



IoD BUSINESS PAPER

## **NEDs reimagined**

A post-Higgs review of the role and contribution of non-executive directors

# Executive summary

The aim of the 2025 IoD Commission was to consider whether the role of non-executive directors (NEDs), first defined by the 2003 Higgs Review, remains fit for purpose in today's complex corporate environment. In conducting its work, the Commission undertook survey and academic research, consulted with a wide range of practitioners and governance experts, and engaged in extensive discussion and debate.

It finds that while the Higgs principles remain relevant, boards must evolve from passive oversight to active, adaptive stewardship. The Commission calls for a rewiring of the board, making 12 recommendations, around board composition, competence and skills, culture, support and enablement, and incentives and rewards, to encourage NEDs to be more bold, curious, and strategically engaged.

## Findings and recommendations

- 1 NED independence should be conceived less narrowly, focusing on independence of mind, cognitive diversity as well as criteria avoiding potential conflicts of interest.
- 2 Boards should be less conservative in their approach to NED recruitment.
- 3 Boards should give careful consideration to the number of NEDs they appoint.
- 4 NEDs must have the requisite skills, experience, and mindset to contribute effectively and demonstrate a continued appetite to learn.
- 5 NEDs need to be provided with clear expectations and more structure, guidance, and feedback from chairs.
- 6 NEDs need to be more engaged and curious.
- 7 NEDs need to be more present in the business.
- 8 NEDs should hold executives to account but do so with emotional intelligence.
- 9 Improved NED effectiveness is not something that can be mandated or achieved by government; boards and individual NEDs must rise to the challenge.
- 10 NEDs need access to their own independent resources and sources of insight.
- 11 NEDs should build their understanding of AI and adopt relevant tools to enhance board effectiveness and informed decision-making.
- 12 NEDs need to be remunerated in a way that better reflects the complexity, time demands, and responsibilities of the role.



**The IoD convened this Commission to evaluate if NEDs are adding value and identify how they might be better supported to navigate an uncertain, changing, and unpredictable climate.**

**Jonathan Geldart**  
Director General, IoD

**In today's complex environment, boards must evolve from a model of periodic oversight to one of active, informed, and adaptive stewardship. Put simply, it is time to rewire the boardroom.**

**The Rt Hon. Baroness Evans of Bowes Park**  
Commission Chair

# Foreword



**Jonathan Geldart**  
Director General, IoD

Since the 2003 Higgs Review, which established the structural foundations for effective non-executive leadership in the UK, the context in which NEDs operate has significantly evolved.

Boards today operate in an increasingly complex environment, shaped by digital transformation, sustainability imperatives, cyber risk, geopolitical uncertainty, and growing public scrutiny. Expectations of NEDs have also risen sharply; they are expected to provide independent oversight and effective challenge while also contributing meaningfully to strategy, culture, and long-term value creation.

While the contribution of NEDs remains vital for effective governance and accountability, recent corporate failures have prompted fresh questions about how directors and boards function and whether current approaches to non-executive leadership remain fit for purpose.

That is why the IoD convened this Commission: to take a considered look at the role of NEDs today, evaluate if NEDs are adding value, and identify how NEDs might be better supported to navigate an increasingly complex environment.

I would like to express my sincere thanks to The Rt Hon. Baroness Evans of Bowes Park for her expert chairing of this Commission, and to all the Commissioners for their time, insight, and commitment throughout the process. Their work explores both the opportunities and challenges facing modern boards, offers practical recommendations to support stronger, more effective governance, and highlights some ongoing issues that demand further investigation, discussion, and debate.

The IoD invites you to continue on that journey with us by engaging with the follow-on events and research projects we'll be launching in the coming weeks and months to keep this conversation going.

For now, we hope that this report supports businesses in building more engaged, informed, and forward-looking boards, and acts as a catalyst for the ongoing development of governance in the UK and beyond.



**The Rt Hon. Baroness  
Evans of Bowes Park**  
Commission Chair

It has been a privilege to chair the IoD's Commission on the role of NEDs. I am extremely grateful to my fellow Commissioners for their commitment and valuable insights, and to the IoD team for their support throughout this process. We were deeply saddened by the passing of Professor Andrew Kakabadse during this process, who made a valuable contribution to the work of this Commission. He will be greatly missed by all who had the pleasure of working with him.

In undertaking this work, the Commission considered the legacy of the 2003 Higgs Review. Its principles remain relevant and influential, but we believe the time has come to build on that foundation. The recommendations in this report reflect a forward-looking philosophy that moves beyond a compliance-based model and embraces the full value that NEDs can bring.

This report argues that in today's complex environment, boards must evolve from a model of periodic oversight to one of active, informed, and adaptive stewardship. Put simply, it is time to rewire the boardroom. What made for a good board in 2003 is not necessarily what makes for a good board in 2026. NEDs should be bold, curious and strategic to meet the challenges of modern governance.

Our work was shaped by engagement with a wide range of leaders, practitioners, and governance experts, as well as rigorous discussion amongst Commissioners.

**The Commission has identified 12 core findings and recommendations to strengthen board effectiveness and the role of NEDs, with four standing out as particular priorities:**

- NED independence should be conceived less narrowly, focusing on independence of mind, cognitive diversity as well as criteria avoiding potential conflicts of interest.
- Boards should be less conservative in their approach to NED recruitment, moving beyond the traditional pipeline of former executives.
- NEDs must be more engaged and curious, bringing greater energy to the role.
- Boards should spend more time within the business to better understand and support its operations.

These changes are most effective when led by boards themselves, rather than imposed through regulation.

It is our hope that this report encourages boards to reflect on their practice and contribution, challenge assumptions, and take practical steps to ensure their NEDs are as effective and impactful as possible.

# About the commission

In early 2025, with the board landscape having transformed significantly since the Higgs Review<sup>1</sup> over 20 years ago, the IoD launched a Commission to address the unique challenges faced by NEDs. The Commission's purpose was to:



## Evaluate

Evaluate if non-executive directors are adding value to boards of directors and corporate governance more generally.



## Identify

Identify the main challenges and obstacles that face NEDs, and consider how (and if) they can be overcome.



## Recommend

Make recommendations to boards and policy makers concerning the more effective deployment of NEDs.

Chaired by the Rt Hon. Baroness Evans of Bowes Park, the Commission, comprised of practitioners and experts from a cross-section of organisation types, sizes, and sectors, held five in-person meetings between February and October. They provided feedback and discussed the various issues relevant to this report at length. The IoD also conducted a series of individual meetings and interviews with members of the Commission and with other experienced directors, investors, company secretaries, and corporate governance specialists. Their detailed insights complemented the perspectives obtained from a separate IoD membership survey conducted for this report. The membership survey provided an opportunity to gain the perspective of an even broader spectrum of organisational leaders, including those serving on the boards of SMEs, public sector boards, and governing bodies in the not-for-profit sector.

<sup>1</sup> [icaew.com/technical/corporate-governance/codes-and-reports/higgs-report](https://www.icaew.com/technical/corporate-governance/codes-and-reports/higgs-report) (2003).

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# Key findings and recommendations

**Since the Higgs Review, the context for boards has changed profoundly, shaped by digital transformation, geopolitical volatility, and increasing public scrutiny. The Commission's purpose was to assess whether NEDs truly add value and to examine how NEDs can evolve to remain effective and trusted in this environment.**

**The findings and recommendations of the Commission reflect a consensus among the Commissioners, reached through constructive discussion of complex and sometimes contentious issues. These discussions drew on the diverse perspectives of members from different sectors, organisational sizes and professional backgrounds. While views were not always unanimous, this range of opinion enriched the deliberations and strengthened the Commission's collective contribution.**

We found that meaningful change is most effective when led by boards themselves rather than imposed by regulation. The Commission's findings and recommendations therefore aim to strengthen strategic agility and accountability, redefining the NED role as active, informed, and future focused. Grouped around five key themes — board composition, competence and skills, culture, support and enablement, and incentives and rewards — they ensure boards can create long-term value by balancing effective stewardship with oversight.

The report also calls for a renewal of the 'explain' element of the UK Corporate Governance Code (CGC). The Commission found that the application of the CGC has become increasingly prescriptive, moving away from the flexible, principle-based intent envisioned by Cadbury<sup>2</sup> and Higgs. Revitalising the 'explain' element of the 'comply or explain' (CoE) model would promote more constructive dialogue and empower boards that subscribe to the CGC to appoint NEDs who bring genuine independence, curiosity, and strategic insight.

<sup>2</sup> The 'Cadbury Report' refers to the 1992 report on corporate governance in the UK, titled 'The Financial Aspects of Corporate Governance'. It was created in response to high-profile corporate scandals and its main outcome was the development of a voluntary code with key recommendations, such as separating the roles of chairman and chief executive. The CGC introduced a 'comply or explain' principle, requiring companies to either follow the code or provide reasons for non-compliance.



## Board composition

### Reframing of NED independence

We are not recommending changes to the independence criteria in the 2024 CGC. However, boards must recognise the limitations of a tick-box interpretation of these criteria. Although transparency about NEDs' pre-existing relationships is essential, avoiding conflicts of interest alone is not enough to determine a director's suitability.

The Commission recommends that boards and investors be more open to balancing CGC independence criteria with other factors, such as cognitive diversity. For example, boards should feel able to appoint NEDs who may not fulfil all formal 'independence' criteria but who offer fresh thinking and intellectual capacity. The 'comply or explain' (CoE) nature of independence disclosure exists to support such decisions, with the CGC already allowing boards to 'explain' a candidate's independence even if they do not 'comply' fully with CGC independence criteria.<sup>3</sup> The Commission therefore encourages boards to make the case for appropriate candidates through high quality disclosures that emphasise genuine intellectual independence coupled with relevant skills and experience.

### Less risk averse and more imaginative recruitment

Boards can be too conservative in their approach to board appointments. The Commission encourages the identification of new pools of talent and recommends that search firms include candidates who do not yet serve on multiple boards but who have the right competencies and skills.

### Board size and agility

Boards should give careful consideration to the number of NEDs they appoint and the balance between non-executive and executive representation. Smaller, leaner boards tend to encourage deeper NED engagement by promoting greater personal responsibility and discouraging 'free riding', creating more agile decision-making bodies. Although larger boards may be justified where a wider range of skillsets is needed or to staff board committees, they can become unwieldy.

Similarly, while we remain supportive of the unitary board model, boards must achieve the optimal balance between NEDs and executives: a board mainly composed of NEDs risks being too removed from operations, while a majority executive board may compromise objectivity. We recommend that boards critically reflect on their organisational context, maturity, sector, and strategic objectives when considering board composition and size. The use of board advisors or advisory boards may also be valuable in extending perspectives and experience without adding to board size.

- 1 NED independence should be conceived less narrowly, focusing on independence of mind, cognitive diversity as well as criteria avoiding potential conflicts of interest.
- 2 Boards should be less conservative in their approach to NED recruitment.
- 3 Boards should give careful consideration to the number of NEDs they appoint.

<sup>3</sup> The explanations of non-compliance which are key to CoE's effectiveness are often of poor quality or inadequate. For example, a study from 2019 found that only 32% of companies provide high-quality explanations for non-compliance. See Grant Thornton, 'Corporate Governance Review 2019', p. 5. Non-compliance statements are seen to be very brief, inaccurate, generic and based on the use of boilerplate statements: MacNeil and Esser (2022) and Keay (2014). MacNeil and Esser (2022) look in detail at the emergence of CoE globally, its origins and rationale. Their observations as to flexibility of codes, the operation of CoE, and how to define independence when it comes to board structures and operations, were especially helpful to inform some of the findings (e.g. 1 and 9) of the Commission and the general recommendations made around the CoE nature of the CGC.



## Competence and skills

### Clear expectations and regular feedback

Directors should be clear on what is expected from them. We recommend that all directors meet at least annually, led by the chair, to define the specific contribution they are expected to make as individuals and collectively.

NEDs should also be provided with regular feedback on an individual basis by the chair. This could occur as part of regular post-board meeting feedback or through regular board and director evaluation processes. The specific context of the organisation should be taken into account to determine the most appropriate approach.

### NED curiosity, learning, and development

In a constantly evolving world, it is vital that directors' knowledge remains current. Learning can take many forms, from expert speakers to self-directed research, board crisis simulations, and formal professional development.

While boards should support the ongoing professional development of directors, NEDs should demonstrate their commitment to engaging in ongoing learning and development relevant to their role and take responsibility for keeping abreast of external developments critical to the execution of their role.

- 4 NEDs must have the requisite skills, experience, and mindset to contribute effectively and demonstrate a continued appetite to learn.
- 5 NEDs need to be provided with clear expectations and more structure, guidance, and feedback from chairs.



## Culture

### Curiosity comes first

Debate around NED performance often focuses on their role in challenging management. While constructive challenge is important, it works best when paired with emotional intelligence, curiosity, and engagement. Chairs should encourage collaboration and set clear expectations for thoughtful, constructive dialogue.

### Emotionally intelligent challenge

NEDs should not define their role in the context of challenge alone. NEDs should bring skills and expertise that management can leverage, seeking advice and guidance as needed. This will form the basis for a management-NED relationship that is built on trust and reciprocity.

### Gaining exposure and building trust

NEDs should be sufficiently involved and engaged with the organisation to develop a thorough understanding of its culture, strategy, risks, and opportunities. NEDs should make themselves visible and accessible to the wider organisation as required.

### Code of conduct

Improved NED effectiveness is not something that can be mandated or achieved by government; boards and individual NEDs must rise to the challenge. We recommend that all directors and boards align themselves with an explicit code of conduct, such as the IoD Code of Conduct for Directors, and use it to reflect on their own behaviour and that of the board.<sup>4</sup>

- 6 NEDs need to be more engaged and curious.
- 7 NEDs need to be more present in the business.
- 8 NEDs should hold executives to account but do so with emotional intelligence.
- 9 Improved NED effectiveness is not something that can be mandated or achieved by government; boards and individual NEDs must rise to the challenge.

<sup>4</sup> [iod.com/resources/iod-code-of-conduct-for-directors/](https://www.iod.com/resources/iod-code-of-conduct-for-directors/). See also Part III with 'Key Lessons for Directors'.  
See further [gov.uk/government/publications/the-7-principles-of-public-life/the-7-principles-of-public-life--2](https://www.gov.uk/government/publications/the-7-principles-of-public-life/the-7-principles-of-public-life--2).





## Support and enablement

### Dedicated NED support and resources

The board should allocate specific resources to NEDs so that they are able to source information and conduct their own analysis when needed, without having to solely rely on information received from management. This is currently provided for in the CGC, but support of this nature is not always made available to NEDs in practice.

### Enhanced role for technology in the boardroom

Directors should proactively stay up to date when it comes to technology, AI, data protection, and cyber security. Where NEDs do not feel fully appraised of AI-related risks and opportunities, as with other technology matters, they should seek out training and development opportunities to deepen their knowledge and understanding. NEDs should also play an ambassadorial role with regards to new technologies, for example leaning into safe, secure, and ethical AI to help them fulfil their roles.

- 10 NEDs need access to their own independent resources and sources of insight.
- 11 NEDs should build their understanding of AI and adopt relevant tools to enhance board effectiveness and informed decision-making.



## Incentives and rewards

### Financial incentives

NED remuneration should better correspond with the demands, complexities, and responsibilities of the role. Currently there is a widespread perception amongst NEDs that compensation falls short in this respect, especially outside of large, listed companies, making it more difficult to recruit and motivate good NEDs.

In some cases, shares or share options might be appropriate to attract the required NED skillsets and experience in smaller, unlisted companies. Boards of unlisted companies should avoid a dogmatic or overly rigid approach to NED remuneration, although the need for NEDs to be rewarded in a manner that is distinct from executives remains an important governance principle.

- 12 NEDs need to be remunerated in a way that better reflects the complexity, time demands, and responsibilities of the role.

# Detailed findings and recommendations

## Introduction

### Defining the NED role

The 2003 Higgs Review laid the foundations for modern UK corporate governance by defining the role, composition, and independence of NEDs.

#### It identified four elements to the role of the non-executive director:

- **Strategy:** NEDs should constructively challenge and contribute to the development of strategy.
- **Performance:** NEDs should scrutinise the performance of management in meeting agreed goals and objectives and monitor the reporting of performance.
- **Risk:** NEDs should satisfy themselves that financial information is accurate and that financial controls and systems of risk management are robust and defensible.
- **People:** NEDs should be responsible for determining appropriate levels of remuneration of executive directors and have a prime role in appointing, and where necessary removing, senior management and in succession planning.

Its emphasis was largely procedural, aiming to professionalise the NED role and restore trust after major corporate failures. It established clear structural expectations such as board balance, tenure limits, and independence criteria and reinforced the importance of oversight, accountability, and separation of powers between the chair and chief executive.

The CGC (first issued in 2010, evolving from the Combined Code, and most recently updated in 2024) drew heavily on the findings and recommendations of the Higgs Review to formalise and clarify the role of NEDs in listed companies. While retaining core Higgs principles, it shifts the focus from structure to outcomes, placing greater emphasis on culture, values, and the effectiveness of internal controls across financial and non-financial areas.

It reaffirms the CoE model,<sup>5</sup> but encourages richer, organisation-specific explanations rather than formulaic compliance. The CGC now explicitly connects governance to purpose, sustainability, diversity, and long-term value creation. In short, where Higgs codified the form of good governance, the 2024 CGC seeks to capture its function; how boards behave, make decisions, and demonstrate accountability in practice. This marks a shift from procedural compliance to dynamic, evidence-based stewardship.

<sup>5</sup> E.g. Wymeersch (2006).

## **The Evolving Board Context**

While the Higgs Review provided the intellectual foundation for modern UK governance and defined the role of the NED, it was framed for a different era — one concerned with formal accountability and structural balance, not the complexity, speed, and stakeholder pressures of today's environment.<sup>6</sup>

The world in which boards operate has changed profoundly since 2003. While the principles of accountability, independence, and stewardship remain sound, the environment in which they are applied has transformed. What made for an effective board in 2003 is no longer sufficient.

Today, companies appoint NEDs for a range of reasons, including to provide specialist expertise, strategic input, and stakeholder reassurance.<sup>7</sup> NEDs play an essential role in modern corporate governance, offering objective oversight, strategic guidance, and specialist expertise without being involved in the day-to-day management of the organisation.<sup>8</sup> Their presence is intended to broaden the board's perspective, challenge executive thinking constructively, and safeguard the interests of shareholders and other stakeholders.<sup>9</sup>

The rationale for appointing NEDs therefore extends beyond compliance box-ticking. NEDs should bring a particular dimension to the board such as domain expertise and/or broad director experience. The strength of a board, however, lies in its collective capability. A single NED, however skilled, cannot compensate for weaknesses elsewhere on the board or in the wider system of governance. The most effective boards blend executive expertise, independent perspectives, and diverse skill sets to ensure robust decision-making.

The role and expectations of NEDs vary depending on the organisation's type, size, and ownership structure. In a large, listed company, NEDs may focus heavily on governance, shareholder relations, and regulatory compliance. In a private equity-backed business, they might prioritise strategic growth and value realisation. In a family-owned business, NEDs may mediate between family interests and professional management. In an early-stage startup, they may be more hands-on, providing mentorship and building governance frameworks from scratch.

6 The recommendations of this Review were to a large extent incorporated in the CGC (Combined Code at that stage). The Companies Act does not define or classify directors as NEDs.

7 See also the challenge to have the right balance between generalists and specialist NEDs: "There has been a significant increase in the demand for subject-matter specialists on boards over the past ten years, but these directors often struggle to contribute beyond their area of expertise. More recently, the value of 'generalist' directors has come to the fore, as their broad business background stands them in good stead to provide meaningful input across the piece, and to help boards weather crises when they occur. Preserving a balance of experience and expertise on a board is becoming more and more difficult; the conversation around diversity needs to develop to ensure that there is sufficient diversity of thought and functional background – and increasingly age – as well as gender and ethnic diversity."

8 Spencer Stuart's 2025 'Measure of Leadership' survey of 2,400 CEOs and directors found that fewer than a quarter of CEOs feel their boards are supporting them effectively in today's environment. See: [Closing the Confidence Gap: Why the Board-CEO Relationship Needs a Reset](#). See Roberts, McNulty and Stiles (2005) on a set of three characteristics critical to NED directors effectively creating accountability in the boardroom: engaged but non-executive, challenging but supportive. and independent but involved.

9 See Provision 13 of the CGC. See Liu and Andersson (2014) on the expectations of UK independent NEDs. See also, [Ahmad and Shaba](#) (2016) on the role of NEDs: "The traditional role of NEDs of rather lesser commitment has been redefined by the dire need of their active monitoring of management, as well as contributing to business strategy". See also Pass (2004), where it is argued that, because of the part time nature of their job, the existence of information asymmetry between NEDs and the executives, the possibility of holding 'double directorships' in different organisations, and the occasional lack of independence, NEDs may not be able to perform their duties well.

### Aims and approach of the Commission

The Commission was convened to assess the role and contribution of NEDs in this transformed context and to consider whether the frameworks and behaviours that underpin board effectiveness remain fit for purpose.

Drawing on meeting discussions, written feedback from Commissioners, interviews, and an IoD member survey as well as existing academic and corporate research, the Commission sought to determine whether NEDs continue to add measurable value to boards and governance, to identify the key challenges to role execution, and examine how boards can move from risk avoidance and procedural compliance to active stewardship and strategic engagement.

### Challenges facing modern NEDs

The Commission's findings and recommendations respond to the evolving context in which modern NEDs work and reflect the many challenges they face.

Many of those we interviewed commented on the magnitude of director responsibilities,<sup>10</sup> which can be daunting. Expectations about what NEDs can achieve are often not realistic and reflect a misunderstanding of the day-to-day realities of how organisations operate. The entire onus for good governance could not and should not be placed on NEDs, who should instead be seen as a component, albeit a key one, of a broader governance system in which a variety of actors and processes must play their part (for example, executive directors, senior management, auditors, investors, and regulators).

Most of those interviewed by the Commission agreed that NED role execution, in terms of the nature and level of involvement in the day-to-day operation of the business, is inextricably linked to corporate context. For example, a NED in a start-up organisation might have more involvement and engagement in company matters outside the boardroom than a NED in a mature multinational corporation. In the former, executives might lean significantly on the expertise, network, and knowledge of the NED.



**The way you add and deliver value as a NED will be different in different organisations. It depends on who the stakeholders are. It depends on the maturity of the enterprise. The role will evolve through the lifespan of an organisation.**

According to many participants, some NEDs can be too defensive, focusing too much on regulatory compliance, risk management, and the avoidance of business failure.<sup>11</sup> Inadequate attention is paid to optimising strategic opportunities and responding to external developments. The potential upside in terms of business performance should be just as important to NEDs as the downside.



**Things are changing so rapidly. Are we sure boards are keeping pace? Probably not. Boards need to be much more innovative and adaptive than they are.**

Contrary to some expectations, the job of a NED should not be to operate as a high-level internal control or compliance function; they are neither equipped nor resourced for that kind of role.



**Nowadays 70% of board attention is given to compliance and procedures, and only 30% to genuine stewardship. These percentages should be reversed.**

#### Participants in the IoD member survey listed the top 5 obstacles to effective non-executive directorship as:

Reticence amongst NEDs to robustly challenge management or major shareholders	48.7%
Poor information flows from management	44.7%
Lack of NED engagement with the wider organisation and other stakeholders	40.6%
Insufficient curiosity amongst NEDs	37.7%
Poor chairmanship	36.9%

<sup>10</sup> Time constraints can also have a negative impact on the role of a NED: Gabriel (2004); Marchesani (2005) and the 2021 EY NED Barometer Survey stating that 78% say the role has become more time consuming.

<sup>11</sup> A survey (FTSE 100 board evaluation trends) from Board Intelligence, based on FTSE 100 board evaluations, also found directors are often stifled by administrative complexities, disengaged from innovation, and unclear on their strategic mandate: "The accusation is that UK boards obsess over risk mitigation and compliance over discussing matters that could be transformational for a company's future." See [ft.com/content/fdf81f3d-f9fe-4e4b-8834-4bb9d44301ac](https://ft.com/content/fdf81f3d-f9fe-4e4b-8834-4bb9d44301ac).

### The Commission's findings and recommendations

To support practitioners and policy makers in continuously improving NED effectiveness, the Commission has identified 12 findings and recommendations which are explored in detail, by theme, in the next section of this report. These themes are board composition, competence and skills, culture, support and enablement, and incentives and rewards.

In short, the Commission found that improving NED effectiveness requires both behavioural change and framework renewal. It recommends that boards foster curiosity, courage, and constructive challenge and calls for better application of principles, through transparent, outcomes-focused governance, rather than more rules, to promote judgement over box-ticking.

This report emphasises the behavioural and cultural changes needed to enhance NED effectiveness while also calling for a renewal of the policy framework that governs their role. It advocates restoring balance by revitalising the 'explain' element of the CoE CGC model to promote richer disclosure and genuine dialogue. Greater flexibility will enable boards to appoint NEDs with true independence, curiosity, and strategic insight, ensuring that governance codes support rather than constrain effective board practice.



## Board composition

### Board diversity

The Higgs Review included data on the number and nature of NEDs in listed companies as of 2002. This table compares that with the most recently available data for listed companies.<sup>12</sup>

- 1 NED independence should be conceived less narrowly, focusing on independence of mind, cognitive diversity as well as criteria avoiding potential conflicts of interest.
- 2 Boards should be less conservative in their approach to NED recruitment.
- 3 Boards should give careful consideration to the number of NEDs they appoint.

Data point	2002	Now
Independent directors on the board	<b>47%</b>	<b>95%</b> (excl. chair)
Female NEDs	<b>6%</b> NEDs <b>1%</b> chairs	<b>53%</b>
NEDs from ethnic minorities	Estimated <b>1%</b>	<b>15%</b> <sup>13</sup>
Average age	<b>59</b> years	<b>60.6</b> years
Percentage of NEDs holding more than one listed board position	<b>80%:</b> 1 NED role <b>10%:</b> 2 NED roles <b>7%</b> also executive directors	<b>62%</b> of NEDs at least have one other listed company board commitment

<sup>12</sup> All data from 2024 UK Spencer Stuart Board Index | Spencer Stuart, unless stated otherwise. This index only covers the FTSE 150. For data on women's representation on boards and leadership positions, see the February 2025 report ([ftswomenleaders.com](https://www.ftswomenleaders.com)).

<sup>13</sup> Of which 58% are women and 39% are UK nationals.

There is more independence and diversity evident on listed company boards following the changes to the CGC after Higgs and various UK diversity initiatives.<sup>14</sup> There has also been a significant increase in the number of foreign nationals<sup>15</sup> on listed company boards, which may partly reflect the fact that there are now more companies listed in London that are registered overseas and/or have significant overseas operations than was the case in 2003.<sup>16</sup> By contrast, there has been no change in the age profile of non-executives. The number of NEDs holding multiple board positions has also increased significantly.

### **Balance of boards: Executives vs NEDs**

During our interviews, differing views were expressed about the appropriate balance between executive and non-executive directors in the composition of a board. In many large US and UK companies, today's board is almost entirely comprised of NEDs (or outside directors, as they are known in the US).



**I think that the chief executive and the CFO should be on the board. That's partly to share responsibility, not only to provide information. I think once you move away from those two people, it gets problematic. It's difficult to get a member of management to be critical about something which their own team or chief executive has been the patron of.**

However, it was noted that some NEDs undermine the functioning of the unitary board, with the risk that all the fiduciaries of the company are too detached from the day-to-day operations of the business. Historically, the unitary board concept had facilitated a close partnership between those on the board and those running the organisation. A mainly non-executive board effectively turns the board into a de facto supervisory body. The risk is that NEDs became isolated from the functioning of the business, with negative consequences for their ability to deliver good governance.

Boards should be aware of the potential risks and weaknesses in the composition of the board. A de facto supervisory board, overwhelmingly composed of NEDs, may be too removed from the operational running of the organisation.

This may be compounded with board agendas being set by the chief executive and/or chief financial officer. In contrast, a board with a majority of executives risks compromising the board's capacity for objectivity. We are not making a specific recommendation on the balance of membership of the board, as it is our view that this depends on the maturity, sector and structure of the organisation. Boards should define for themselves the appropriate balance between executives and non-executives and not simply follow the crowd.

Organisations covered by the CGC should also consider its provisions in this regard and CoE as necessary.

### **Board size and agility**

A recurring theme from our meetings and interviews was that the size of the board was an important factor affecting the engagement of NEDs. Various studies have suggested that smaller boards are associated with better company performance.<sup>17</sup>



**Most studies that look at visible factors on boards don't find any correlation between economic performance of the company and the board, except that small boards do better.**

The size of the board thus plays a role in determining the engagement levels of individual NEDs, and so is an important issue to consider. Empirical research suggests that the size of the board is an important factor linked to performance, and that smaller, leaner boards promote a greater sense of personal responsibility and accountability, and less 'free riding'.

Boards need to be tailored to the size of the organisation, but in many cases, it may be appropriate to consider reducing the size of the board.

We recommend that boards critically reflect on their organisational context and strategic objectives when considering board composition and board size.

<sup>14</sup> See [ftsewomenleaders.com](https://www.ftsewomenleaders.com): "Building on a strong legacy thanks to the ground-breaking collaborative work of the Hampton-Alexander and Davies Reviews that came before, the Review adopts a unique entirely voluntary approach, working with business on a significant scale to achieve gender balance." See also on ethnic diversity on UK boards ([parkerreview.co.uk](https://parkerreview.co.uk)).

<sup>15</sup> Foreign Directors (all): During 2024: 37%.

<sup>16</sup> In 2022 over four-fifths of the sales of FTSE 100 constituent companies came from outside the UK (The UK's very global country index | LSEG).

<sup>17</sup> See, for example, work by Cao Chu Yan, Yang Zhi hui and Liang Xin ([The relationship between board size and firm performance](#)).



### Less risk averse and more imaginative recruitment

Boards can be too conservative in their approach to NED recruitment. The Commission encourages the identification of new pools of talent and recommends that search firms include individuals who do not yet serve on multiple boards, but who have the right competencies and relevant experience, on their NED candidate lists as well as individuals from different industries who bring skills and experience.



**In board recruitment, there's an astounding lack of diversity and lateral thinking. And there's a huge amount of conservatism. There's a bias against any kind of risk taking, which I think leads to group think.**

### Reframing of NED independence

The current criteria for director independence<sup>18</sup> (as defined in the CGC) were criticised by a number of interviewees. These were seen as relatively ineffective in identifying directors that could take a genuinely independent perspective in boardroom discussions.

Independence criteria were considered to play a valid role in identifying and managing conflicts of interest. But they did not speak to the intellectual independence of individual board members. Even if directors were technically independent on appointment, their substantive independence rapidly dissipated as they became absorbed into the culture of the organisation. The view was that more attention needs to be placed on assessing the cognitive independence of individuals on a case-by-case basis, and their resilience to group think-type pressures. Formal independence can erode quickly; true effectiveness depends on mindset, behaviour, and commitment.

Views were expressed that independence should be judged by actual behaviour in addition to the fulfilment of predefined criteria.



**It's better to have a wide definition of independence without trying to precisely define it.**

We also heard that the more recent emphasis on board independence signalled by provisions in the CGC may have had unintended consequences. Although introduced for understandable reasons, it may have signalled to the NED community that good governance was synonymous with distance and disconnection.

Interviewees also considered it important to find a way to shift the psychological perspective of NEDs in favour of a greater sense of shared commitment.

The Commission is not proposing changes to the independence criteria set out in the CGC, but stresses that independence is foremost a mindset, not a checklist. While transparency about pre-existing relationships remains essential, the mere absence of conflicts of interest does not ensure objectivity. Boards and investors should look beyond formal criteria to consider candidates who demonstrate cognitive independence, curiosity, active engagement, and business acumen.<sup>19</sup>

The 'comply or explain' nature of independence disclosure exists to support such decisions, with the CGC already allowing boards to 'explain' a candidate's independence even if they do not 'comply' fully with CGC independence criteria. However, with boards often fearing that investors or proxy advisers will reject such explanations, the Commission calls for a renewal of the 'explain' element of the CGC and encourages boards to balance intellectual independence and meaningful contribution with procedural compliance, providing detailed explanations where they do not comply with the CGC's independence provisions.

<sup>18</sup> For further studies on the role of independence, in the context of NEDs, see: MacNeil and Esser (2022). Studies on the efficiency of boards with independent NEDs are inconclusive: Hermalin & Weisbach (2003). See also Ferrarini & Filippelli (2015) arguing that independent directors have a different and relatively narrower role to perform in controlled corporations. NEDs can play a key monitoring role: Eisenberg (1976), 172-175; Clarke (2007).

<sup>19</sup> In 2022, the [National Foundation of Corporate Directors](#) argued that traditional governance models are outdated and that boards must adopt a more proactive, dynamic approach through five imperatives, namely: Engagement: Deeper involvement in strategy and decision-making, Renewal: Regular refreshment of board members to meet evolving needs, Operations: Agile, responsive board practices, Transparency: Clear, open governance and communication and Accountability: A strong culture of responsibility at all levels. See also the IoD report, '[Future of Board Governance](#)' (2022), to which 24 director institutes and 150,000 directors across the globe participated. It deals with challenges and expertise gaps like digital governance, an increase in geopolitical factors and the consideration of ESG issues. See also Gamble (18/10/2021), 'A remixed roadmap for the future of board leadership', Board Agenda (18/10/2021).



## Competence and skills

- 4 NEDs must have the requisite skills, experience, and mindset to contribute effectively and demonstrate a continued appetite to learn.
- 5 NEDs need to be provided with clear expectations and more structure, guidance, and feedback from chairs.

### Clear expectations

All directors should be clear on what is expected of them and should meet with the chair on at least an annual basis to define the specific contribution that they are expected to bring. This helps to ensure the right balance for the organisation between so-called “performance” and “procedural” activities. This discussion should also make explicit reference to expected time commitment, number of other roles, and likely tenure. The director’s contribution to board effectiveness in the previous year, as well as the board’s priorities in the coming year, should also be discussed.

The Commission also recommends that board succession planning and letters of appointment should reflect a board-approved philosophy on board tenure that applies to all board members.

### The role of the chair

This highlights the important role of the chair of the board. All participants agreed that the chair was a crucial player in determining the effectiveness of NEDs, setting the tone for effective governance by fostering constructive dialogue, ensuring balanced decision-making, and enabling both executive and non-executive directors to contribute their insights to deliver the organisation’s strategic objectives. Numerous interviewees argued that chairs should more actively focus on setting expectations for individual NEDs.

To enable the board to strike the right balance between “performance” and “procedural” activities, the chair needs to create a safe space for constructive challenge. NEDs can be inhibited from expressing their true opinions in boardroom discussions due to poor chairmanship.



**I think the key to the behaviour of NEDs is the chair. If you’ve got a chair that will encourage open comment and debate, then things don’t slip through.**

Some NEDs expressed frustration where issues are brought to the board following management and chair (or other NED) engagement outside the boardroom and are presented to the board as a fait accompli. This can exacerbate NEDs’ feeling of detachment from key decisions and the direction of the organisation. Although discussions between the chair and executives outside of board meetings are appropriate, they should not limit the ability of NEDs to have an equal voice. Chairs should ensure that board decision making takes place through a transparent and inclusive process at board meetings and that appropriate discussion of the relevant issues is debated and recorded in the minutes.

### Regular feedback and performance reviews

NEDs should be provided with regular feedback on an individual basis by the chair and their fellow directors to help them improve their own performance.



**If I had to point to two elements that would lead to success, it’s a demanding chair and a lot of feedback. And not just every three years, but after every meeting.**

This feedback could be shared as part of regular post-board meeting feedback or through regular board and director evaluation processes. The specific context of the organisation (e.g. its size, type, and the frequency of meetings) should be taken into account to determine the most appropriate approach.

### NED curiosity, learning, and development

Many participants argued that some form of structured education should be required for NEDs. Many mentioned that boards and external stakeholders needed objective assurance that NEDs could meet baseline standards in terms of knowledge and skills.

This would also strengthen the reputation of the NED community, help filter out individuals who viewed NED roles as a sinecure or largely symbolic, and ensure that NEDs are operating on the basis of a common understanding of their role.



**We all need training, and NEDs need specific training dependent on the company they are working with.**

**NEDs should be qualified (e.g. Chartered Directors).**

**NEDs do not take sufficiently seriously their personal responsibility for their own professional development.**

Our recommendation is that NEDs should pursue learning and development opportunities, keeping their own skills and experience, and the evolving requirements and challenges of the role, in mind.<sup>20</sup> Given the importance of the role and the breadth of topics covered by boards, codes such as the IoD Code of Conduct should recommend a minimum professional standard for all board members.

One example of an area in which NEDs would benefit from engaging in continuous learning and development is cyber risk. Being aware of cybersecurity and risk is essential for NEDs, as they play a critical role in ensuring robust governance, protecting organisational integrity, and safeguarding stakeholder trust in an increasingly digital and vulnerable business environment.

In addition, NEDs should not be expected to be experts in all topics relevant to the board. Rather, they should be able to utilise and engage effectively with expertise sourced through a range of independent channels.

<sup>20</sup> See the HKSE listing rules where it is stated that: "All directors must participate in mandatory continuous professional development training (CPD) each year. No minimum-hours requirement is specified." Topics that should be covered are then listed. See new HKEX Listing Rule 3.09F and GEM Rule 5.02F.

## Culture

- 6 NEDs need to be more engaged and curious.
- 7 NEDs need to be more present in the business.
- 8 NEDs should hold executives to account but do so with emotional intelligence.
- 9 Improved NED effectiveness is not something that can be mandated or achieved by government; boards and individual NEDs must rise to the challenge.

### Curiosity comes first

According to interviewee participants, a key differentiator between good and less effective NEDs was their level of curiosity. The best NEDs had a strong desire to understand the business and the organisation. They were fully invested in the organisation's success and felt a high level of personal responsibility for its performance and conduct. This motivated them to devote significant intellectual energy to their NED role.

Much of the discussion around NED performance has focused on their responsibility to challenge management. While this can be essential at times, its effectiveness depends on how it is exercised — ideally thoughtfully, with emotional intelligence.

Increasingly, qualities such as curiosity, engagement, and open-mindedness are seen as even more valuable attributes for NEDs. To support this, chairs should foster a culture of collaboration over confrontation, setting clear expectations for how constructive challenge is delivered. When guided by mutual respect and shared purpose, challenge becomes a powerful tool for enhancing decision-making and strengthening governance.

We recommend that NEDs keep their approach, specifically, their behaviour and focus, under review.

### Gaining exposure and building trust

The board schedule should provide meaningful formal and informal time for interacting with stakeholders outside of the boardroom. This may include participating in employee feedback groups, expert advisory councils or undertaking reverse mentoring. NEDs should make themselves more visible and accessible to the wider organisation.

The role that NEDs can play in the context of whistleblowing is also important, as they should be in a position to oversee whistleblowing policies and procedures.

## Support and enablement

- 10 NEDs need access to their own independent resources and sources of insight.
- 11 NEDs should build their understanding of AI and adopt relevant tools to enhance board effectiveness and informed decision-making.

### Dedicated NED support and resources

The majority of Commissioners agreed that boards should allocate specific resources to NEDs so that they are in a position to source information and conduct their own analysis, as and when needed, without having to solely rely on the information received from management and without having to justify a request for more information.

This should be within the control of the NED. It can be co-ordinated, for example, via the company secretary or the organisation can assess whether it would be feasible for the chair to allocate a budget to NEDs for this purpose.

This is currently provided for in the CGC, but support of this nature is not always made available to NEDs in practice.



### Enhanced role for technology in the boardroom

AI is reshaping the role of NEDs by enhancing their ability to oversee management through real-time data analysis (subject to relevant datasets being available), predictive insights, and automated risk detection. This empowers NEDs to ask sharper questions and challenge assumptions more effectively. The Hoover Institution's Report, "The Artificially Intelligent Boardroom"<sup>21</sup>, for example, explores how AI is reshaping corporate governance by enhancing board decision-making, reducing information asymmetry, and potentially transforming the roles of advisors and executives.

37.7% of respondents to the IoD member survey indicated that the use of technology in the boardroom (e.g. AI, digital information systems, board portals, etc) could enhance the effectiveness of NEDs.

Many interviewees viewed AI tools and other forms of technology as a way of assisting NEDs to become more effective, describing how AI has the potential to narrow the informational asymmetry that existed between senior executives and non-executive directors.



**I've always thought non-execs are asked to do a big job in a very under resourced way. And yet the challenge of being a non-exec is ever-growing. The pool of information becomes larger and consuming all of this information gets harder. For me this is where technology can help.**

However, AI also raises new responsibilities and challenges for boards. As is required with any significant technological development, NEDs must understand AI's capabilities and limitations and must engage with AI tools in alignment with organisation- and board-wide policies to ensure safe and secure ethical use, avoid overreliance, and maintain accountability in governance.

### Key challenges for NEDs in the AI era:

- **Information overload:** AI systems can generate vast amounts of data and insights, which may overwhelm NEDs rather than clarify issues. Distilling what's truly important becomes an important skill.
- **Increased workload:** With more data and faster decision cycles, NEDs may face pressure to engage more frequently and deeply, blurring the traditional part-time nature of their role.
- **Technical literacy gaps:** Many NEDs may lack the technical background to critically assess the output of AI tools, or the tools themselves, leading to overreliance on the AI's accuracy, management, or external advisors.
- **Accountability and ethics:** As AI influences decisions, NEDs must ensure transparency, fairness, and compliance — without clear regulatory frameworks in many cases.
- **Erosion of independence:** If AI tools are developed or controlled by management, NEDs may struggle to maintain independent oversight.
- **Awareness of AI's limits:** AI is very good at some things and less good at others currently. NEDs must understand this and how they sense check/rely on outputs.

21 See the 2025 report, 'The Artificially Intelligent Boardroom'.

Some interviewees felt that many NEDs are not well equipped to take advantage of these opportunities. They lacked relevant knowledge and do not know where to go to acquire that knowledge. Also, boardroom conversations about AI are mainly focused on managing its risks rather than exploring how it could be used to enhance performance.



**A board that is fearful of using technology is probably a board that is not pushing the management team to be forward thinking in their use of technology.**

Some interviewees expressed concerns about the use of AI in the boardroom.



**AI may mystify more than it helps. Board decision-making is complex. It is not a straightforward maximisation problem. Many factors must be balanced. AI may give rise to oversimplified solutions which do not reflect that complexity.**

Others stressed how the role of human judgement remained essential.



**I think it is super important that we think about AI for the board as an augmentation tool and not an automation tool. To help me form a judgement rather than as a tool that is going to make judgements for me.**

**AI is not a replacement for human judgement, but it certainly can help broaden information sources and help organise that information better.**

We therefore recommend that NEDs move faster in embracing AI tools as a means of enhancing their effectiveness. NEDs that are unable to leverage AI in their own boardroom activities are unlikely to be effective change agents for AI across the organisation as a whole.

Having said that, while AI should be used to augment the work of directors, it is not a replacement for a director's responsibility to monitor, vet and make informed judgements. It is the director who holds the responsibility, and this cannot be abrogated.

Policy and procedures around the use of AI by the board should align with those applied organisation-wide and be approved by the board.



## Incentives and rewards

12

NEDs need to be remunerated in a way that better reflects the complexity, time demands, and responsibilities of the role.

There is a widespread perception amongst the NED community that NED compensation does not reflect the complexity, time demands, and responsibilities of the role, or NEDs' contribution to board effectiveness and good governance. This perception is particularly strong outside of large, listed companies.

In the IoD member survey it was stated by some participants that low levels of fees received by NEDs (especially relative to executive management) were a disincentive to take on the role. NED compensation also makes it more difficult to recruit and motivate good NEDs.

The Commission was in agreement that, in some cases, shares or share options might be appropriate to attract required NED skillsets and experience in smaller, unlisted companies, e.g. in a start-up company which does not yet have the resources to remunerate NEDs appropriately.

Boards of unlisted companies should avoid a dogmatic or overly rigid approach to NED remuneration, although the need for NEDs to be rewarded in a manner that is distinct from executives remains an important governance principle.



## Conclusion

Twenty years after the Higgs Review, the landscape of UK corporate governance has transformed. NEDs remain central to effective oversight, yet the complexity and scope of their responsibilities have expanded dramatically. Recognising this, the Commission set out to assess whether the NED role remains fit for purpose in today's environment, exploring how expectations, behaviours, and governance frameworks must evolve to ensure boards remain effective and trusted. Our evidence-based review drew on formal meetings, interviews with directors, investors, and governance experts, and an IoD membership survey spanning many sectors and types of organisation.

The Commission found that while the structural foundations established by Higgs remain robust, their application has, over time, encouraged a compliance-driven mindset. The emphasis on formal independence, crucial for avoiding conflicts, has sometimes overshadowed attributes such as curiosity, courage, and cognitive diversity. To meet the demands of modern boardrooms, NEDs must combine technical independence with intellectual independence and active engagement. Effective governance today requires behavioural and cultural excellence, not merely procedural adherence.

The Commission's 12 findings and recommendations provide a blueprint for this shift. They call for boards that are diverse, agile, and reflective; chairs who set clear expectations and feedback; and a renewed commitment to principle-based governance. The future of UK corporate governance lies not in additional rules, but in cultivating NEDs who act as active stewards: curious, courageous, and strategically engaged in creating sustainable, long-term value.

The reviewing of this report and the frequency of it is within the discretion of the IoD, but the Commission recommends a five-year review cycle.



# Annexures

## Annex 1: governance terminology

### UK governance terminology

In this report we use the term 'NED' as a catch-all term for anyone who is not an executive director or chair.

- **Non-Executive Director (NED):** A board member who does not participate in the day-to-day management of the organisation but does not meet the typical independence criteria included in corporate governance codes such as the CGC.
- **Independent Non-Executive Director (iNED):** A board member who does not participate in the day-to-day management of the organisation and meets the typical independence criteria included in corporate governance codes such as the CGC. The independence criteria within the CGC operate on a 'comply or explain' basis and should be applied in this way by boards.
- **Senior Independent Director (SID):** A board member who is an independent non-executive director, appointed to provide independent oversight and support for the chair and chief executive, acting as a key point of contact for shareholders and mediating disputes to ensure balanced, transparent, and effective board decision-making.

### US governance terminology

- **Lead Director (US):** A designated independent director who acts as a liaison between the board chair and the other independent directors, often taking on additional governance responsibilities.
- **Outside Director (US):** A term often used interchangeably with NED, especially in the US, generally referring to a director from outside the organisation's management team, regardless of their independence status.

## Annex 2: snapshot of studies on NEDs

The Commission considered evidence from a wide range of academic and corporate studies. These studies highlighted:

- **Growing time commitment and complexity:** NEDs face increasingly prescriptive demands, especially around digital risks and ESG, often with a negative effect on free thinking and reflections on what may be missing from agendas or not appropriately prioritised.
- **Skills and diversity gaps:** Cyber/IT skills and board diversity (e.g. re gender and ethnicity) remain major challenges.
- **Recruitment practices:** Informal recruitment through personal networks is common, raising concerns around independence and diversity.

On the next page is a summary of the studies and surveys reviewed by the Commission.

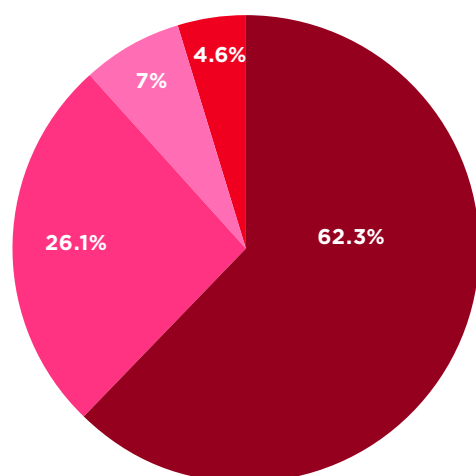
Study or survey	Focus	Key findings	Notable findings and insights
<b>Henley Business School &amp; Downing LLP (2019)</b>	NEDs in growth companies (esp. AIM-listed)	NEDs add value mainly through mentoring and stewardship. Board chairs play a key role, but individual NED experience is the biggest factor. Different types of growth companies need tailored NED approaches.	Focus on mentoring; chair's role is crucial; NED's skills are key differentiators.
<b>Hardman &amp; Rowell (2023)</b>	Director interconnectivity (767 UK-listed firms)	550 companies linked through "daisy chains" of iNEDs, creating sparse but systemic links. This interconnectedness may limit independence and prevent market-wide challenge of governance norms.	Directors linked via 6+ companies; risk of systemic groupthink & reduced independence.
<b>Liu &amp; Andersson (2014)</b>	Expectations gap (survey of NEDs, execs, investors)	Uncertainty around NED monitoring role, especially in identifying inefficiencies. Investors understand duties but unclear on NED operations.	Clear duties but unclear monitoring function; wide divergence in expectations.
<b><u>Quoted Companies Alliance (2022)</u></b>	Small/mid-size quoted companies	Top NED contributions: "checks and balances", business experience and governance improvement. Cyber/IT expertise seen as lacking (60%). Boards view NEDs as independent (89% agree).	89% say NEDs are independent; Cyber/IT key weakness; Most NEDs hold 1-3 positions.
<b>EY NED Barometer (Post-COVID, FTSE 100)</b>	Post-COVID NED priorities	78% say NED roles are more time-consuming. Key focus areas: digital transformation, data, cybersecurity. 59% see long-term sustainability as the primary role. Over 40% of NEDs have taken specialist training.	78% say NED role has intensified; Digital & ESG central; 40%+ completed specialist training.
<b><u>MM&amp;K "Life in the Boardroom" (2021-2022)</u></b>	NED demographics & board dynamics	Aging NED population (80% over 55, only 7% under 50). Gender gap persists (30% women NEDs, 8% women chairs). Half appointed via personal contacts. 75% had formal interviews; 30% of appointments lacked shareholder input.	Ageing boards; Gender imbalance; Heavy reliance on personal networks for appointments.

## Annex 3: IoD member survey data

The IoD surveyed its members from 15-28 May 2025, collecting 483 responses. Of these, 14% ran large businesses (250+ people), 19% medium (50-249), 24% small (10-49 people), 31% micro (2-9 people), and 12% were directors of sole trader and self-employed businesses.

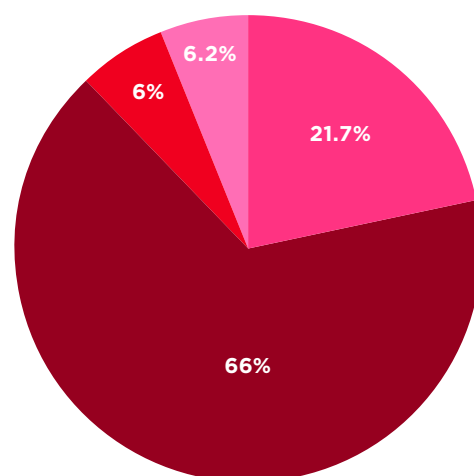
### How important is it for boards to have NEDs?

- Very important
- Moderately important
- Not important
- Don't know



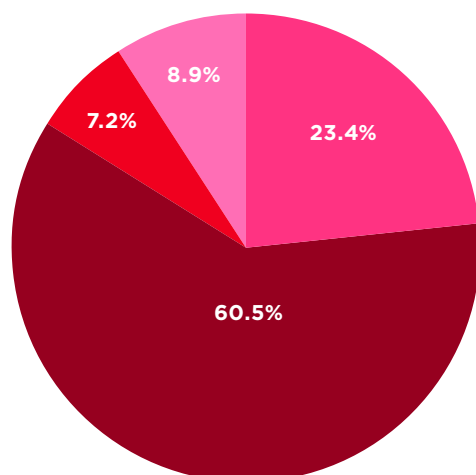
### In general, do you feel that most NEDs are effective in providing organisational oversight?

- To a large extent
- To some extent
- Not at all
- Don't know



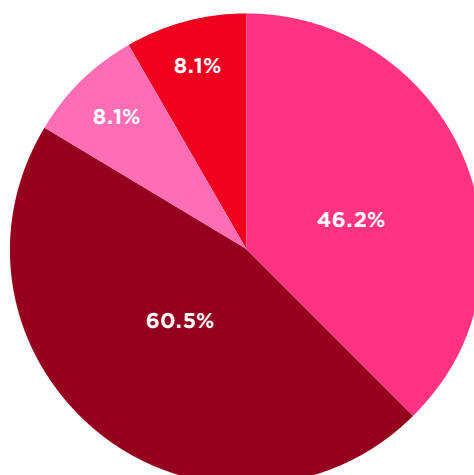
### In your experience, do most NEDs have a clear understanding of their legal duties and key responsibilities?

- To a large extent
- To some extent
- Not at all
- Don't know



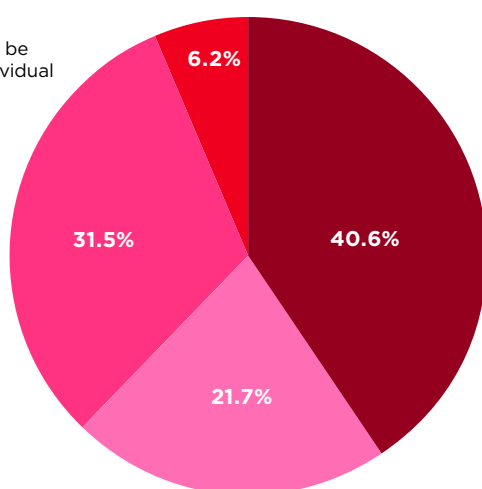
### Could the greater use of technology in the boardroom (e.g. digital information systems, board portals, etc) help NEDs to become more effective?

- Yes
- To some degree
- Not at all
- Don't know



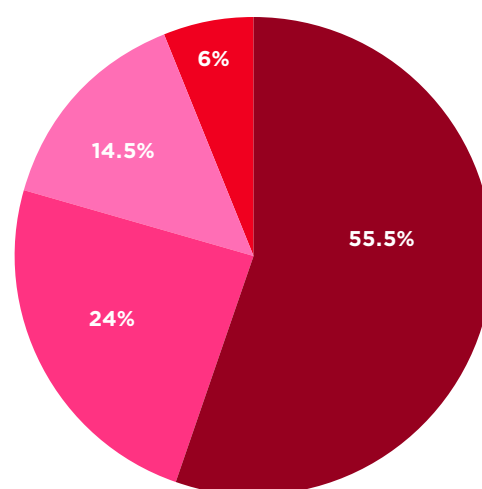
### Should there be numerical limits on the number of NED roles that an individual can hold?

- Yes
- Sometimes
- No - it should be left up to individual judgement
- Don't know



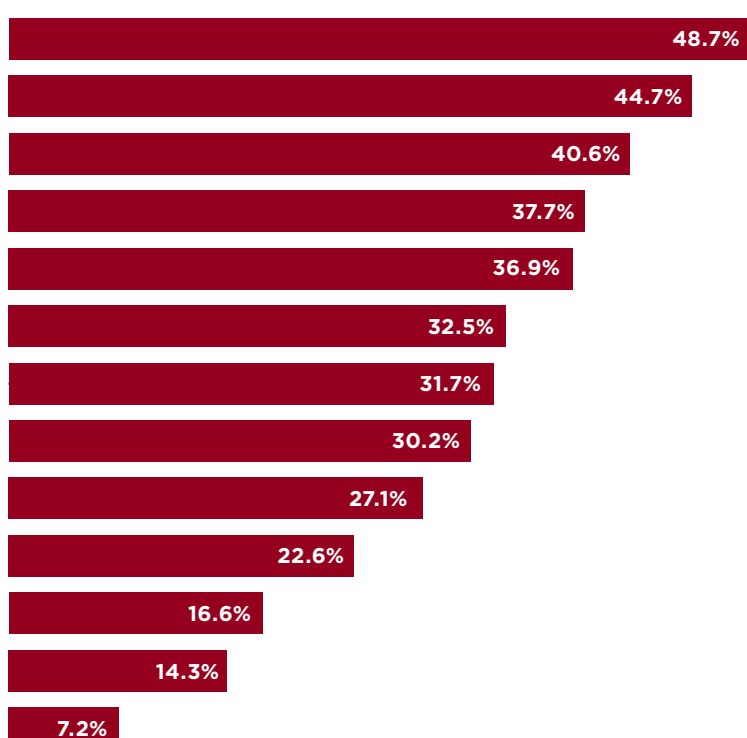
### Should there be tenure limits for NEDs?

- Yes
- Sometimes
- No
- Don't know



### What are the biggest obstacles to effective non-executive directorship? Please choose up to 5

- Reticence amongst NEDs to robustly challenge management or major shareholders
- Poor information flows from management
- Lack of NED engagement with the wider organisation and other stakeholders
- Insufficient curiosity amongst NEDs
- Poor chairmanship
- Excessive NED focus on risk management/compliance issues at the expense of value creation and strategy development
- Lack of NED independence
- Insufficient time, care and attention devoted to the NED role
- Shortfalls in critical knowledge and skills amongst NEDs
- Poor NED recruitment process
- Lack of cognitive diversity amongst NEDs
- Inadequate administrative support for NEDs
- Other



## **Annex 4: regulations relevant to NEDs**

NEDs may be subject to a number of regulations and codes, depending on the type of organisation they serve. Interview feedback suggested these can be difficult for NEDs to navigate, especially those who are new to the role. Below is a summary of the key requirements and legal responsibilities currently relevant to NEDs in the UK.

### **Basic requirements**

The basic requirements are that you must be a human individual, at least 16 years of age and have the mental capacity to fulfil your duties. There are certain restricted categories that can prevent you from becoming a NED, like undischarged bankruptcies, previous disqualification from being a company director, and convictions for serious criminal offences such as money laundering or bribery.

### **Legal duties and responsibilities**

#### **Companies Act, 2006: Sections 171-177**

The Companies Act 2006 lays out the duties of company directors (both executive and non-executive) in the UK. The 7 duties of a company director are designed to ensure that directors act in the best interests of the company, its shareholders and other stakeholders at all times.

#### **UK Corporate Governance Code**

The CGC is applicable to all companies listed in the commercial companies category or the closed ended investment funds category, whether incorporated in the UK or elsewhere. The 2024 CGC applies to accounting periods beginning on or after 1 January 2025, with the exception of Provision 29. This provision is applicable for accounting periods beginning on or after 1 January 2026. Read the full CGC to see all the Provisions and Principles. Examples include:

- There should be an appropriate balance on the board between executive and NEDs. Half of the board, including the chair, should be NEDs which the board considers to be independent.
- NEDs should have sufficient time to fulfil their board responsibilities.
- NEDs should provide constructive challenge, strategic guidance, other specialist advice, and hold management to account.
- NEDs should have regular meetings with the chair, but without executive team members. They should also meet the other NEDs at least once a year to assess the chair's performance.
- The Annual Report should state which NEDs are considered to be independent. Factors that can impair independence are listed in the CGC, e.g. the person has been an employee of the group in the last five years.
- One of the Independent NEDs should be the Senior Independent NED, acting as the sounding board for the chair and serving as an intermediary for the other directors and shareholders.

### **Listing Rules: 6.6.6(5) (5)**

Listing rules require a statement of how the listed company has applied the Principles set out in the CGC, in a manner that would enable shareholders to evaluate how the principles have been applied.<sup>22</sup>

### **Wates Principles**

While the CGC does not apply to private companies, large private companies that are in scope of The Companies (Miscellaneous Reporting) Regulations 2018 are required to disclose their corporate governance arrangements. The Wates Principles provide a framework for these companies to fulfil this requirement.

Principle 2 (Wates, p14): Companies should consider the value of appointing independent non-executive directors to offer constructive challenge. Appointment of independent non-executive directors should be subject to a transparent procedure. Boards may wish to delegate some functions to committees which can consider specific issues such as risk or remuneration; however, this will be dependent on structure, complexity and size of the company.

### **Additional guidance:**

The following resources may provide helpful context and frameworks for any NED, including those not subject to the CGC, listing rules, or the Wates Principles.

'What are Articles of Association?', IoD

'What is the role of the non-executive director?', IoD

The non-executive director career guide, IoD

Code of Conduct for Directors, IoD

Corporate Governance Guidance and Principles for Unlisted Companies in the UK, IoD

<sup>22</sup> In July 2024, the Financial Conduct Authority (FCA) updated its Listing Rules, including the categories under which securities are listed on the Official List. As a result, there was a change in the companies required to follow the CGC. Previously, the CGC applied to premium-listed companies. Going forward, companies which need to follow the CGC include all those listed in the commercial companies category or the closed-ended investment funds category.



## Annex 5: bibliography

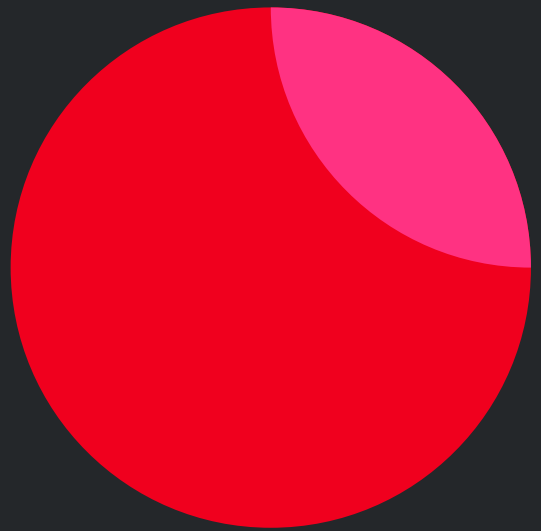
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The Institute of Directors is a non-party political organisation, founded in 1903, with 20,000 members. Membership includes directors from right across the business spectrum, from media to manufacturing, professional services to the public and voluntary sectors. Members include CEOs of large corporations as well as entrepreneurial directors of start-up companies.

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