

NON-EXECUTIVE DIRECTORS

Who are they?

There is no separate statutory definition of a non-executive director. A non-executive director is not an employee of a company and will usually only devote part of their time to the affairs of the company as an independent advisor or supervisor.

How are they appointed?

Non-executive directors are appointed in the same way as executive directors and are appointed by the board. A non-executive director's details are filed at Companies House in the usual way.

A non-executive director will be issued with a contract for services rather than a contract of employment.

Non-executive directors may be appointed for a specific term, or for the duration of a particular project.

What do they do?

Non-executive directors have the same general legal responsibilities to the company as any other director as detailed in The Companies Act 2006.

Non-executive directors do not report to the chief executive and are not involved in the day-to-day running of the business. Instead, they tend to be involved with:

- **Strategy** – non-executive directors should constructively challenge and contribute to the development of strategy. They are often chosen because they have specialist knowledge, skills and attributes;
- **Performance** – non-executive directors should scrutinise the performance of management in meeting agreed goals and objectives and monitor the reporting of performance;
- **Risk** – non-executive directors should satisfy themselves that financial information is accurate and that financial controls and systems are robust and defensible; and
- **People** – non-executive directors are responsible for determining appropriate levels of remuneration for executive directors and have a prime role in appointing and, where necessary, removing, senior management.

Non-executive directors bring an important 'checks and balances' function to the board. By virtue of their independence from executive office and because of the absence of any significant financial interest in the company, they counter-balance the power and operational interest of executive directors.

Accountability

The law is moving towards a more objective and demanding standard of skill and care for company directors, however it is recognised that the knowledge, skill and experience expected will vary between directors with different roles and responsibilities (for example, between the finance or sales director and a non-executive director.) Moreover, a higher standard of skill would also be expected of a director who is unusually skilled or qualified.

As all directors can face personal liability in certain circumstances despite the limited liability status of a company, a company should arrange Directors and Officers Insurance for non-executive directors which will act as a basic protection against claims by third parties.