

Attributes of a successful non-executive director

Non-executive directors act as the custodians of the governance process, and are expected to have a strong, independent-minded character. A successful NED therefore needs a number of attributes if they are to be able to challenge the board and make a difference.

The Higgs report “Review of the role and effectiveness of non-executive directors”, published in 2003, stated:

“Although non-executive directors need to establish close relationships with executives and be well informed, all non-execs need to be independent of mind and willing and able to challenge, question and speak up. All non-execs need to be independent in this sense.”

The review identified other personal characteristics of NEDs that are linked to an independence of mind:

- Integrity and high ethical standards.
- Sound judgment.
- An ability and willingness to challenge and probe. Within the “collegiate” environment of a unitary board, non-execs must have the strength of character to obtain full and satisfactory answers to their questions.
- Strong interpersonal skills. The effectiveness of a non-executive director depends on exercising influence while not giving orders. To exercise influence, a non-exec must have the trust of their colleagues.

However, although independence of character is a desirable characteristic for non-execs, it is not sufficient on its own to make them independent NEDs. They must be independent in the sense that there is no possibility of a conflict of interest between:

- the best interests of the company, and
- either the personal interests of the director or other interests that the director may also represent.

The UK Corporate Governance Code sets out guidelines on how to determine and maintain this independence. It is good practice for privately owned companies to adopt the same standards, and it’s very useful for NEDs to be aware of this code.

Non-executive directors must not:

- have been an employee of the company in the last five years
- have had a material business interest in the company for the last three years

- receive any income or remuneration other than director fees
- participate in the company's share option or performance related remuneration or pension scheme
- have close family ties with company advisers, directors or senior employees
- have conflicting cross-directorships or significant links with other directors of the company through involvement in other companies or bodies
- represent significant shareholders
- serve as a non-executive director for more than nine years with the same company, on the basis that a non-exec's independence will erode over time.

Shockingly, in one survey, only 29% of companies declared that their non-execs met all these standards of independence. It is hard to see how a non-exec can be effective if they are not independent.

To support the principle of independence, companies should not appoint:

- the "same old non-execs"
- non-execs who have more than four roles
- a "safe pair of hands"
- non-execs who "look good on the letterhead"
- non-execs who are not independent.

Being an effective NED requires a finely balanced combination of attributes, including:

- independence and impartiality
- persistence
- sector experience (although this is not always vital, as a fresh approach can be beneficial)
- a successful track record
- commercial experience
- high levels of integrity
- courage to do the right things
- enthusiasm and drive

- good communication skills, and
- sufficient time (not spread too thinly among too many roles).

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