1. The Proposed Title
The changing behaviour of directors’ overtime and the implications for board renewal

2. The Proposed supervisors and their credentials

*Principle supervisor:* Associate Professor Gavin Nicholson

Associate Professor Gavin Nicholson is an experienced director, governance researcher and board consultant. His current areas of research interest include boards of directors and board dynamics. He has successfully supervised numerous honours, masters and PhD research students to completion and is currently also supervising 2 PhD and 1 research masters students.

*Associate supervisor:* Dr Amedeo Pugliese

Dr Amedeo Pugliese earned his PhD in International Accounting (University of Naples Federico II, 2007) with a thesis on “Multiple theoretical perspectives in assessing boards work: Beyond Agency Assumptions”. Since then he has been conducting research on boards of directors in different settings (Australia, Norway and Italy) and using multiple methodological approaches (quantitative and qualitative).

3. Background and Literature Review

3.1 Introductory statement
Since the seminal work of Berle and Means (1932) established managers lack sufficient incentive to direct their full attention toward profit maximisation, monitoring mechanisms such as the board of directors have been seen as necessary to prevent management from acting in self-interest at the expense of its shareholders (Dalton et al., 1999; Fama & Jensen, 1983). Consequently it is generally accepted that a board with a majority of independent
outside directors is better able to monitor management than a board comprised mostly of inside directors (Hermalin & Weisbach, 2003).

The deemed importance of an independent board is reflected in corporate governance regulation. Although not mandated in Australia, the comply or explain approach adopted by the ASX Corporate Governance Council (ASXCCG) places an onus on board to have a majority of independent directors who can “bring an independent judgement to bear on issues before the board and to act in the best interests of the entity and its security holders generally” (2014 :16).

Implicit in these guidelines is the assumption that a director will remain objective and independent throughout their board tenure as they were at the time of their appointment. Yet the research from small groups' literature suggests the more time a group spends together the more this may become a challenge. For example, overtime groups become committed to the status quo becoming less adaptive and at greater risk of group think (Katz, 1982; Janis, 1972), for boards this may result in reduced monitoring.

In Australia some companies (i.e Westpac) stipulate a maximum tenure for its outside directors. However a proposal put forward by the ASXCGC to follow UK guidelines which considers a director is no longer independent after 9 years of service (UK Corporate Governance Code, 2012), was met with strong opposition (www.asx.com.au/documents/public-consultations/allianz-australia-submission-6Nov_13.pdf). Instead the latest release of the ASX corporate governance guidelines places the onus of verifying director independence on the board but notes that; “the mere fact that a director has served on a board for a substantial period does not mean that he or she has become too close to management to be considered independent. However, the board should regularly assess whether that might be the case for any director who has served in that position for more than 10 years” (p. 17).

The area of board renewal is an important yet understudied area within corporate governance. While the issue of when a director should be replaced is a question that has received a lot of attention there has been little empirical investigation to suggest when or why director renewal should occur. The aim of this study is to explore how the contributions
by outside directors’ change over their time on a board and in doing so broadly address the question of, when should boards replace their directors?

3.2 Literature Review

**The relationship between monitoring, independence and performance**

The focus on independence as a necessary board attribute is grounded in Agency Theory (Dalton et al., 1999) which assumes that as result of the separation between ownership and control, managers interests potentially conflict with those of shareholders (Fama, 1980; Fama and Jensen, 1983b). More specifically, agency theory suggests that managers may choose to pursue strategies and activities that benefit themselves at the expense of stockholders (Eisenhardt, 1989; Jensen and Meckling, 1976). Accordingly, agency theorists view the monitoring of managements’ actions as a primary role of boards of directors and one that protects shareholders’ interests (Dalton et al, 2007; Hillman and Dalziel, 2003)

While the academic literature generally agrees outside directors are more effective monitors (Tuggle et al, 2010), empirical evidence has failed to find a consistent link between independence on performance suggesting the two are not correlated. (Bhagat & Black, 2001, Hermalin & Weisbach, 2003). Some studies have even suggested a negative relationship, for example a recent Australian study found firm vale declined after executive directors were replaced with independent directors (Fischer & Swan, 2013).

Scholars have also noted that independence may not always translate into monitoring (Chen 2008) and that too much independence may have an unintentional consequence of reduced trust, limited communication and increased conflict (Langevoort 1989). Westphal (1999) found that a lack of social independence between the board and CEO can increase monitoring from an increased interaction resulting in increased information flow.

**Board renewal**

A number of studies have considered why directors leave boards. For example, directors voluntarily leave when a firm experiences poor financial performance (Crutchley et al. 2007) and financial fraud (Marcel & Cowen, 2013). Yet the question of when directors should be replaced has received little empirical attention (Kim et al., 2013)
While it has been noted that it takes an outside director at least three to five years to gain adequate understanding of a firms operations (Bacon & Brown, 1973), and that directors with longer tenure are more likely to be a member of the more influential board committees (Kesner, 1988). It has also been argued that long standing directors are more likely to befriend the CEO and in doing so become less likely to monitor them – this is most likely when the CEO is powerful (Vafeas, 2003).

The challenge of board renewal is confounded by the fact that boards do more than just monitor. While monitoring is a core function for boards, it is also generally recognised that boards also play an important role in providing advice and resources to management (Daily & Dalton, 1994; Monks & Minnow, 2004; Pfeffer, 1972). And while agency theory suggests a trade-off between the two roles (x), some research has found that the monitoring and advising are more complementary than competing (Bricklet & Zimmerman, 2010; Kim et al., 2013).

**Tenure in the groups literature**

Within the groups literature, studies have linked team tenure to stability, increased coordination and reduced goal conflict due to the increased level of social interaction (Katz, 1982; Smith et al., 1994). However it has also been noted that tenure has a non-linear relationship with performance and that “performance will be highest when employees have been in the position long enough to overcome some initial naiveté and learn the ropes and local practices” (Pfeffer, 1983: 323). Furthermore the effects of social integration within groups are not always positive. The pressure to maintain harmonious relationships make highly cohesive groups more susceptible to group-think resulting in poor decision making through a failure to explore alternative options (Janis, 1972).

**Boardroom dynamics**

The board is different to traditional work groups, and as such may respond differently to common group biases such as cohesion, conflict and group-think. Boards meet infrequently meetings and are comprised of mostly outsiders who act on a part time basis. These characteristics mean social interaction and cohesion does not come naturally (Finkelstein & Mooney, 2003).
There is growing awareness within the corporate governance literature that group dynamics impact board effectiveness along with a general agreement that the ability for a board to get along is important to board effectiveness (Elms, 2014). For example studies have found trust and respect between members is highly correlated with group effectiveness (Murphy & McIntyre, 2007), that a lack of cohesion inhibits board effectiveness (Kim 2005) and that poor team relationships cause process loss in boards (Neill & Dulewicz, 2010).

Understanding how group dynamic impacts board performance is essential for furthering our understanding of how board can be more effective (Forbes & Milken 1999). Yet the difficulty in accessing the board room means that our understanding of how boards behave and interact is limited. This lack of understanding is recognised as a significant gap in boards research (Gabrielsson & Huse, 2004).

This study aims to contribute to the developing research agenda focusing on board behaviour. It intends to gain a greater understanding of how the behaviour of directors and the board as a group changes over time and how these changes may impact their role of monitoring. In doing so this study aligns with work by previous scholars (e.g. Bezemer et al., 2013; Forbes & Milliken, 1999; Huse, 2005; 2007; Van Ees et al, 2009; Minichilli et al, 2012) who have adopted a behavioural approaches to studying board interactions and relationships contributing toward the opening of the 'black box' of board research (Roberts, McNulty & Stilles, 2005).

3.3 Research problem

The literature review and introductory statement above have described two significant gaps in our understanding of board effectiveness. Firstly, a general lack of understanding of how boards actually behave and secondly, a specific lack of empirical evidence as to how director tenure impacts their ability to monitor. While the group's literature suggests some ways that tenure can impacts individual and group behaviour however the unique environment that a board operates under means these assumptions may not necessarily translate.

This thesis seeks to address these gaps by developing a greater understanding of how director contribution during board meetings changes over time and how this impacts the boards' task of monitoring. As such the first research question is;
**RQ1: How does a director's monitoring behaviour change overtime?**

Furthermore, this study aims to understand how the style of the board meeting may impact on a director's participation. As such the second research question is;

**RQ2: What is the moderating effect of board meeting style on monitoring behaviour?**

Finally, this study aims to expand on the findings from the first two research questions in a larger more general study. As such a third research question;

**RQ3: Is board tenure related to board failure?**

### 4. Program and Design of the Research Investigation

#### 4.1 Objectives, Methodology and Research Plan

The objective of this study is to understand how the tenure of an outside director impacts on their monitoring behaviour.

This study will adopt an embedded mixed methods approach whereby data will be collected both from qualitative and quantitative data and analysed using a quantitative research design. For example, data will potentially come from observing board meetings, surveys, interviews and archival data. This mixed-methods approach is based on a pragmatic worldview that assumes collecting diverse types of data enables a more complete understanding of the research problem than either qualitative or quantitative method could achieve on their own (Creswell, 2013).

Due to the lack of empirical investigation into board tenure (Kim et al., 2013) this research is partly explorative. The main source of data will come from observing board meetings via recorded video data. This method of studying boards' in-vivo allows data to be gathered as close to the phenomena as possible (Pettigrew, 1997) and is well suited to addressing the explorative nature of the research questions.

Observation through video-recording increases reliability as the meetings can be watched multiple times to clarify, recode and allow for inter-rater reliability. Furthermore it provides for more reliable quantification and interpretation of director interactions compared with interviews or participant observation as it reduces the risk of recollection bias and
participant own recollection diverging from reality (Newman & Lindsay, 2009; Pugliese et al., 2014).

To date progressive board research has been hindered by the difficulty in accessing the boardroom (Leblanc & Schwarz, 2007). The proposed research design proposes to open the 'black box' of board meetings and directly observe how directors interact.

The research design will be carried out in 4 stages, a pilot study followed by 3 empirical studies.

**Phase 1: Pilot Study**

Due to the exploratory nature of the research questions there is little guidance on what to expect. As such a pilot study will be undertaken in order to foresee problems and highlight potential gaps and wastage in the data collection process (Marshall & Rossman, 2011). The pilot study will be conducted with three objectives in mind. Firstly, to establish whether the phenomenon is suitable for an observational study; secondly to consider whether further intervening variables should be taken into account and finally, to establish further data collection requirements. The pilot study will be carried out using existing video recordings to be made available by the QUT boards' research group. As such no additional data collection will be required for the pilot study.

**Phase 2: Study 1 – Observation**

Study 1 is proposed as an observation study aimed at addressing research questions 1: *How does a directors monitoring behaviour change overtime?*

The primary source of data analysis for this study will be through direct observation of board meetings using video-recorded tapings. Studying boards in-vivo provides a unique opportunity to observe boards in a naturalistic setting as they engage in their usual governance activities and therefore offers the best method for observing changes in monitoring behaviour and thereby addressing the research question.

Observations will be centred around individual director contribution during different stages of their tenure on a board. For example, a new director who has recently joining the board, a settled director who has been on the board for a moderate term (3 years) and a long standing director (6+ years).
To enhance generalisability more than one board will be observed. The literature suggests board behaviour may vary between boards (Charan, 2005) and so such multiple meetings will be observed for each organisation. The boards will be purposely chosen based on achieving the sample of various tenured directors. These board meetings may come from existing video-recordings owned by the QUT boards’ research group or from newly obtained video-recordings. The requirements will be determined during the pilot study. To date boards have been willing to participate in these projects on the basis that they are provided with feedback including possible areas for development. Therefore data collection is not envisaged to be a significant obstacle.

To increase consistency observations and coding will be done using similar agenda items and those agenda items where the board task of monitoring is most likely to be displayed, for example in reviewing the financial accounts, discussing strategy or a significant matter for board decision.

Monitoring is often associated with asking hard questions and ensuring relevant information is available for decision making. For example in reported cases of monitoring failure, boards have been accused on lacking an inquiring mind – evident in the cases of Centro & Hastie Group. This study will therefore measure monitoring behaviour based on the quality and quantity of questions asked and requests for additional information.

For example, quality of monitoring will be measured using the table below:

<table>
<thead>
<tr>
<th>Purpose of question / request</th>
<th>Example of question / request</th>
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<tbody>
<tr>
<td>To clarify</td>
<td>Are you saying that the underlying profit will not be affected?</td>
</tr>
<tr>
<td>To challenge</td>
<td>Have you considered the effect on the underlying profit?</td>
</tr>
<tr>
<td>To request information</td>
<td>I would like to see a forecast of how this will impact the underlying profit</td>
</tr>
<tr>
<td>Unrelated questioning</td>
<td>Have you tried the muffins?</td>
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Quantity of monitoring (through the asking of questions and requests for information) will be recorded as a total number of incidents and the percentage of the total talk-time spend monitoring by each director.

The output of this study will test a series of hypothesis drawn from the groups’ literature regarding the relationship between tenure and social integration.

For example,

**Hyp 1: Over time directors monitoring behaviour changes**

- **Hyp 1a:** New directors will feel less socially integrated and be less likely to speak up and less likely to exhibit monitoring behaviours
- **Hyp 1b:** Established directors will feel moderately socially integrated and more inclined to ask speak up and also more inclined to monitor management
- **Hyp 1c:** Long standing directors will feel highly socially integrated and are more likely to talk during the meeting but less time will be spent monitoring management

**Hypothesised relationship:**

![Graph showing the relationship between Tenure and Monitoring behaviour](image)

**Phase 3: Study 2 – Observational study**

Study 2 will address the second research question of: What is the moderating effect of board meeting style on monitoring behaviours?

Similar to study one, this is an exploratory research design and data will be drawn from directly observing board meetings. A sample of board meetings will be purposively selected.
that demonstrate varying meeting styles. Data may also be drawn from surveys and/or interviews with directors.

Board meetings are both time-constrained and tasked with critical business for discussion. During board meetings monitoring takes place amongst other decisions and activities. The style of the meeting is likely to create an environment that is more or less conducive to monitoring behaviours. For example, where structures are in place to encourage participation and open debate by all board members, monitoring behaviours may be more likely.

Board meeting style will be measured by the level of meeting formality. This measurement will be based on the recent study of Tuggle et al., (2010) who measured meeting formality by constructing a factor from three variables: (1) the meeting location, (2) the level of board meeting agenda openness (3) the annual frequency of board meetings.

Example hypothesis: *The level of meeting informality will moderate the relationship between tenure and total talk-time and between tenure and monitoring behaviour:*

### Phase 4: Study 3 – Database study

The final phase of this thesis will address the third research question: *Is board tenure related to board failure?*

The aim of this study is to draw on the findings from study 1 as well as the related literature from small groups and corporate governance to hypothesis a relationship between board tenure and a lack of board monitoring.
This study will be designed as a database study using data for Australian listed companies. The objective will be to compare companies that have reported a board failure against companies that have not reported a board failure over a nominal time period, comparing the average tenure of the board as well as the board composition in terms of the percentage the board that is new, established (up to 3 years) or long standing (6+ years).

A lack of board monitoring will be measured by reported board failure – for example instances where internal control failures have been reported, (NBA trader fraud; CBA financial planning scandal, Leighton holdings corruption allegations) and failures to comply with external reporting requirements (Centro, Fortescue, David Jones).

5. Contribution

The findings from this research program will have significant implications for both theory and practice.

Theoretical implications
There have been numerous calls for corporate governance research to move beyond what boards look like and to focus on what boards actually do (Pettigrew, 1992). While there is a growing agenda addressing this gap, the on-going difficulties in accessing board meetings prevents a significant obstacle. This thesis proposes to use direct observation through video-taped board meetings and as such has a unique opportunity to respond to these requests by providing a deep, rich account of how boards interact and behave over time.

A second contribution by this program is to addresses the lack of understanding into board tenure and develop a greater understanding of the relationship between a director's tenures and their level of independence.

Practical implications
This study also has important implication for practitioners, regulators and shareholders. The question of when a board should replace its members has drawn a lot of debate but limited consensus. While there are norms in place for board renewal the rationale is not clear. Due
to the complexities of group dynamics it is unlikely that a one-size fits all approach is the answer. By gaining a greater insight into how behaviours and participation changes over time in board meetings, this study has potential to contribute significantly to the debate.

Finally, the findings from this study are likely to demonstrate the importance of board composition on critical board processes such as monitoring.

6. Resources and funding required

This study relies on a qualitative observational research design, and as such will be subject to a high level of researcher bias. A resource will be required to recode data that will ensure inter-rater reliability increasing the trustworthiness of the findings.

It is expected that the funding for this resource will be accessed via the Research Student Funding Scheme (RSFS).

7. Individual contribution to the research team

The proposed research projects do not form part of any collaborative agreement. All research will be conducted independently with assistance from my supervisory team however academic papers may be written in collaboration with the supervisors.

8. Timeline

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### PhD Milestones
- **Stage 2**
- **Confirmation**
- **APR**
- **Final Seminar**
- **Submission**

### Thesis Stage
- **Literature Review**
- **Research design**
- **Pilot Study**
- **Study 1**
- **Study 2**
- **Study 3**
- **Thesis Write up**

### Training & Development
- **Conference attendance**
- **External training (i.e. ACSPRI)**
- **Internal training (QUT)**

### Output
- **Conference Paper**
- **Journal Article**
Reference List


Neill, D., & Dulewicz, V. (2010). Inside the “black box”: the performance of board of
directors of unlisted companies. *Corporate Governance, 10*(3), 293-306.

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board dynamics and directors' participation on perceived board effectiveness. *British
Journal of Management*, in-press

Roberts, J., McNulty, T., & Stiles, P. (2005). Beyond agency conceptions of the work of the
non-executive director: Creating accountability in the boardroom. *British Journal of
Management, 16*, 5-26.

Top management team demography and process: The role of social integration and

How board composition and processes affect discussion of entrepreneurial issues. *Academy
of Management Journal, 53*(3), 550-571

UK Corporate Governance Code, 2012

Business Finance & Accounting, 30*(7-8), 1043-1064.


Appendix 1: Advanced standing outcome for IFN001

15-Jun-2014

Ms NE Elms
88 McConnell Street
Bulimba QLD 4171
Australia

Course: IF49 Doctor of Philosophy

ADVANCED STANDING OUTCOME

Dear Natalie

Thank you for your application seeking advanced standing in the above course. The result of your application is outlined below:

<table>
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<th>Code</th>
<th>Title</th>
<th>CP</th>
<th>Outcome</th>
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<td>IFN001</td>
<td>Advanced Information Retrieval Skills</td>
<td>4</td>
<td>Granted</td>
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Granted advanced standing will either be “on plan” or “off plan”. “Off plan” advanced standing units are units which have not been applied to your study plan and do not contribute to course completion requirements. “Off plan” advanced standing units may become “on plan” if there is a change in your study plan or study area. Refer to the Advanced Standing Outcomes website [http://qutvirtual2.qut.edu.au/portal/pls/portal/stu_advanced_standing_p.show](http://qutvirtual2.qut.edu.au/portal/pls/portal/stu_advanced_standing_p.show) for details of your “on plan” and “off plan” units.

If you have any queries regarding the outcome of your advanced standing application, or require further information on meeting course completion requirements, please contact your faculty.

Regards

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