Stages of a Director’s Tenure: Implications for Monitoring

(Article begins on next page)

Stages of a Director's Tenure: Implications for Monitoring

Abstract

Purpose:

The purpose of this research is to a gain greater understanding of whether a director's behaviour changes with their time on a board, and how any changes impact their ability to monitor effectively.

Approach:

Using an interpretive case-study approach we establish patterns in director behaviour at varying levels of tenure in order to understand whether (and how) capacity to monitor evolves over a director's time on a board.

Findings:

We find tenure generally increases a director's ability to understand firm specific issues, yet the extent and speed to which an individual director is able to monitor effectively varies according to each director's experiences and competing commitments. Second, tenure can introduce inhibitors to effective monitoring through reduced effort and an attachment to the past. Finally, although tenure may obstruct independence, its effect appears contextual relationship dependent.

Research implications:

Our findings challenge the theoretical assumption that director independence and director knowledge are in opposition suggesting a trade-off between these two essential monitoring characteristics is not a necessary outcome of tenure.

Practical implications:

Our findings indicate the relationship between tenure and monitoring is more complex than generally thought and a simple one-size-fits-all approach to director tenure (such as a capped maximum tenure) may not be appropriate.

Originality / Value:

These findings highlight the value of directly investigating director behaviour at an individual level.

Keywords:

Board of directors; director tenure; board composition; board monitoring

Introduction

"It takes a long time to cook good board members" (Independent director)

The question of what types of people make the best directors has been widely debated in the corporate governance literature (Johnson et al., 2012). An equally important but less understood question is once appointed, how long should a non-executive director serve on a board? (Dou et al., 2015). While this question has been widely debated in the literature as well as in practice, a lack of consensus remains.

Globally, some regulators have recommended term maximums for directors (for example, France stipulates a maximum of 12 years), while regulatory bodies in others countries such as UK and Australia recommend boards assess the independence of any non-executive director who has been on the board for more than a set period of time (9 years in the UK and 10 years in Australia). Investors too are concerned with prolonged director tenure (Hillman et al., 2011), while the international ISS governance rating system, *Quickscore*, views director tenure of more than 9 years to be excessive.

It is generally accepted that time spent on a board reduces information asymmetry, increasing firm knowledge and enhancing a director's ability to judge management performance (Roberts et al., 2005; Kim and Yang, 2014). However, under an agency theory rationale it is thought that over time director independence is compromised together with the ability to effectively monitor and control (Vafeas, 2003). These two opposing consequences of director tenure suggest a necessary trade-off between knowledge and independence and a non-linear relationship between director tenure and director monitoring (Veltrop et al., 2015; Castro et al., 2009; Musteen et al., 2010). Yet despite the interest in this relationship, the literature remains unclear as to when the tipping point occurs - if at all.

Prior research into board composition has generally relied on secondary and archival evidence. While these studies have contributed to the wider debate of how board structure increases firm effectiveness, this approach has been criticised for failing to provide meaningful insight into how boards actually operate (Dalton and Dalton, 2005; Machold and Farquar, 2013). In addition, since board functioning is typically investigated using aggregated director characteristics (for example board tenure), such studies ignore the differential effects of individual directors on board performance (Finkelstein et al., 2009; Veltrop et al., 2015).

In this study we adopt an alternative approach and empirically investigate director behaviours using primary sources. Drawing from in-depth interviews, peer feedback and boardroom observations we establish patterns in director behaviour at varying levels of tenure to describe how a director's capacity to monitor evolves over their time on a board. In doing so we contribute to a growing body of research interested in the question of whether, and if so how, director tenure impacts on board performance outcomes such as monitoring. Finally, by departing from mainstream governance research we contribute to a small yet growing body of literature aimed at opening the black box of board research and deepen our understanding of how boards actually function (Pugliese et al., 2015; Machold and Farquar, 2013; Pye and Pettigrew 2005).

Our findings make three contributions to the literature alongside potential implications to practice. First, we provide support to the idea that tenure increases a director's understanding of firm specific issues and show that extent and speed to which a director is able to monitor is also dependent on other variables such as director experiences and competing professional commitments. This suggests studies should be cautious when expecting a change to board composition to lead to an immediate change in board (and firm) performance. Second, we find the relationship between tenure and monitoring may not be linear, yet the reason is unlikely to be independence related and more often a result of alternative monitoring inhibitors such as a disengagement from board matters and a bias to past practices. We find tenure may obstruct independence but its effect appears contextual and dependent on overlapping relationships with a CEO or other long term directors.

Overall our findings challenge the theoretical assumption that director independence and director knowledge are in opposition and suggest a trade-off between these two essential monitoring characteristics is not a necessary outcome of tenure. Finally, our findings indicate the relationship between tenure and monitoring is more complex than generally thought and a simple one-size-fits-all approach to director tenure (such as a capped maximum tenure) may not be appropriate.

Director Monitoring role

In order to understand the effects of director tenure on director monitoring it is necessary to first understand what is meant by director monitoring. In the following section we provide an overview of the literature and discuss the obstacles to understanding what constitutes effective monitoring.

A primary responsibility for boards of directors is to ensure the best interests of the company are being pursued through effective monitoring of management on behalf of the owners. (Hambrick et al., 2015; Hermalin, 2005; Fama, 1980). As legal representative of the owners, board of directors are expected to evaluate and ratify major strategic decisions to ensure alignment to the owner's best interest and minimise the costs that arise from a separation of ownership and decision control (Fama and Jensen, 1983). As the highest decision making body with the organisation, boards of directors are also tasked with the compensation, evaluation and where necessary dismissal of the CEO (Conyon and Peck, 1998; Chhaochharia and Grinstein, 2009).

Given the perceived importance of the monitoring role, scholars across an array of disciplines, including management, accounting, finance and law, have sort to understand how boards can monitor more effectively. In this pursuit researchers have proposed numerous adjustments to board structure - the most prominent being an increase in the proportion of independent directors. The rationale in advocating director independence stems from an agency theory logic which considers independent directors to be removed from CEO influence and therefore more capable of vigilant monitoring (Fama and Jensen, 1983). This perception has also gained prominence with regulators. For example, listed firms in the US are mandated to compose their boards with a majority of independent outside directors (Kaufman and Englander, 2005). Similarly in Australia, a majority of independent directors (including the chair) is recommended through the ASX Corporate Governance Guidelines.

Other structural changes thought to enhance board monitoring include reduced board size, which is thought to increase director accountability (Conyon and Peck, 1998; Yermack, 1996), the separation of the CEO and Chair role (Goh, 2009; Jensen, 1993) and the existence and composition of board committees such as the audit committee, remuneration and nomination committees (Klein, 2002; Beasley et al., 2009). While a large volume of research has investigated structural characteristics of boards, overall the literature has failed to find consensus on whether they are effective in increasing firm performance (Dalton et al., 1998; Bhagat and Black, 2001).

A smaller yet growing body of research examine effective monitoring through director behaviours and monitoring activities (e.g. Tuggle et al., 2010; Machold and Farquar, 2013). This stream of research considers monitoring to be a process that directors engage in and effective monitoring to be derived through behaviours rather than board structure (Forbes and Milliken, 1999; Hambrick et al., 2015; Hillman and Dalziel, 2003).

Consistent with this stream of research is the notion that directors require the ability and motivation to monitor. Hambrick et al., (2015) broke down the construct of ability and define it as (1) the capability to be objective, (2) the knowledge to understand firm issues and (3) the capacity to devote time and attention. They further note that effective monitors require both ability and motivation and that these cannot be substituted for one another.

Since independent non-executive directors are dependent on the information they receive their ability to monitor comes through active participation in board matters. Director monitoring behaviours include requesting information, questioning, challenging and inquiring (Hooghiemstra and van Manen, 2004; Roberts et al., 2005; Petrovic, 2008; Ofstein et al., 2005). The importance of these behaviours for monitoring is well explained by Hambrick et al., *if directors sense a problem, they ask about it; if not satisfied, they ask about it again and ask fellow directors what they think"* (2015, p. 327).

A further obstacle to understanding monitoring effectiveness is that the process of monitoring is largely unobservable. Consequently studies frequently measure board monitoring at a board or firm level using proxies such as CEO remuneration, financial reporting quality or through the effectiveness of firm strategic choices. This practice, which is aided by the availability of secondary data on board governance, is often criticised for failing to control for the multitude of endogenous and exogenous factors that can also influence a firm's performance and decision making process (Gabrielsson and Huse, 2004; Pettigrew, 1992). As a result there have been calls for more direct measurements of board monitoring (Finkelstein et al., 2009) but as yet the literature has not agreed on any reliable measurement of monitoring behaviour at a director level (Hambrick et al., 2015).

Director Tenure in the Literature

The interest in director tenure within the corporate governance literature has come from the more general discussion of board structure and the logic that independent directors make the most vigilant monitors (Fama, 1980; Fama and Jensen, 1983; Tuggle et al., 2010). Since over time directors' form ties to management, it is often considered that over time their ability to monitor objectively may be compromised (Hillman et al., 2011; Daily and Dalton, 1994). Meanwhile, as time elapses, directors also form more informed views about the firm. Therefore, at some point there might be conflicting expectations in terms of *reduced independence* and *increased knowledge*.

While this is a common view, and one that has been adopted by regulators, the factors that influence independence in non-executive directors are subject to debate (Petrovic, 2008). For example, some argue independence is a state of mind rather than an objective characteristic and as such directors can be close to management and still retain independent judgment of executive decisions (Roberts et al., 2005; Shen, 2003).

Agency theorists argue long tenured non-executive directors may be less willing to enquire, challenge and resist the influence of the CEO and top management (Vafeas, 2003, Dalton et al., 1998; Shleifer and Vishny, 1997). As a consequence long tenured directors are more likely to support management interests at the expense of shareholders (Kesner, 1988;

Wade et al., 1990; Goodstein and Boeker, 1991; Vafeas, 2003). In support of this view Sharma and Iselin (2012) point to the presence of long-tenured directors on the boards of scandal-ridden firms such as Enron, Tyco, Worldcom and Xerox. Long standing directors may also be perceived as less effective monitors by shareholders (Hillman et al., 2011).

On the other hand the information asymmetry between management and non-executive directors is reduced over a director's tenure thereby removing a critical obstacle to effective monitoring. Independent directors are less informed than executive directors (Bhagat and Black, 2001; Roberts et al., 2005). With tenure comes an increase in rich board information (Eisenhardt, 1989a), essential for effective monitoring. For example, Roberts et al., (2005) point out that a non-executive director can only be active in questioning, challenging, inquiring and probing once they have adequate knowledge of a firm and its operations.

Knowledge asymmetry is particularly high when a director first joins a board. New members need to learn about organisational practices and gain familiarity with the organisation before they can contribute fully. An added challenge is the infrequency and limited time that boards meet. Consequently newcomers to boards are thought to be less vigilant monitors and less likely to challenge management (Beasley, 1996; Dunn, 2004; Muller-Kahle and Llewlyn, 2011). As a non-executive director's tenure increases, they accumulate greater experience and knowledge. This in turn enhances their capacity to understand firm related issues and judge management performance (Zald, 1969; Adams and Ferreira, 2007; Kor and Sundaramurthy, 2008; Vafes, 2003; Beasley, 1996; Kosnik, 1990).

The relationship between director tenure and board monitoring has been empirically tested within the audit committee literature with mixed results. For example, Sharma and Iselin (2012) find board audit committees with long tenured directors (defined as nine or more years of service) are more likely to positively misstate income, suggesting long tenured directors are beholden to management and less able to exercise independent judgement. Similarly, Bedard et al., (2004) show the average tenure of audit committee members is positively associated with earnings management. Conversely, other scholars find board audit committees with long tenured directors (defined as directors with 10 or more years of service) have improved financial reporting quality evident through lower instances of earnings management, arguing time on a board increases a director's understanding of firm related accounting issues enabling them to monitor financial reports more effectively (Liu and Sun, 2010; Chan, Liu and Sun, 2013).

Kim and Yang (2014) extend this literature in a study of the relationship between board tenure and monitoring. They find a positive association between average board member tenure and financial reporting quality, concluding the positive effects of increased board member tenure – i.e. enhanced firm knowledge – offset any reduction of monitoring through decreased independence.

Other scholars point to long tenured directors as less diligent monitors using excessive CEO compensation as a proxy for poor monitoring (eg. Vafeas, 2003; Byrd and Cooperman, 2010). This relationship is found to be more significant when long tenured directors sit on the remuneration committee (Hoitash, 2011) and when a CEO has a tenure of six years or more (Byrd and Cooperman, 2010). In contrast, Kim et al., (2014) find long tenured directors to be more effective at managing CEO compensation. They explain time on a board increases a director's access to 'soft information' enabling them to better monitor and assess CEO performance. A similar argument was used by Tian et al., (2011) to explain findings of a positive relationship between tenure and market reaction to CEO selection, suggesting that board's with longer tenured directors are better able to interpret the firm's strategic needs and are therefore better equipped to select a new CEO.

A further obstacle to advancing our understanding on tenure consequences comes from the lack of an accepted measurement for director tenure (Byrd and Cooperman, 2010). While it is common for tenure related studies to aggregate individual tenure to the board level using an average of non-executive board member tenure (eg. Kim et al., 2014), scholars have noted this simple summary statistic can be problematic as it ignores the dispersion of member tenure within the board (Dou et al., 2015; Vafeas, 2003; Smith et al., 1994). An alternative measure of operationalising tenure using a percentage of directors with more or less than X years of service is similarly problematic since X is an arbitrary number and has differed between studies. For example Dou et al., (2015) use 15 years as a cut off for long tenured directors while Sharma and Iselin (2012) use 9 years. Finally, while it is common for studies to use the number of years a director has served on a board as a proxy for that director's (in) dependence, some studies use the appointment date of the CEO to the board to determine the level of director independence – for example directors appointed before the CEO are seen to have a greater level of independent than directors appointed after the CEO (e.g. de Villiers et al., 2011; Rutherford and Buchholz, 2007). These inconsistencies in tenure measurement could find the same director characterised as both dependent and independent depending on the measure.

Overall the relationship between director tenure and director monitoring within the corporate governance literature remains unclear due to two divergent perspectives pointing to a trade-off between gained knowledge and reduced independence. Our understanding is further limited by the difficulty in reconciling prior results that apply different measures of director tenure.

Study Context – Australian Financial Services Industry

This study is based on the perceptions, experiences and behaviours of non-executive directors who sit on boards of Australian financial service companies. We selected the financial services industry as our research setting as it is a complex industry with a strong focus on compliance. As a result the role of the board is heavily weighted toward monitoring, enabling us to glean meaningful insight into director monitoring behaviour and address our primary research question, *do the monitoring behaviours of non-executive directors change over the time spent on a board?*

The financial service industry in Australia is regulated by the Australian Prudential Regulation Authority (APRA). The APRA code of governance requires the chairperson along with a majority of directors to be independent of management. Although the code does not directly address tenure, it requires complying boards to have a policy for board renewal that gives consideration to whether directors have served on the board for a period that may compromise their independence.

Initially two focal boards were selected from the financial services industry (we have named these Board A and Board B). These boards were interested in participating in our research in return for feedback on the functioning of their boards (Bezemer et al., 2014). Selecting boards from the same industry reduces complexity in the research and allows for a control of environmental differences (Bezemer et al., 2014; Yin, 2004, Pugliese et al., 2015). On the other hand it is useful to seek variation between cases to allow for contrasting results (Lincoln and Guba, 1985). Drawing from these two sampling strategies the selected boards share similarities – they are both member based organisations operating within the financial services industry - yet they differ in their primary service (one retail financial services, the other superannuation) as well as in their organisational size (for example in asset base and employee number). In order to provide greater support to the findings from our initial round of data collection we recruited a further three boards operating within the Australian financial services industry (Board C, D and E). All participating directors except one is classified as non-executive director. Profiles for each of the five boards are summarised in table 1. Profiles for each participating director are provided in table 2.

Table 1: Board profiles

Board Code	Primary service	Board size	Assets $'mil	Membership base
A	Financial services	6	190	4,200
B	Superannuation	6	1,000	600,000
C	Health Insurance	10	120	27,000
D	Financial services	7	1,000	70,000
E	Financial services	8	300	15,000

Table 2: Participating director profiles

Board Code	Director Code	Tenure years	Gender	Board Code	Director Code	Tenure years	Gender
A	A1	22	M	D	D1	11	F
A	A2	26	M	D	D2	3	M
A	A3	2	M	D	D3	40	M
A	A4	1.5	M	D	D4	7	F
A	A5	1.5	F	D	D5	19	M
A	A6[1]	10	M	D	D6	6	M
B	B1	8	M	D	D7	17	M
B	B2	5	M	E	E1	26	M
B	B3	2	M	E	E2	5	M
B	B4	1	F	E	E3	3	M
B	B5	0.5	M	E	E4	29	M
B	B6	10	M	E	E5	8	M
C	C1	10	M	E	E6	6	M
C	C2	18	M	E	E7	41	M
C	C3	17	F	E	E8	7	M
C	C4	10	F				
C	C5	8	M				
C	C6	10	M				
C	C7	7	M				
C	C8	13	M				
C	C9	5	F				
C	C10	3	M				

[1] *Inside director*

Data collection

To address the overarching research question of whether (and how) a director's monitoring behaviour changes over time, we adopted an interpretive case-study approach drawing data from a number of data sources. This approach allowed us to gather insights and patterns regarding the research phenomenon from multiple aspects. Furthermore multiple data collection enables data triangulation providing stronger substantiation of our findings (Eisenhardt, 1989b). Data collection methods and data sources are described below and summarised in table 3.

Tenure Interviews

Semi-structured interviews were conducted with each non-executive directors from our two focal boards (Boards A and B) to explore their insights, perceptions and experiences of director tenure consequences for monitoring. Interview participants included two women and 10 men and ranged in current tenure from six months to 26 years, providing a good spread of experience on current and previous boards. Participants were asked questions such as, *"Do you think your time on the board has changed your ability / willingness to question and challenge management? – if so, how"* and *"Do you think your time on the board has altered your ability to remain objective? - if so, how"*. Participants were encouraged to give examples to support their answers. All tenure related interviews were audio-recorded and transcribed. The interview protocol is included in Appendix A.

Boardroom observations

We observed committee meetings (3) and board meetings (3) of the two focal boards. Committee meetings averaged two hours and general meetings ranged in duration from two to five hours. In total we observed director behaviour and participation in more than 15 hours of board meetings. Board A allowed us to video-record all meetings, Board B only permitted us to take in-meeting field notes. This was sufficient to observe general director behaviours and record specific instances of monitoring and participation of each director. Being present during meetings that were both videoed and not videoed also allowed us to ascertain that while the presence of the cameras was noticeable the meetings that were videoed were conducted in a typical manner. Similarly our presence during meetings did not appear to interfere with meeting proceedings. Participants could ask us to stop filming or leave the room at any time, only Board B requested this on two occasions while they discussed of an impending legal matter. Two researchers attended each of the meetings. This enriched the data by allowing insights to be compared and contrasted and different perspectives investigated. During each meeting the two researchers took general field notes of how each director contributed to boardroom discussions including the agenda item and the type of contribution (for example, a question, a comment, a challenge) as well as how a director's input was received by the remaining board members. Structural observations of director monitoring behaviour and participation in board discussions was conducted using an observation schedule. Since it would have been difficult to code all behaviours during a meeting as well as record general observations, we assigned behaviour coding to a sample of discussions (two minutes each ten minute period). At the conclusion of the meeting the coded behaviours were compared between the two researchers to check for coding reliability. The schedule used to code behaviours during observations is included in Appendix B.

Peer performance feedback interviews

To gain verification of participant experiences shared during interviews, directors from our five participating boards gave verbal performance feedback and a performance rating for each of their fellow board member's. We asked each director to describe, in relation to their fellow board members: *what they did well, where they could improve and to provide rating out of 10 for their overall director effectiveness.* This resulted in a rich data-set from which we could profile the peer-rated performance of 36 directors across five boards which. When compared to their tenure this provided insightful support and verification of data collected during interviews and observations. Since this information was considered to be sensitive in its nature these interviews were not audio-recorded. Instead field notes were taken by two researchers which allowed for comparison to ensure a reliable record was documented.

Secondary data sources

We used available data sources to profile each director and each board. These sources included linkedin profiles, newspaper articles, websites and annual reports. Data obtained from these sources helped us to understand the experiences, functional background and competing commitments of each director, as well as historical context for each board. This information provided a useful framework to prepare for interviews and boardroom observations and to interpret our findings.

Table 3: Data collection methods and data sources

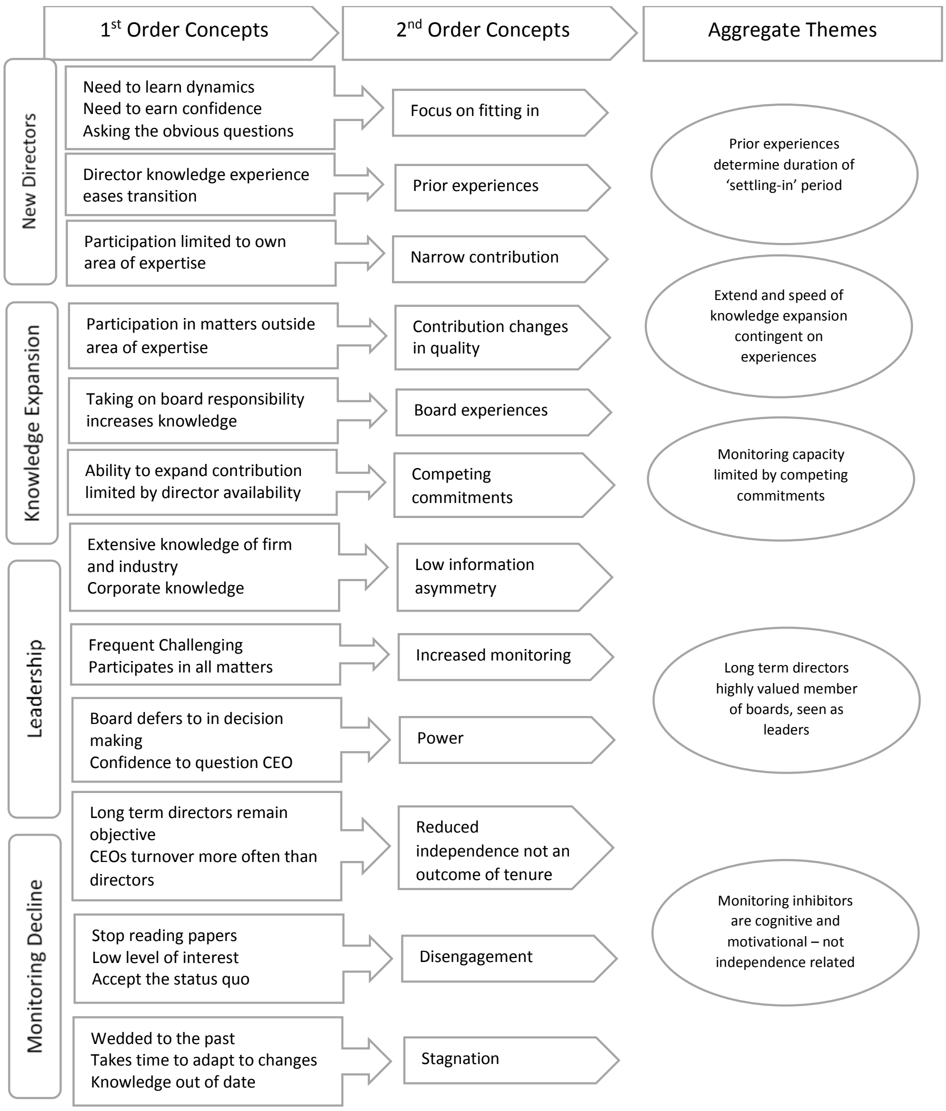
Method	Data source	Collection technique	Research Objective
Tenure Interviews	12 directors	Field notes, audio-recording and transcriptions	Explore director experiences and perceptions of tenure consequences
Peer performance feedback interviews	37 directors	Field notes, peer-rating of effectiveness out 10	Peer evaluation of director performance. Provide validation for interview and observation data
Board room observations	3 General meetings 3 Committee meetings	Field notes Video-recordings (some) Dual coding of director monitoring behaviours	Directly observe behaviour and actions of directors Provide validation of interview and peer feedback data
Secondary data	Externally available data, internal reports, emails and informal conversations	Field notes Profile participating boards and directors	Provide context for data collection, analysis and interpretation of findings

Data analysis

Our analysis consisted of two phases adapted from established techniques for interpretative inquiry and theory building, (Eisenhardt, 1989b; Corley and Gioia, 2004; Machold and Farquhar, 2013). Below we provide an account of each stage separately, however the analysis of rich field data is an ongoing process and as such our actual process of data collection and data analysis frequently overlapped rather than follow discrete chronological steps (Aherns and Chapman, 2004).

The first stage of our analysis involved making sense of the interview data, the peer-performance feedback and our field notes. The transcribed data of the interviews along with our hand recorded notes were reviewed and re-read searching for common and divergent themes within cases and between cases to form a first level of open coding. To assist with our analysis we used *NVivo 11.0* (a qualitative research software that facilitates the analysis of qualitative data). Codes were created to reflect the essence of the data originating from the language of the participants. This process of assigning and revising codes resulted in a final set of 25 different codes. Categories were further refined as similarities and differences were identified. Categories with commonalities were consolidated while single incidents or categories with minimal evidence were set aside and for subsequent analysis. As themes developed and no new insights were revealed and it was felt theoretical saturation had been reached (Charmaz, 2006). Second order coding was undertaken to reassemble the data fractured during the open coding (Strauss and Corbin, 1998) and given more abstract names reflective of the pre-existing theory around director tenure. Finally codes were aggregated into overarching themes reflective of the core themes of the study and providing the foundations for the study's findings and conclusions. Figure 1 outlines the data coding structure adopted and the emergent themes that formed the basis of our findings.

Figure 1: Data coding structure



The second phase of data analysis involved comparing our initial findings which were based on director perceptions, with our own observations of director behaviour and participation taken from board and committee meetings. Where our observations supported initial findings from participant experience and perception, this stage provided richer detail to support our findings. Where our observations contradicted initial findings we were able to explore new themes and go back to the original data and literature to look for further support. Since we were interested in understanding discernible differences in director monitoring behaviours based on tenure we developed an observation schedule to record director monitoring behaviours detected during board meetings. We were unable to locate a suitable coding scheme in the literature for monitoring behaviours so we developed our own coding scheme based on behaviours commonly associated with monitoring in the literature. For example, it is frequently noted that effective monitoring comes through active questioning, challenging and inquiring (Hambrick et al., 2015; Roberts et al., 2005; Petrovic, 2008). We limited our coding to questions and comments, excluding contributions that involved presenting data, facilitating the meeting or were social in nature. Specifically, questions were coded as either (i) confirming a directors understanding of a topic, (ii) inquiring further into a topic, or (iii) requesting further information. Comments were coded as (i) adding new information to a topic, (ii) supporting current discussions or proposal or (iii) opposing current discussion or proposal.

Findings

Our study set out to explore whether director monitoring behaviour changes over their time on a board - and if so, how? To make sense of our data and explore if and how tenure impacts director monitoring, we categorized the stages within a director's tenure. We found new directors begin with a stage of settling-in before moving through a period of knowledge-expansion and finally (some directors) enter a stage of leadership. However, not all directors follow the same path and there is potential for monitoring decline at two distinct phases of a director's tenure. First, early to mid-term directors may become disengaged, restricted by competing commitments that may lose interest in board matters. Second, after a prolonged period on a board, director performance can stagnate if directors fail to adapt to a changing environment, instead holding on to past practices. Each of these stages along with implications for monitoring are described in detail below. Table 4 provides examples drawn from our data to categorize the tenure stage for each 36 director's participating in our study.

Settling-in: new director focus on fitting-in not monitoring

When asked to reflect on their experiences joining new boards directors unanimously agreed they needed time to understand board dynamics before they could monitor effectively. Directors described this period as a settling-in time when their attention was focused on understanding relationships and culture rather than participating in monitoring activities. This was illustrated through our participant's discussions of their early board experiences:

> *"Obviously when you join any new board you do have to take time to understand the dynamics of the particular board and relationships around the table and it's good to sit back for a bit and get the feel for the organization" (B4)*

> *"The first meeting you are feeling your way …looking for body language, learning the lay of the land … now I know how things work I have more time to contribute" (B5)*

It became evident through discussions with directors that even experienced directors were confronted with a settling-in period. One director made the following comment of a newly joined and highly experienced director:

> *"He's an experienced director, but he's not right into it yet. He's doing the right thing, feeling his way a bit, getting to know the other directors and so on" (B1)*

The duration of a director's settling-in period appeared to be highly variable. Some directors indicated it took around six months to settle in, others commented it took one to two years.

On further investigation, it appeared the duration of a settling-in period is influenced by each individual's prior experiences. Past experience as a director on other boards seems to reduce the time it takes for new directors to feel confident in questioning and commenting during board meetings. Participants explained that having an existing knowledge of 'what directors do' makes it is easier to assimilate into a new director role;

> *"Director X just slotted straight in because he's a member on other boards" (A2).*

On the other hand, directors with little or no prior board experience on a board took longer to settle in;

> *"In my case my appointment to the board of (Board A) was my first board appointment therefore I was a new Director… a learning curve was required to get to myself up to speed" (A2)*

Participant experiences were supported by our direct observations during board meetings where it was not always obvious the tenure of a director based on their behaviour alone. This is illustrated by the narrative below taken from our observations:

> *A new director on Board B had limited prior director experience – he introduced himself as being "new" despite being on the board for over two years. His behaviour during meetings reflected his feelings of newness – he participated the least of all board members and his questions were aimed at clarifying information rather challenging management on matters. In contrast another director on Board B, with tenure of just one year, yet with significant prior board experience, contributed highly and meaningfully during all observed board meetings. We observed a high level of participation and instances of challenging management and little evidence of the behaviours generally assumed for "new" directors.*

It has been reflected in the literature that new directors take some time to come up to speed (Beasley, 1996; Dunn, 2004; Muller-Kahle and Llewyln, 2011), however many empirical studies into board composition fail to take account of this settling-in period and the time it takes for new directors to have a positive impact on board monitoring. Our findings show directors do transition through a phase of settling in where involvement in board tasks may be low. As such caution should be taken when modelling the effect of changes to board composition on board performance to account for this lag. This is further complicated by our finding that the duration of settling-on can be significantly different for each director depending on their prior experiences.

Knowledge expansion: over time directors expand in their breadth of monitoring capacity

Participants agreed, the main outcome of tenure on a director's ability to monitor is a corresponding expansion in their knowledge of the firm, the industry and management performance. Interestingly it was noted by more than one director that the change in director participation over this time was evident not in the *quantity* of participation but rather in the *quality* of director monitoring. For example, when reflecting on the changing behaviours of their colleagues during board meetings, one board member pointed out an observable change over time was in the quality of their questioning and comments;

> *"The value of their contribution has lifted and not necessarily by more but what they say is more relevant and it's more intuitive and it's more um…more on the money … Early on you can say things because 'gee it's been a whole board meeting and I haven't asked a question so I need to ask a question, what's it going to be' … So it's the quality of the questioning or the comments that get much better over time I think and that comes with confidence sometimes too, from having a little bit more familiarity with the people and management and the business."(A6)*

Table 4: Stages of director tenure and examples of peer-feedback

Director Code	Tenure years	Peer rating[4]	Tenure level	Peer feedback example
A1[1]	19	8.5	Leadership	*"Across everything, understands the environment"*
A2[2]	16	9.0	Leadership	*"Decision maker, detailed, very capable and hard-working"*
A3	2.0	7.0	Disengagement	*"Doesn't appear to always read papers prior to the meeting"*
A4[2]	1.5	7.7	Narrow	*"Still developing an understanding of the industry"*
A5[2]	1.5	7.3	Narrow	*"Lacks experience but her contribution has grown positively"*
B1[1]	8	7.8	Broad	*"Has a good depth of knowledge"*
B2[3]	5	6.5	Narrow	*"Could think in more broader terms"*
B3	2	6.7	Settling In	*"Would like to see him put forward his thoughts more"*
B4[2]	1	8.3	Broad	*"An expert in her field but also contributes in other areas"*
B5	0.5	7.0	Settling In	*"He's not right into it yet. He's doing the right thing, feeling his way a bit, getting to know the other Directors and so on"*
B6[2]	10	8.0	Leadership	*"Constructive and knowledgeable, strives for answers"*
C1[1]	10	7.8	Leadership	*"Extremely conscientious and dedicated. He's not worried about telling CEO what he thinks"*
C2	18	7.9	Leadership	*"Great strength is his total fearlessness and willingness to question something he's unsure about"*
C3	17	6.8	Narrow	*"Could improve technical knowledge of industry, could be more strategic"*
C4[2]	10	8.3	Broad	*"Has a breadth and depth of knowledge and skills"*
C5	8	5.8	Disengagement	*"He seems a bit too detached. Rarely suggests an alternative action or debate anything."*
C6	10	7.4	Broad	*"Really good legal mind but also has a lot of experience dealing with (our industry)"*
C7	7	7.6	Broad	*"He's clearly reading the papers, picking up details in papers that are worth pointing out"*
C8[2]	13	7.3	Narrow	*"Not a lot of corporate knowledge depth. She talks confidently abou marketing strategy. Audit and risk not really her areas"*
C9	5	7.6	Narrow	*"Still coming to grips with some aspects of (our industry). Asks a lots of questions"*
C10	3	8.4	Leadership	*"Has enormous power and respect. Very experienced"*
D1[2]	11	8.0	Leadership	*"Taking the lead in discussions. Is across all the stuff. Challenging and asking more from management"*
D2	3	9.0	Broad	*"He knows his stuff, very good networks so we know what's happening in industry"*
D3[3]	40	5.3	Stagnation	*"Not a lot of recent experience to add to the debate. Caught in how we have always done things"*
D4	7	6.8	Narrow	*"Needs to develop a more holistic analysis of issue"*
D5[1]	19	7.7	Leadership	*"Confidence in his judgement … respected"*
D6	6	6.4	Disengagement	*"Don't see a lot of him... has to question more"*
D7	17	7.3	Broad	*"Has wisdom, so when there are issues it is great having his input"*
E1	26	8.1	Stagnation	*"Uses same logic when looking at different situation and decisions'*
E2[2]	5	6.9	Narrow	*"Technically he doesn't have a lot of understanding of why/how things are happening but he's street smart and street wise"*
E3	3	8.8	Narrow	*"Brought a lot to the board. Good reputation around town, very connected. Just needs more experience"*
E4	29	8.2	Leadership	*"Wealth of industry experience. Very experienced as a board member"*
E5	8	6.9	Narrow	*"He's learning and he acknowledges it"*
E6[2]	6	6.9	Disengagement	*"Doesn't seem to be prepared. In strategy he speaks from his opinion rather than informed decision"*
E7[3]	41	6.5	Stagnation	*"Since he stepped down as chair he's had less input at board level. How he thinks about things is based in past"*
E8[1]	7	8.7	Leadership	*"Has respect amongst his peers"*

[1] Board Chair, [2] Committee Chair, [3] Former Chair, [4]Peer rating is a score of perceived effectiveness out of 10

Our observations of director participation during board meetings highlighted another interesting difference in director behaviours that appeared related to their tenure. Lower tenured directors were more likely to question and comment on matters relating to their own area of expertise with limited contribution to items outside their functional background. On the other hand, we observed directors with longer tenure typically participated more broadly across agenda items.

Our observation of a difference in the breadth of director participation was supported during participant interviews. Directors recalled their own experiences as well as perceptions of other board members growth trajectory on boards. It was generally noted that as knowledge of the firm operations and industry expanded, they were able to broaden their boardroom participation and question matters outside their own area of expertise. This trend is explained in the following comment where a director describes the trajectory of a fellow director. They explained that as the director gained a greater understanding of the firms operations, they were able to engage in broader board conversations including matters outside their own area of expertise;

> *"(When he first joined the board) he was relatively stand back-ish and just listening and whatever ... then he started coming out and started becoming more of an inputter to the board discussions…other areas, marketing, even though he wasn't a marketing expert he got involved" (A3)*

While a general trend appeared whereby directors over time expanded in the participation from a narrow view (based on their own area of expertise) to a broader participation across agenda items, this did not always occur – nor was it expected. Through interviews, observations and peer feedback we identified a number of cases where directors at a mid-range tenure (between two and six years) remained narrow in their participation. Furthermore, when we investigated further these directors were often rated as effective by their peers and although their narrow focus was noted, it was accepted that the gaps in their knowledge would be filled by the other board members.

For example, in one case, a director was bought to the board to fill a specific gap in marketing skills. Recognising that her skills were in marketing and not in finance, the chair commented that he was happy for her to continue in that narrow role, noting that competing commitments would restrict her ability to expand her knowledge more broadly;

> *"In terms of the other stuff she wasn't recruited for that and we're not trying to make her into a financial guru or an analyst, that's not her bag. We want her thinking about the marketing and we've got other skills on board that will compensate for that… (Her skills) won't develop too far out of the marketing side of things because that's what she's doing at work, that's what she's doing here and we're relying on the rest of us looking at where the financials are going." (A1)*

Similarly, a number of directors appeared to remain narrow in their contribution after a significant amount of time on a board. In another example it was noted that a director with 13 years of tenure remained narrow in her focus;

> *"Not a lot of corporate knowledge depth. She talks confidently about marketing strategy. Audit and risk not really her areas" (C5)*

Yet it was also evident she was a valued member of the board and effective monitoring (within her own area) and was seen as "*Dynamic, smart, (good at) questioning, not frightened to speak up" (C10).*

The literature has noted that boards are involved in a range of tasks (Machold and Farquar, 2013), however it is clear from the literature the extent to which directors engage in each task. Our findings show that while some directors engage in all tasks, some directors – in particular those who are new or who are restricted in their capacity to expand in their knowledge – remain narrow in their involvement in board tasks.

Leadership: monitoring increases when information asymmetry is low

Our findings show directors with deep and broad knowledge of the focal firm and industry are perceived by their fellow board members as a leader figure. The directors we identified in this stage often held formal leadership roles on the board (such as Chair or Chair of a main committee) and while these directors often had longer tenures, this was not always the case. Indeed leadership qualities were found in directors with as little as three years of tenure on one board. The common characteristics amongst 'leader' directors was their deep and broad understanding of the firms operations, knowledge that provides them with an ability to contribute on any issue. Our findings show 'leaders' are respected by their fellow board members both for their deep knowledge as well as for their fearlessness in challenging and questioning management. Performance feedback from fellow directors included the following comments;

> *"(Director of 10 years) is extremely conscientious and dedicated. He's not worried about telling the CEO what he thinks" (C9)*
>
> *"(Director of 19 years) knows the material, knows what is going on" (D4)*
>
> *"(Director of 11 years) takes the lead in discussions… Is across all the stuff … (She) is challenging and asking more from management" (D4)*
>
> *"(Director of 10 years) is constructive and knowledgeable, (he) strives for answers" (B3)*

The tenure literature is unclear on the ability for longer tenured directors to monitor effectively with many studies suggesting director effectiveness declines after a period of time on a board. Our findings show directors with long tenures (between 10 and 20 years) are often perceived as leaders by their fellow board members, demonstrating high level of monitoring behaviour. This finding supports prior studies that show boards dominated by long term directors monitor more intently due to their increased knowledge (Beasley, 1996; Kosnik, 1990). However our finding is at odds with the agency based notion that longer term directors are less vigilant monitors due to decreased independence.

The relationship between tenure and independence

There is ambiguity surrounding the relationship between tenure and independence in the corporate governance literature (Dou et al., 2015). We therefore further examined the impact of tenure on independence in greater detail. Participants generally rejected the notion that tenure directly reduces independence from management. Rather many suggested reduced independence is a consequence of relationships rather than tenure alone. While some participants acknowledged reduced independence could be a problem in long standing directors *where their tenure overlapped with management*, most directors indicated this was an uncommon occurrence since management turns over at a faster rate than directors.

> *"I think it's particularly a problem where you have a Chairperson - CEO thing going …I think that can be a problem, not in many cases but we've had some people in (this industry) have been the Chairs of those boards for 20-30 years and I think that's a very unhealthy thing particularly where there's a very close relationship with the CEO" (B6)*

In challenging to the assumption that independence reduces over time, participants supported the counter argument that directors with prolonged tenure could remain free of bias and influence. One director with 10 years on the board commented;

> *"I'd classify myself as fiercely independent of the management of X" – (B6)*

This self-assessment was supported by another director from the same board commented;

> *"I think (director X with 10 years of tenure) has been a pretty good champion of 'we're not here to do that, we're here to do this'. So I wouldn't say that (he has lost his independence from management) with him in mind" (B3)*

Disengagement: monitoring is limited by individual capacity and willingness

Although we did not find any substantial evidence that tenure reduced a director's independence, we did identify other factors that may inhibit director monitoring capability related to a director's tenure. The first obstacle to monitoring – disengagement - appeared amongst some directors in early to mid-stage of tenure (between two and eight years). These directors were perceived by colleagues as being unprepared for meetings (i.e. not reading their board papers) accompanied by displaying a low level of interest to items outside their own area of expertise. Some typical comments included;

> *"He seems a bit too detached. Rarely suggests an alternative action or debate anything." (D1)*

> *"Suspect he doesn't read papers all the time. I don't know he adds a lot, perhaps least in terms of contribution. Doesn't seem to be prepared. In strategy he speaks from his opinion rather than informed decision." (E2)*

These comments and our finding is not surprising. Gaining an understanding of a firm and its industry takes time and requires a commitment to learning. Directors are known to be busy, often holding concurrent positions outside the board's focal industry, as a consequence directors can lack capacity for processing new information (Boivie, 2016). In such cases our findings suggest these directors fail to grow in their monitoring capacity while their contribution to agenda items remains narrow.

Stagnation: a decline in monitoring effectiveness can occur with time

Our findings show that overtime director monitoring capability may decline due to a cognitive attachment to past activities. This was most common amongst directors with prolonged periods of tenure (over 25 years of tenure), an in particular once directors stepped down from prior positions of leadership. Comments by peers regarding these directors included;

> *"(Director of 41 years) has been on the board a long time. Since he stepped down as chair he's had less input at board level. He has a lot of knowledge about the industry in general, (but) how he thinks about things is based in past" (E5)*

> *“(Director of 40 years) Not lot of recent experience to add to the debate. Caught in how we have always done things.”(D1)*

In another one instance a director described how a fellow board members performance had declined in prior years. They noted that “*4 years ago he would have been a 9 (rating out of 10), but now he is a 6 or 7”* adding that it’s difficult for a director to remain effective once they leave the workforce.

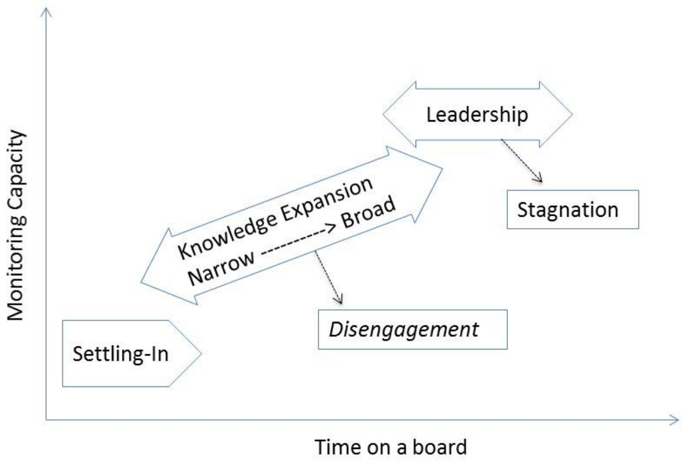
Discussion

Despite drawing attention from scholars and regulators, the implications for director tenure on director performance remain unclear. Consequently the current regulatory debate over capped terms for directors is inadequately informed and limited evidence exists to support either argument. Our study set out to address current ambiguity in the broad area of director tenure by focusing on changes in director behaviour. While prior studies have considered the relationship between tenure and performance from an indirect and aggregated perspective, our findings come from an alternative perspective. Using an interpretive case-study design and a rich data set of interviews, observations and peer performance feedback we have been able to get close to the phenomena and directly investigate behaviours in the boardroom to understand whether and how director monitoring behaviours change over their time on a board.

Our findings suggest there are common phases within a director’s tenure illustrated by figure 2 below. First, we found directors face a period of settling-in that may last between 6 months and 2 years, before moving into a period of knowledge expansion where participation in board tasks expands from narrow to broad contribution. Variations exist however in the speed and extent to which director knowledge develops and only some directors from our data set were able to move into a further stage of leadership where information asymmetry is at the lowest level and capacity to monitor is highest. Finally we noted two triggers for monitoring decline. First, we observed early to mid-term directors become disengaged from board matters and second, monitoring by longer-term directors was at times obstructed by cognitive biases such as an attachment to the past.

Effective monitors require both knowledge and independence (Jensen and Meckling, 1976; Hambrick et al., 2015), yet the director tenure literature often positions these two essential characteristics in opposition. That is, a director’s tenure on a board is thought to increase knowledge while at the same time reduce independence from management. Combined these two effects suggest a trade-off is necessary between knowledge and independence. Our findings show these assumptions to be oversimplified and provide fresh insights into our understanding of how director monitoring behaviours change with tenure.

Figure 2: Stages of a director's tenure and capacity to monitor



Overall our findings show tenure does *generally* increase director knowledge, enhancing ability to judge and monitor management performance. However, our findings also suggest the relationship between knowledge and tenure is not always positive nor is it linear. For example, while it is commonly accepted that director human capital increases over a directors time on the board (Kosnik, 1990; Kor and Sundaramurthy, 2008; Vafeas, 2003) our results describe multiple occasions where director participation remained limited to a discrete area of focus regardless of time spent on a board. Scholars have suggested director information processing capacity is a significant barrier to effective monitoring (Boivie, 2016; Tuggle et al., 2010). Our findings support this view, providing examples of where competing commitments outside the focal board's industry restrict director knowledge developing.

Despite a common acceptance within the literature and by regulators that tenure reduces director independence, we did not find support for this relationship. On the contrary, our results suggest longer-term directors monitor more intently due to their depth and breadth of knowledge along with high levels of confidence in confronting and challenging management. Finally, while we did not find evidence to support the notion that tenure reduces director's independence; we identified two knowledge related factors that can inhibit monitoring capability. First we found instances of directors disengaging from board matters. This generally showed up in directors not preparing for meetings and willingness to accept the status quo. While a decline in monitoring is often associated with long-term directors, our finding indicate disengagement is also likely in early and mid-term directors. Finally, our findings did find instances of reduced monitoring in long-term directors. However, rather than being independence related, we found this decline due to a cognitive bias stemming from attachment to past activities.

Implications for theory

Our findings contribute to the discussion on director independence antecedents. Independence is a critical element for effective monitoring (Jensen and Meckling, 1976). Resultantly numerous studies have examined the relationship between board independence and firm performance. Within these studies tenure is used as a proxy for director independence. Surprisingly the timing of changes to a CEO's tenure is often ignored from this relationship. Our findings indicate tenure alone is an unsuitable measure of independence. Some studies have applied an alternative measure of independence incorporating the concentration of board appointments before the CEO (De Villiers et al., 2011). We find this is a more appropriate measure of director independence since the relationship between the CEO and a director is more relevant to the question of independence than tenure alone.

Our second contribution is to the literature on director human capital. Human capital, an important contributor to effective board monitoring, is generally considered to increase with tenure. Our findings point to different forms of human capital such as board knowledge, firm knowledge and functional expertise. And while we found tenure does generally increase director human capital, we noted some aspects of human capital to be more closely linked to tenure. Furthermore, experiences – both prior to and while on the board - along with capacity to devote time and attention can expedite or restrict expansion in director human capital.

Empirical studies examining changes in board composition often fail to take account for the time it takes for new directors to have a positive impact on board monitoring. Our findings suggest a period of settling-in may last between six months and two years during which involvement in board tasks may be low regardless of an individual's background. This indicates a lag should be accounted for when modelling changes to human capital in board composition.

Implications for practice

Our research also has implications for practice. The debate over capped terms for directors has resulted in a number of regulators recommending maximum tenures. The case to limit non-executive director tenure stems from the logic that over time directors develop close ties to management, compromising their independence and ability to monitor objectively. However we found little support for this argument, in fact directors with prominent monitoring behaviours are often directors with more than ten years of tenure. This suggests that the one-size-fits-all approach that is often adopted for tenure may be inappropriate and could lead to boards retiring their most effective monitors. Finally, our findings suggest that any effect of tenure on independence is likely to be relationship dependent. Thus in considering director independence boards should consider the overlapping tenure of directors with management and with other directors, as these factors are likely to have more effect than tenure alone.

Finally boards are facing pressure from regulators and shareholders to increase the number of independent directors. Some scholars have noted this shift comes at a disadvantage to boards through an increase in information asymmetry between the board and management (Castro et al., 2009; Forbes and Miliken, 1999). Our findings indicate that where overlapping tenures with the CEO or other directors is managed, long-term directors can remain objective while contributing experience and knowledge of a firm's strategies and policies to the board, bridging the gap between inside and outside directors.

Limitations and Avenues for Future Research

Our study comes with some limitations that provide avenues for future research. First, the focus of this study has been on understanding the impact of director tenure at an individual level. Since the board is a group and monitoring is also a board function there are likely to be group effects in the relationship between director tenure and board monitoring effectiveness. Our findings point to the existence of group effects, for example tenure diversity may offset the effect of cognitive biases that come from prolonged tenure, however further exploration into this phenomena was beyond the scope of this study. We therefore suggest future studies could extend this work and complement our research by examining the effect of tenure on board monitoring at a group level.

Second, this study was conducted as a cross sectional study with interviews, observations and performance feedback taken at single point in time. Since tenure is a temporal phenomenon, added insights could come from conducting a similar study on a longitudinal basis. For example, a comparison of individual director behaviour over multiple time frames would provide added insight into how monitoring behaviour at a director and board level changes over time. Alternatively future studies could further examine the relationship between tenure and independence using longitudinal data to consider how director monitoring behaviours change when a CEO is replaced.

Third, we chose to study boards operating within the same industry. This enabled us to control for industry effects and environmental differences. Replication of our study in other contexts would provide added input as to the general applicability. Finally, an important source of our data was boardroom observations. A number of confounding effects and problems has been noted in using observational data that can make it difficult to establish causal relationships (Chaffin et al., 2016). However this method has the distinct advantage of being able to directly observe the effect of director tenure on director monitoring behaviours and provided us a mechanism to validate the accounts and experiences expressed by the participants to our study.

Conclusion

Effective monitors require both incentives and ability (Hambrick et al., 2015; Hillman and Dalziel, 2003). It is thought that when a director first joins a board they are disadvantaged in their ability to monitor by their limited knowledge of the firms activities, while longer serving directors face challenges in their ability to monitor through reduced independence. Our results indicate that the relationship between a director's time on a board and their capacity to monitoring is far more complex. Our findings show the relationship between director tenure and director monitoring is dependent not only on length of service but also on their experiences prior to and once on a board as well as on their competing commitments. And while long serving directors may be challenged in their capacity monitor, the cause is more likely to be cognitive and motivational rather than independence related.

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Appendix A: Interview protocol

A) Tenure interviews

a. Do you think your time on the board has changed your ability to question and challenge management?

  i. In what ways? *Do you feel more or less empowered to monitor management?*

b. Do you think your time on the board has changed your willingness to question and challenge management?

  i. In what ways? *Do you feel more or less empowered to monitor management?*

c. Do you think your tenure has altered your ability to remain objective?

  i. *In what ways?*

d. Have you noticed changes in the contributions made by other board members over their time on the board?

  i. *Can you be specific [ie. relate to each director]?*

B) Peer-performance feedback interviews

The following sequence is applied to each director:

a. On a scale of 1 to 10, how does [Director's name] perform? (*Inform participants that this score remains confidential – it just allows us to understand where you see the performance of the director)*

b. Why do you say they are a [insert score from (a) above)?

c. What are they doing well?

d. What would they have to do to move to a [score from (a) +1]?

Appendix B: Observation schedule

Coding	Behaviours	Examples
Q	Questioning or comment that challenges discussion	"Why do you think that ...
	Playing devils advocate to a proposed course of action	"what if ... have you considered ..."
	Disagreeing / constructive critisism	"I disagree ..."
P	Providing information / proposing an idea	Presenting committee reports
	Responding to request for information (I) or Challenge(Q)	
	Active participation in discussion, expressing an option	"I think ...
	Giving constructive ideas and solutions	"I spoke with xxx and they ...
I	Information seeking	"can you provide a summary of ..."
	Request for further information	
C	Confirming own understadning	"are you saying that ...."
A	Signalling agreement	"yes ... I approve ... that's all good"
F	Facilitating the meeting	
S	Social talk / joke	

Time	Agenda Item	Director A				Director B				Director C				Director D				Director E				Director F			