NZSA Policy No 14 – Director Tenure

Application: This policy applies to all NZX listed companies.

Purpose: NZSA maintains a range of policies to positively influence the behaviour of all participants in the NZX listed company sector. These policies should be read in the context of the NZSA Policy Framework Statement.

Statement No 14:

This policy document replaces the previous NZSA policy document dated July 2018. Key changes in this update include greater granularity in the factors used by NZSA in assessing director tenure.

1.0 Policy: Director Tenure

1.1 When a Director has served a total of 9 years, we would expect that Director and the Board to have a discussion around their continued tenure.

a) This should reflect on the skills the Director brings to the Board table in relation to the skills the Board has determined to be appropriate for the business.

b) It should also reflect on the institutional knowledge of the Director and the need to retain this knowledge.

1.2 If the Director and the Board believe the Director should seek a further term we would expect to see the discussions reflected in the Notice of Meeting – including any justification for re-election past 9 years.

1.3 Our decision whether to support a further term will be based on the information provided and predicated on the principle of ensuring optimum Board performance. This may include (but is not limited to):

a) Ensuring an appropriate level of institutional knowledge is retained by the Board.

b) The degree of historic **sustained** company performance improvement;

c) Board appointment dates, taking into account the timing of director appointment dates to minimise succession risks for shareholders and existing director tenure.

1.4 Where succession is not explicitly indicated by the company, NZSA will also look at appointment dates for evidence of managed succession across a Board and the spread of tenures of all current board members.

1.5 In practice, this means that NZSA will make director tenure assessments on a case-by-case basis.

1.6 While the scope of this policy applies to all directors, regardless of independence or level of share ownership, NZSA recognises the unique energy and innovation a founder-shareholder or major individual shareholder can bring to a Board.

2.0 Commentary

2.1 The mix of people on a Board and their skills sets are a significant determinant of the success or failure of a company. As a company's strategy changes and evolves over time, the members and skill sets around the board table need to match these changes.

a) It is difficult for any outside organisation to assess and measure the effectiveness of a Board culture or the quality of individual directors within that culture.

b) While research (outlined below) supports general principles, NZSA recognises that there will always be individuals who remain as exceptions to the rule.

2.2 NZSA believes there is a strong case to balance the development of capability with institutional knowledge of the company.

2.3 The Board should be continually reviewing its membership through its Board Performance Evaluation process. Regular changes at Board level encourage diversity of thought and ensure ongoing sustainability of the Board.

2.4 Regular changes of individual directors reduce risk for investors in the long-term, by reducing the risk associated with the transfer of institutional knowledge.

2.5 Whilst the NZX Listing Rules require a Director to stand for re-election at least every 3 years, and do not place any restriction on the number of terms a member can serve, Board membership should not be considered to be open ended.

a) We note 2013 Australian research carried out on behalf of the Australian Financial Review that "there is no strong correlation between tenure and performance". The same study highlighted a much stronger correlation of CEO tenure to performance, with an optimal tenure of 6-7 years.

b) In the US, a 2017 study carried out by Harvard noted that 24% of directors of Russell 3000 companies had served more than 15 years. However, we also note that attitudes in the US have changed during 2020-21, with more research papers broadly supporting tenure limits as a response to investor-led concerns around succession risk.

c) We note tenure guidelines are explicitly stated in the UK (9 years) and France (12 years). Singapore considered introducing a mandatory limit of 9 years in 2018, although this has now been reduced to a requirement for shareholder approval for terms greater than 9 years.

2.6 There is a strong research base for different criteria to be applied to 'founder-led' companies, recognising both the influence of the founder on the Board and the performance outcomes of those organisations.

3.0 Key Regulatory Requirements

none

References

Board Tenure: How Long is Too Long? – Egan Associates

Is there a case for limiting director length of service? | BoardPro | Board Management and Productivity Software (boardprohub.com)

Term Limits for Directors – Hansell McLaughlin Advisory Group (hanselladvisory.com)

On Long-Tenured Independent Directors (harvard.edu)

The Harvard Law School Forum on Corporate Governance | Board tenure

Board Refreshment and Succession Planning in the New Normal (harvard.edu)

Are long-tenured directors detrimental to effective corporate governance? | Nanyang Business School | NTU Singapore

Definitions

The definition of Independence is given in the NZX Listing rules under 2.13.3 (f).

Related Policies

17 – Board Composition

18 – Director Share Ownership

6 – Independent Directors

15 – Future Directors

Document Control

This document was approved by the NZSA Board:	**Mar 2022**
This document is effective from:	**Jan 2022**
The next planned review date is:	**Mar 2025**