THE

Board Chair Forum

NEWSLETTER

Opening the door to new ideas

Gerrish Smith Tuck, Consultants and Attorneys

October/November 2025

In the last edition of *The Board Chair Forum Newsletter*, we suggested that it was almost Fall in most places as the weather began to get a little cooler. Now it certainly is Fall in most places - we have set our clocks back an hour, it is getting darker earlier, and hopefully thoughts of Thanksgiving and Christmas are on many people's minds. What also is on a lot of minds, including those of the Board Chair, is the Fall planning season and looking forward to 2026 and trying to chart an appropriate course to maintain relevance and promote stakeholder value. In those efforts, in this month's *Board Chair Forum Newsletter*, we try to address a number of different scenarios we have encountered where a bank may struggle in trying to determine how to make decisions, determine who is in charge, and decide what the Board should actually be doing. While no two circumstances are alike, there are some common threads that run through those, and we try to highlight those in this month's newsletter.

We have also been asked to speak a number of different times at some of the Fall conferences and conventions of some of the state associations, and those are always a good opportunity to renew our acquaintances with clients and friends and to get a feel for what is happening in individual states. We are happy to report most of those conferences have very strong attendance, the attendees ask great questions, and it is clear that bankers, and community bankers in particular, are well-engaged and focused on the future. This month's newsletter focuses on the need to remain vigilant in those efforts.

Happy Reading!

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Board Chair's Summary

- ***Should You Change Everything?***
- ***Why Are Banks Selling?***
- ***Do You Have Organizational Alignment?***

Should You Change Everything?

We are certainly in a rapidly evolving financial services industry, including, in particular, the rapid evolution for community banks. As a result, at some of our recent client meetings and strategic planning sessions, we have seen some (hopefully tongue-in-cheek) arguments that the bank needs to change everything and stop doing all the things the way they have always been done. We certainly do not advocate that as your key strategy, but we do think it is appropriate to at least "consider" changing everything. By that, we mean maybe there should no longer be any "untouchables" within the organization. Even those things that have been productive and positive in the past might be open for review and consideration.

We have seen some recent quotes by other parties discussing somewhat of the rapid evolution we are experiencing, and they tend to point out this idea that everything should be subject to review and refinement. Consider some of these comments:

"Collaboration doesn't mean dilution." The point being that maybe we can partner with other organizations, at least in terms of backroom operations or things like that, and the shared resources can benefit both organizations.

"What's being experienced now isn't a cyclical event, but a cultural and structural shift." We need to recognize when something is a permanent change and be willing to engage the change and not continue with the mantra that we cannot change because "we've always done it that way."

"If our organizations are competing in new and different ways, we must "build new (corporate) muscles." This points out that applying old systems and processes to new and different products and services may not yield the results desired.

"Hire for where you are going, not where you've been." As organizations seek to attract and retain the best employees, this is a great strategy to keep in mind. This impacts the type of people you hire, the skills they bring to the job, and even compensation levels.

"It's time to rethink everything." We suggest starting with your Mission Statement and going from there. The goal is to simply create a mindset for your Board and your Management Team that maintaining organizational relevance and driving stakeholder value (in particular, shareholder value), in a rapidly changing market requires us to avoid complacency, and it may be the job of the Board Chair or the Board as a whole to lead that charge toward radical change.

Why Are Banks Selling?

There continues to be a robust market for merger and acquisition activity. So what is it that is really driving the activity? Typically, in some of our presentations across the country we will highlight key facts that are driving banks to consider a potential sale. Interestingly, the one thing we typically do not include on the list of reasons that motivate banks to sell, is price. Rather, what we often say is that for most community banks, the reason to sell is "price plus." By that, we mean price is certainly a key factor, but it is not necessarily the key factor. It often takes at least a reasonable or good price (not necessarily the highest price you might ever receive) plus some other key factors.

In considering this, it is true that in the current environment, pricing is generally pretty good, although certainly not at record levels, but average pricing multiples might be about 140% of book value and 15 times earnings. So while the pricing is pretty good, you could argue it is not "over the moon." But what if pricing in the current market is pretty good overall and there are some very strong buyers, and your organization has no management succession, for example. That might get your interest in the current environment. Similarly, some of these other "plus" factors that, when added to price might prompt a bank to sell, include a lack of board succession planning where with turnover of a large number of board members who perhaps own a large amount of stock, those individuals believe the time has come to liquidate their shareholdings.

Sometimes the lack of ownership succession and a need by key family members for cash can drive the transaction when pricing is generally favorable as well. Similarly, a fear of technology developing so quickly that the bank can't keep up and an overall fear that the organization will not be able to maintain relevance in the future (plus good pricing) may be a factor.

You can probably think of other key areas that when added to fairly decent pricing might encourage a Board or Management Team to move forward with a particular transaction even if pricing is not at an all-time high. So, for the Board Chair and the Board as a unit, if you are trying to maintain independence, focus on the things that are driving other organizations to sell and eliminate those concerns. Have an appropriate management succession plan, promote director succession and younger and more technology savvy board members, ensure appropriate capital planning in order to be able to buy out large shareholders or otherwise promote ownership succession, and strive to maintain relevance within all aspects of your organization in order to avoid fear of the future. If you can accomplish those things, you should be able to maintain your independence as long as you desire!

Do You Have Organizational Alignment?

Who runs the organization? Is it the Board? Is it the President? Is it the CEO if that is a separate position? Is it vocal shareholders? Is it a majority of the shareholders? Is it the regulators? Maybe more importantly than asking who's the boss, from a Board of Directors and Board Chair standpoint, maybe the question is "Where do your fiduciary duties and obligations lie? To whom do you owe your duties?"

As we mentioned in a previous newsletter, the Board Chair runs the Board and the Chief Executive Officer (often also titled as President) runs the organization. However, the CEO is subject to direction and oversight by the Board of Directors, and the Board Chair is subject to the direction and oversight by a majority of the Board. Let's not forget, also, that all of those parties are actually and technically subject to the will of the shareholders as decided by a majority of the total outstanding shares.

Most of us know those principles in theory and can clearly operate within them, except when things become more in conflict. Consider, for example, if a majority of the Board decides that the organization needs to sell, that actually means nothing at all if a majority of the shareholders vote against a sale transaction. So, would a Board of Directors breach their fiduciary duties by turning down a very good acquisition offer if they knew a majority of the shareholders were not in favor of selling? That probably would not be a breach of fiduciary duties if they were right in their assessment of the shareholders.

What if there is a fundamental difference in opinion in the direction the organization should go? Maybe a majority of the shareholders (perhaps as evidenced by the ownership of three or four large family groups) wants the organization to become a technology-based company and be very aggressive in development and utilization of technology, including artificial intelligence. If the Board or the Management Team is unwilling to do that or doesn't feel they have the sophistication to do that, then in the conflict between those parties the shareholders often should win, subject, of course, to operating the organization in a safe and sound manner and according to regulatory guidance.

The greater point here is not necessarily who wins whenever there is a fight, but to understand the hierarchy of how things operate, and to realize the necessity of promoting "alignment" in all of those areas so that you do not run into problems in the future. This also points out for the Board Chair, that if you are not really sure what each of those constituent groups need or want, it is likely your job to understand that better and to promote the alignment of mission, vision and strategy among the shareholders, the Board, your Executive Management Team, and perhaps even your employees. Hoping that all comes together into organizational alignment rarely works. It requires some often difficult discussions, strategic planning, and a little give and take by all the parties. It's a difficult task, but that's why you are paid the big bucks!

Meeting Adjourned

We have certainly been in the midst of the "crazy" Fall planning season and zipping back and forth across the country (how about California to Vermont in 48 hours) but during these times we are finding organizations are certainly on their toes, planning aggressively, and striving to maintain and create stakeholder value. In light of these efforts, we think that the community banking industry remains strong and well-poised for success in 2026 and beyond. Keep up the good work and let us know anytime we can be of assistance.

Until next time,

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