

1991

Reducing Tenure in the Boardroom

Jayne W. Barnard

William & Mary Law School, jwbarn@wm.edu

Repository Citation

Barnard, Jayne W., "Reducing Tenure in the Boardroom" (1991). *Popular Media*. 272.

https://scholarship.law.wm.edu/popular_media/272

Copyright c 1991 by the authors. This article is brought to you by the William & Mary Law School Scholarship Repository.

https://scholarship.law.wm.edu/popular_media

Reducing Tenure in the Boardroom



C. Ritchie Photography

By JAYNE BARNARD

WITH all the recent attention on term limits in Congress, perhaps it's time to consider bringing term limits into the boardroom. The problem is the same: a system under which incumbents linger on and on, having to prove nothing and facing no challenge to their tenure. Establishing term limits for outside corporate directors could prove valuable, especially at com-

panies in need of a jump-start in leadership, and shareholders with clout — like pension funds — should encourage such a move.

Directors could be elected to three- to five-year terms; they would run initially with a publicly disclosed platform, and then run for re-election based, first, on how closely they made good on their earlier promises, and, second, on the attractiveness of their future promises. Competitive candidates, nominated by institutional investors could run against in-house candidates and they all would run on a common ballot.

Of the winners, outside — but not inside — directors would be subject to term limits totalling no more than 10 years. New members could join the board as incumbents resign or retire.

Term limits would force directors to focus more on shareholder expectations and less on building relationships with top executives, and might discourage high-dollar compensation packages for top executives. They would also permit the graceful elimination of unproductive directors.

The result: a board guided by agreed-upon objectives, which could develop some esprit de

Jayne Barnard is an associate professor of law at the College of William and Mary.

corps, and yet one that does not get stale or too clubby. The idea is not to make leadership unstable but to encourage diversity and fresh thinking.

Although critics might argue that term limits would discount valuable institutional memory, the limits would be applied only to outside directors so that the most significant experience would be retained. And term limits would not enhance the already-considerable power of the chief executive: Directors with a limited tenure are more likely to challenge the delivered management wisdom than those with a lifetime ticket.

COMPANIES that stand to gain the most are ailing mature companies that have traditionally had the longest tenure for board members. Until recently, there were seven outside directors on the General Motors 20-person board who had served at least 10 years. (Of its 17-person board now, there are five long-term outside directors.) Sears, Roebuck has six outside directors with at least a decade of service. And they are not the only companies with such records. By pruning some deadwood — and even active, constructive board members whose creative thinking days may have passed — term limits on directors could push companies to do better. ■