadership, acting roles, or cross-functional assignments is a structurally necessary complement. Within this governance context, board composition and decision-making processes matter because they shape monitoring, information flow, and leaders' evaluation of internal versus external candidates (Adams & Ferreira, 2009), a mechanism that, as noted above, applies most directly to community banks and should be interpreted with caution when applied to credit unions, given their distinct cooperative board structures.

Gender disparities in senior leadership are documented across financial services broadly, but institution-type-specific evidence for community banks and credit unions is limited; sector-level prevalence cannot be confirmed from available sources. The mechanisms that could sustain such disparities in small institutions treated here as Category B hypotheses are

nevertheless worth mapping, because the structural conditions that amplify them elsewhere (informal networks, concentrated sponsorship, merit-framing) are features this review has already identified as established characteristics of small-institution governance. Multiple sources document the continued underrepresentation of women in senior executive and board roles across financial services generally (Dreher & Cox, 1996; Blake-Beard et al., 2011); whether and to what degree this pattern holds in community banks and credit unions specifically remains an empirical question that the current literature does not resolve. The mechanisms that could drive such underrepresentation, if present, are potentially relevant to small institutions: reliance on informal sponsorship networks (rather than structured criteria), homophily in sponsor selection (McPherson et al., 2001), and the concentration of sponsorship power among a small number of senior executives all compound in ways that could make a demographic skew self-reinforcing. The meritocracy paradox identified by Castilla and Benard (2010) adds a further layer of complexity: organizations that explicitly espouse merit-based evaluation may be more likely to produce biased outcomes that favor demographically dominant candidates, because managers in those settings become less vigilant in monitoring their own judgment. This mechanism, derived from experimental research with over 400 managers in for-profit organizations, is treated here as a plausible structural risk rather than a confirmed feature of small-institution practice. The Category B status of these mechanisms does not diminish their governance relevance: where the structural conditions for bias exist, anticipatory monitoring is appropriate even before prevalence is confirmed. Sector-facing reports and supervisory-adjacent publications also continue to emphasize diversity and inclusion as a governance topic for community institutions (Federal Deposit Insurance Corporation, 2022). From a stakeholder theory perspective, persistent disparities raise ethical and reputational risks and can undermine the credibility of merit-based advancement systems.

Research on racial disparities in leadership within community banks and credit unions is more limited than in large-bank settings, and institution-type-specific peer-reviewed evidence is largely absent from the reviewed literature. Sector-facing analyses such as the National Community Reinvestment Coalition report (NCRC, 2021) raise concerns about the underrepresentation of racial minorities in senior roles relative to their representation in community demographics; however, this source is an advocacy-oriented report rather than a peer-reviewed study, and its findings cannot be treated as prevalence estimates for the full population of community banks or credit unions. In this review, such sources are interpreted with caution: they motivate institution-type-specific empirical research and signal plausible governance and stakeholder risks (representation, legitimacy, and community trust), but they do not establish that racial disparities in senior leadership constitute a documented,

sector-wide pattern in small financial institutions. If such disparities exist in these settings, a question that the current literature leaves unresolved, they will carry the same mechanism-level implications for informal network dynamics and board oversight discussed in the gender context above.

In the post-2010 period, multiple sources associate expanded supervisory expectations with increased volumes and complexity of compliance work for many smaller institutions. This can unintentionally reduce the time available for cross-functional development, rotation opportunities, and leadership preparation. The organizational learning literature provides relevant context: Ortega (2001) demonstrated that job rotation serves as a learning mechanism, allowing firms to discover the breadth of employees' capabilities across roles, capabilities that remain hidden under fixed-assignment specialization. In small institutions where compliance staff is held in place by regulatory workload demands, this discovery mechanism is effectively disabled: the institution never learns whether its compliance professionals could perform well in broader leadership roles, and those professionals never accumulate the enterprise-wide exposure that might qualify them for such roles. In governance terms, this creates a capacity constraint: institutions may elevate the importance of compliance expertise while simultaneously limiting opportunities for compliance staff to gain profit-center or enterprise-wide experience that may be valued in executive selection. The reviewed literature offers limited direct empirical evidence on how boards mitigate this constraint (e.g., through succession committees, documented development plans, or rotational assignments), indicating an important opportunity for future research.

Limitations

This review is presented as a structured narrative synthesis integrating themes from corporate governance, ethics, and organizational development scholarship as they relate to small financial institutions. The synthesis emphasizes mechanisms and governance implications rather than exhaustive enumeration of every potentially relevant source. Several evidence limitations constrain inference. First, much of the available literature is cross-sectional, varies in its institutional focus (community banks vs. credit unions vs. broader financial services), and offers limited longitudinal tracking of career pathways from compliance/operations to senior leadership. Second, empirical studies that isolate small-institution governance practices (e.g., board-level succession oversight below the CEO) remain scarce, which limits institution-type-specific conclusions. Third, this review draws selectively on evidence from larger banks and adjacent financial services to articulate plausible mechanisms; such sources inform transferability but do not establish prevalence rates or causal effects in community banks and credit unions. Fourth, although the review acknowledges structural differences between community banks and credit unions at several points, it does not systematically disaggregate

findings by institution type throughout the synthesis. Community banks are for-profit, shareholder- or privately owned entities regulated by federal and state bank regulators, while credit unions are member-owned cooperatives governed by volunteer boards under NCUA oversight. These structural differences plausibly affect which promotion mechanisms operate and how strongly; readers should treat synthesized claims as applying most confidently to the community bank context unless credit union-specific evidence is explicitly cited. Accordingly, the review supports mechanism-oriented conclusions and testable propositions, but it does not support precise sector-wide prevalence estimates or definitive causal claims about which interventions improve promotion outcomes. Future work would benefit from institution-type-specific studies, longitudinal designs that track career trajectories, and evaluations of governance interventions using comparable outcome measures.

Conclusion

This literature review has synthesized three decades of research on internal promotion structures in small financial institutions, with particular attention to the pathway from compliance and administrative roles to senior leadership. The evidence base converges on four principal conclusions. First, compliance professionals in small institutions can accumulate organizational knowledge of genuine governance value, yet cultural perceptions, informal network dynamics, and the absence of formalized development infrastructure can prevent this value from being consistently converted into promotion outcomes. Second, mentorship and sponsorship in small institutions are shaped by geographic embeddedness and governance informality, which can amplify homophily and reduce the transparency and rigor of advancement decisions. Third, succession planning practices described in practitioner, supervisory-adjacent, and limited empirical sources appear highly variable and are often characterized as more informal below the CEO level than corporate governance best-practice frameworks would recommend. Fourth, structural and regulatory barriers create compounding constraints on talent pipeline development; demographic barriers represent a plausible additional risk whose prevalence in small financial institutions specifically has not been empirically established and should be treated as a research hypothesis rather than a confirmed finding.

These findings have implications for governance practice consistent with the mechanisms synthesized here. Boards of small financial institutions may consider: (a) establishing succession or talent oversight committees with explicit mandates that include compliance and operations roles; (b) adopting structured, competency-based criteria for succession candidate identification to reduce reliance on informal sponsorship networks; (c) investing in rotational assignments and cross-functional development experiences for compliance and operations staff; and (d) monitoring demographic

representation in advancement decisions as a precautionary governance measure particularly given the absence of institution-type-specific evidence to establish a baseline from which disparities, if present, can be identified and addressed. Because intervention effectiveness has not been robustly evaluated in small-institution settings, these steps are presented as governance-aligned options and testable propositions rather than as definitive best practices. At the sector level, professional associations and regulators may be well-positioned to support peer-learning resources and guidance to improve the consistency and transparency of succession practices.

The reviewed literature contains four significant gaps that constrain both scholarly understanding and practitioner action. First, longitudinal panel studies that track individual career trajectories over extended periods within small institutions are lacking, limiting causal inference. Second, board-level governance practices as determinants of talent pipeline composition in small institutions have not been empirically studied. Third, the relationship between institutional ethical culture and demographic equity in promotion outcomes remains theorized but not operationalized. Fourth, applied research evaluating the effectiveness of specific governance interventions, such as formalized pipelines, rotational programs, and board-level accountability mechanisms, is lacking. Addressing these gaps represents a research agenda of genuine academic and practical consequence. The governance of talent in small financial institutions is not merely an organizational matter; it is a community and ethical matter with implications that extend to the stakeholders these institutions serve.

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