Director Tenure (US and Canada)

Background

Viewpoints vary on long-tenured outside directors. Some governance observers suggest that long tenure is a sign of a director's commitment and expertise. Critics contend that directors serving on boards for long periods of time may lack independence and objectivity. While term limits are not common at US and Canadian firms, some observers argue that such rules may be a good mechanism to ensure regular refreshment of directors' skill sets and to boost diversity on boards.

Academic studies on the topic offer conflicting conclusions. Authors of a 2011 study, based on a sample of S&P 1500 boards, found that long-serving directors are more likely to be associated with governance problems at the firms they oversee. On the other hand, researchers sampled S&P1500 firms for a 2012 study and found that firms with a higher proportion of outside directors with extended tenures exhibit superior monitoring and advising outcomes.

Investors appear to be concerned with tenure, but few oppose directors based solely on their length of service. According to ISS' 2013-14 policy survey, 74 percent of investor respondents indicated that long director tenure is problematic. This percentage includes 15 percent who indicated that lengthy director tenure can diminish a director's ability to serve as an independent steward, 11 percent who indicated that lengthy director tenure can limit a board's opportunities to refresh its membership, and notably, 48 percent who indicated that they share both of those concerns. Only 26 percent of investor respondents indicated that a director's tenure should not be presumed to indicate anything problematic. With respect to issuer respondents, however, a significant majority (84 percent) indicated that a director's tenure should not be presumed to indicate anything problematic.

Based on ISS' U.S./Canada telephonic roundtable discussion with a mix of institutional investors and corporate directors in September 2013, investor participants generally appeared hesitant to set strict limits on tenure. The director participants, on the other hand, appeared more open to having a mechanism that could promote board diversity and board refreshment.

Current ISS Benchmark Policy

ISS' benchmark proxy voting policy for the U.S. and Canada markets currently does not consider director tenure in its classification of directors or as a key factor in determining vote recommendations on director elections.

Policy Directions

ISS seeks to continue the dialogue initiated in 2013 with market constituents and to explore a number of potential approaches to its Benchmark U.S. and Canada Voting Policy approach regarding director tenure. At a high level, these approaches are:

A. Consider the mix of director tenures on the board as a key factor when determining a vote recommendation on members of the nominating committee (for example, if average tenure and/or any individual director's tenure exceeds a specified level).

B. Classify directors with lengthy tenures as non-independent and apply existing board-related voting policies as it relates to director independence.
C. Keep status quo – do not create a new policy approach.

Request for Comment/Feedback

Please feel free to add any additional information or comments on this issue. In addition, ISS is specifically seeking feedback on the following:

1. Please specify which approach(es) above (A, B, or C) best reflect(s) the views of your organization.

2. Investor Respondents: If you consider board tenure as a potential problematic issue, what action are you most likely to take (e.g., vote against the longest tenured nominee(s); vote against the members of the nominating committee (or other subset of the board responsible for nominations or evaluations); consider long-tenured nominees to be non-independent; engage with the board, etc.)?

To submit a comment, please send via email to policy@issgovernance.com. Please indicate your name and organization.