Hankering for status found to drive non-executive directors to outstay effectiveness

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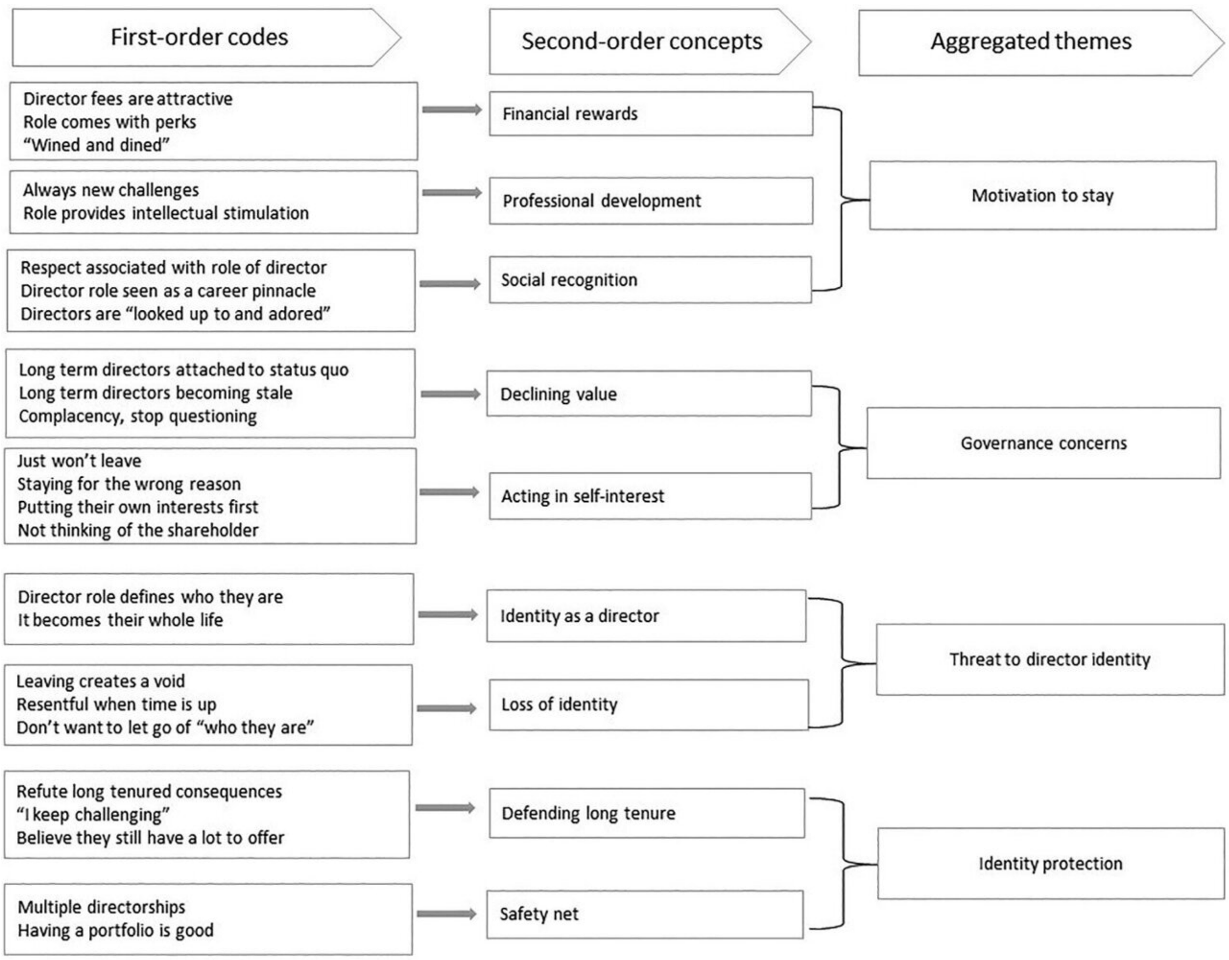

Data reduction. Credit: *Accounting Forum* (2024). DOI: 10.1080/01559982.2024.2303839

Long-serving non-executive directors (NEDs) who can't wean themselves off the social status attached to belonging to the corporate board are failing shareholders and damaging the companies they are meant to serve, new research from the University of Bath and Queensland University of Technology shows.

Board members who exceed their tenure are putting the identity and self-worth they gain from being a director ahead of their duty to shareholders, compromising board renewal and its financial and strategic performance.

Non-executive directors interviewed for the study acknowledged the problem of colleagues staying 'too long' and said prolonged tenures can create governance concerns for boards and shareholders, according to the research published in *Accounting Forum*.

Through in-depth interviews with 11 experienced non-executive directors who have served on 68 boards in Australia, across public companies, government-owned organizations, private companies, and mutual banks, the study set out to explore the motives for some non-executive directors to serve on boards beyond recommended tenure limits.

While financial reward and intellectual stimulation undoubtedly played a part in their residency, it was the thought of no longer being able to call themselves a board director—a status that went to the core of how they defined themselves- that compelled them to stay.

Dr. Johanne Grosvold, from the University of Bath's School of Management, said, "Our findings show that for some NEDs, their identity as a board director is more important to them than acting in the interests of shareholders. When it's a healthy time to step down, they don't want to relinquish an important part of who they are, so instead, they ignore their accountability to shareholders."

"It's like another world; where else do you get the respect just because of your role [as a director]?" said one NED interviewed for the study.

"People like to be a director—and like to know that people know that they're a director," said another.

Regulators in UK and Australia recommend a limit of between nine and 12 years for non-executive directors to step down and give way to new candidates, and the NEDs interviewed for the study spoke of a maximum tenure of 10 years being ideal.

Nevertheless, the interviewed directors could easily recount the experiences of board colleagues who had served for 15, 18, and over 20 years.

"Unfortunately, it would be the one director duty that I see directors most breach—that duty to act in the best interests of the board when it comes to their tenure—it's actually more about keeping their board seat … they just want to stay on the board, they just don't want to give up their board seat," said a study participant.

The researchers suggest that a board tenure policy can act as an important safeguard against excessive tenure and the stale thinking that can ensue.

Co-author Dr. Natalie Elms, from Queensland University of Technology, said, "Prolonged tenure is a governance concern for corporate boards and exposes the limits of a board's self-regulation. The issue of term limits is important for ensuring that directors are acting in the best interests of shareholders, and a board renewal policy can act as an important defense against directors' reluctance to leave a board voluntarily."

More information: Natalie Elms et al, When accountability and identity collide: how director identity shapes board tenure, *Accounting Forum* (2024). DOI: 10.1080/01559982.2024.2303839

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