

Appointing a Non-executive Director

Business Information Factsheet

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Introduction

A non-executive director is a member of a company's board of directors who is not involved in the day-to-day management of the organisation. They provide strategic advice and guidance in relation to the company, scrutinising the board's decision-making and offering a new perspective.

Some act as business mentors, particularly for small companies. Others are appointed because they have specific skills that the company's board of directors may lack, such as knowledge of digital technologies or environmental issues.

This factsheet covers the key responsibilities of a non-executive director, as well as some aspects of the appointment process.

The factsheet is a starting point only. Professional advice should be taken where necessary.

Key responsibilities

The responsibilities of a non-executive director generally include:

- Providing an input into the strategic direction of the company.
- Providing objective criticism and contributing to ongoing strategic reviews.
- Monitoring the performance of executive directors.
- Being satisfied that financial information and risk management systems are accurate and robust.

Under the Companies Act 2006 there is no legal distinction between an executive and a non-executive director, which means that non-executive directors have the same legal duties as the executive directors. These legal duties include, for example, acting within their powers as set out in the constitution of the company, exercising independent judgement, reasonable skill, care and diligence, and avoiding conflicts of interest.

Benefits of a non-executive director

It has become increasingly common for small and start-up companies to appoint non-executive directors, particularly if their board lacks business experience or specialist skills.

Benefits of appointing a non-executive director include the following:

- **Business support:** Many non-executive directors specialise in providing mentoring and coaching to directors who are new to running a company.
- **Credibility:** Companies that have appointed a non-executive director may appear more reliable and trustworthy to potential investors and clients.
- **Business networking:** Non-executive directors typically have a wide range of business contacts, which could make it easier for the company to win more contracts or secure more investment.

Appointing a non-executive director

The decision to appoint a non-executive director is generally taken by the board of directors.

In some cases, a shareholders' vote of approval may be required under the company's articles of association to confirm the decision to appoint a non-executive director.

Non-executive directors are generally appointed under a 'letter of appointment' rather than an employment contract. The letter of appointment typically includes matters such as:

- The period for which the non-executive director will serve.
- The time commitment required.
- The responsibilities of the non-executive director.
- Remuneration details.

The UK Corporate Governance Code, which provides a summary of good practice requirements for limited companies, recommends that a non-executive director should receive a 'full, formal and tailored induction', to help them quickly build their knowledge of the organisation.

Remuneration

Although some non-executive directors work without payment, particularly on the boards of charitable companies, they are usually paid a director's fee. Alternatively (or additionally), they may receive equity in the company. This is particularly common in start-up companies.

Similar to executive directors, a non-executive director is considered to be an 'office holder'. In general, any fees paid to them are taxed at source under PAYE and subject to Class 1 National Insurance contributions.

Useful resources

'What is a Non-executive Director?'
British Business Bank

www.british-business-bank.co.uk/business-guidance/guidance-articles/business-essentials/what-is-a-non-executive-director

'What is the Role of the Non-executive Director?'

Institute of Directors (IoD)

www.iod.com/resources/company-structure/what-is-the-role-of-the-non-executive-director

'Selecting Non-executive Directors'

IoD

www.iod.com/resources/business-advice/selecting-non-executive-directors

'UK Corporate Governance Code 2024'

Financial Reporting Council

www.frc.org.uk/library/standards-codes-policy/corporate-governance/uk-corporate-governance-code/#uk-corporate-governance-code-2024-effective-2025

Related factsheets

BIF023 Appointing a Company Secretary

BIF025 Duties of a Company Director

BIF459 Companies Act 2006

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