Assembling a Successful Post-Merger Board

strategic planning Mergers and Acquisitions leadership

Summary: What should the composition of a board of directors, post-merger, look like? If done correctly, pitfalls can be avoided and the resulting financial institution will have a better chance of succeeding. We provide some best practices so your next merger deal won't go down that rabbit hole.

Sometimes blended families from remarriages can be tricky — especially so when 18 children are involved! In the 1968 movie, "Yours, Mine and Ours," loosely based on the real-life adventures of the Beardsley family, widower Henry Fonda, who has eight children, marries widow Lucille Ball, who has ten children. The new family composition is shaky, to say the least, as the children eye each other and their respective step-parents with suspicion. Tension reaches a fever pitch when the parents contemplate cross-adopting each other's children, only to be resolved when Ball gives birth to their 19th child, uniting everyone under the same surname.

Like a large, blended family after remarriage, the composition of a board of directors after merging two community financial institutions (CFIs) can also be shaky, if not properly formed and executed.

According to M&A integration specialists, there aren't many events that will change a company as fundamentally as a merger. In order to ensure that change is positive, existing boards must adopt a proactive approach when they're forming the new board. This is also an excellent opportunity to make board process improvements.

Before a merger is completed, boards need to ascertain who the key players of the resulting institution should be, and how to preserve the value of those relationships — the ultimate value of any merger deal, says an attorney specializing in the financial services industry.

Typically, not everyone remains. During a merger, in fact, board directors are at risk of losing their positions more than any other employer group. This is the time, according to one corporate governance expert, when a degree of selflessness is required of existing board members. They must be able to assess objectively what is in the best interest of the company, even if it means vacating their seat.

Here are some best practices for making sure board composition post-merger is a successful one:

Plan ahead before the merger deal closes. This is where that proactive mentality comes in. The fate of the board should not be an afterthought. It should be determined long before a purchase agreement is signed which board members stay, which leave, and which will be the new chairperson.

Map out the various kinds of expertise among existing board members. Criteria should include:

- The acquirer's industry or sector knowledge
- The target's industry or sector knowledge
- Knowledge of the combined operations' region
- Familiarity with the business and organizational issues of both the acquirer and the target
- The existence of strategic alliances among board representatives
- Anticipated strategic challenges

- M&A integration experience
- The expertise required for strategy and risk, as well as committees involving audit, governance, compensation, etc.
- Leadership and governance experience
- Diversity and independence

Recruit new non-executive directors. If any gaps in expertise and skills are noted, additional independent, non-executive directors (NEDs) should be recruited to serve on the post-merger board. Some consultants recommend that boards always recruit new NEDs, no matter what. NEDs are particularly helpful when the merger is instituting a new business model, breaking into a new market, or implementing a new strategy. Their experiences, new contacts, and fresh perspectives make them a valuable addition.

Leverage a third party to advise. An unbiased outside consultant can go a long way in facilitating the transition. They will ensure that everyone at the table is heard, that all issues are addressed, and that takeaways are clear and mutually agreed upon.

Before any merger is completed, the directors of both the acquiring and selling CFIs need to take a frank — and selfless — look at how to best compose the resulting board post-merger. Following these best practices can increase your chances of success.

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Rates As Of: 05/01/2023 10:47AM (GMT-0700)

Treasury	Yields	MTD Chg	YTD Chg
3M	5.10	0.25	0.68
6M	5.06	0.12	0.30
1Y	4.82	0.09	0.12
2Y	4.12	0.11	-0.31
5Y	3.62	0.13	-0.39
10Y	3.56	0.13	-0.32
30Y	3.80	0.13	-0.16

FF Market	FF Disc	IORB
4.83	5.00	4.90
SOFR	**Prime**	**OBFR**
4.81	8.00	4.81