



IoD BUSINESS PAPER

Non-Executive Director Remuneration in the UK

Share options as an option?

Summary

Paying NEDs in shares, wholly or partially, can effectively align their interests with long-term shareholders. Share options, however, are more controversial because of their asymmetric risk and potential to undermine independence, unless they are detached from performance and therefore lack the most problematic incentives.

Even then, share options should be used mainly in private or smaller companies, and in listed companies only with clear justification under the *comply or explain* framework.



Introduction

The remuneration of non-executive directors (NEDs) in the UK has traditionally been structured to protect their independence from executive management. NEDs are typically paid fixed fees rather than performance-related pay, reflecting their oversight role rather than operational responsibility.

However, recent governance debates, particularly following the [Financial Reporting Council \(FRC\) 2025 guidance](#) update on NED remuneration, have reopened the discussion around whether equity-based incentives, including share options, may sometimes be appropriate.

A recent IoD [business paper](#), on the role and effectiveness of NEDs, provides an important perspective on remuneration reform. The report highlights a widespread perception among NEDs that compensation does not adequately reflect the complexity, time commitment¹ and liability associated with the role.² Within its section on ‘incentives and rewards’, the report suggests that boards should reconsider remuneration structures to better reflect these demands.

It acknowledges that shares or share options might sometimes be appropriate in smaller, unlisted companies, particularly to attract directors with specialist expertise. At the same time, the report stresses that remuneration for NEDs should remain distinct from executive pay, reinforcing the importance of maintaining governance independence.

The report did not, however, discuss remuneration in a lot of detail. This paper therefore examines the availability of shares and/or share options as a component of NED remuneration in the UK,³ the governance arguments for and against them, and how the approach may differ between public and private companies.

1 On NED time commitments, see: dynamicboards.co.uk/blogs-non-executive-director-time-commitment/. See also: noblent.net/wp-content/uploads/2026/01/Life-in-the-Boardroom-Chair-NED-Survey-2025-26-695d1c7b0927e.pdf. This is a survey on NED fees and time commitments, completed by 167 directors, covering 435 board appointments. See ey.com/en_gl/board-matters/what-is-the-agenda-for-reimagining-more-strategic-future-looking-boards for results from interviews with 20 NEDs indicating an increase in ‘burn-out’, struggling to maintain oversight etc.

2 See for the latest data on remuneration for the FTSE 150 directors: spencerstuart.com/research-and-insight/uk-board-index/company-data. The lowest NED fee: £48 118 and highest: £228 750.

3 The approach to remunerating NEDs via share options differs significantly between the UK and the US, primarily driven by differing governance philosophies regarding independence, though recent UK regulatory changes are narrowing this gap. Traditionally, the UK focused on cash-based, non-performance-related fees, while the US has long used a mix of cash and equity to heavily align NED interests with those of shareholders. See: allianceadvisors.com/executive-remuneration-trends-and-key-differences-between-the-us-and-uk-capital-markets/



UK Governance Framework on NED remuneration

UK corporate governance discourages performance-related remuneration for NEDs. Under the UK Corporate Governance Code (CGC), NEDs are expected to be independent and free from incentives that might compromise their ability to challenge management objectively. It is provided for in the CGC that:



The remuneration of non-executive directors should be determined in accordance with the Articles of Association or, alternatively, by the board. Levels of remuneration for the chair and all non-executive directors should reflect the time commitment and responsibilities of the role. Remuneration for all non-executive directors should not include share options or other performance-related elements.⁴

Consequently, their remuneration typically consists of:

- Fixed annual board fees
- Additional fees for committee chairs or roles
- Reimbursement of expenses
- Occasionally, share ownership requirements (but not performance-linked awards).⁵

The underlying rationale is that NEDs should not have financial incentives that align them too closely with management's performance targets, which could weaken their monitoring role.

⁴ Provision 34 of the CGC.

⁵ The November 2025 FRC Guidance update regarding Non-Executive Director (NED) remuneration functions as interpretative guidance designed to support the 'comply or explain' framework. It does not override Provision 34 of the UK Corporate Governance Code, which remains in place.

FRC 2025 guidance update

The FRC's 2025 update clarified that remuneration structures should support effective governance while recognising the evolving role and responsibilities of NEDs. The updated guidance acknowledges that NED roles have become more demanding, requiring more time, expertise and accountability.

However, the guidance maintains that remuneration should remain distinct from executive pay structures, and that equity-based incentives must be carefully considered to avoid undermining independence.

It is important to emphasise that the UK CGC has always made clear that non-executive directors may be paid in shares, and the updated guidance simply reinforces this by highlighting share-based remuneration as a positive mechanism for aligning their long-term interests with those of the companies they oversee, while also clarifying that, although NEDs should not receive performance-related pay, certain share option schemes without performance conditions may be used provided they do not compromise directors' independence.⁶

Boards can 'comply' with the overarching principles of independence while explaining in their annual report why a particular share scheme is appropriate for their company.

⁶ See paras 323 and 324 of the Guidance.

Shares vs share options

It is clear that payment through shares is possible. However, the position with regards to share options is more contentious. Remunerating NEDs with shares gives them an immediate (or ultimately vested) ownership stake that rises and falls with the company's value, meaning they experience both gains and losses like any ordinary shareholder.

For example, 10,000 shares granted at £5 are worth £50,000 initially, rise to £80,000 if the price reaches £8, and still retain £30,000 of value even if the price drops to £3. Share options, by contrast, confer a right but not an obligation to acquire shares at a fixed strike price and therefore introduce a one-way risk: NEDs gain from upside price movements but are insulated from downside risk, since unprofitable options can simply be left unexercised.

This asymmetric payoff risks incentivising short-term increases to share price or risk taking behaviour that can undermine NED independence and is inconsistent with their oversight role and long-term duties.

Shares broadly align NEDs with shareholders' real economic experience, whereas options may reward volatility and distort incentives. For this reason, governance bodies generally regard options as more contentious and tend to prefer straightforward share-based remuneration. A share option for a director does not, however, need to be linked to explicit performance targets to have incentive effects; it may instead depend on factors such as time, retention, market-based conditions, or even alignment with ESG metrics or regulatory oversight. These alternative structures are, however, more difficult to measure and require careful consideration of appropriate metrics.



Share options for NEDs

Share options grant directors the right to purchase company shares at a predetermined price after a vesting period. If the company's share price increases, the option holder can realise a financial gain. For executives, options are widely used to align management with shareholder interests. Their use for NEDs, however, remains controversial due to potential conflicts with the NED's oversight role and their independence.

Arguments in favour of share options for NEDs

Several governance commentators and reports recognise circumstances where equity incentives may have benefits. Supporters argue that granting NEDs equity or options can align their financial interests with those of shareholders, encouraging a focus on long-term value creation. Equity ownership may incentivise directors to take a stronger interest in strategy and performance. The IoD report, mentioned above, emphasises that NED remuneration often fails to reflect the complexity and responsibility of the role, particularly outside large, listed companies. It notes that compensation levels can make it difficult to attract high-quality candidates. The report therefore suggests that, in some circumstances, shares or share options may help attract the necessary expertise, particularly in smaller organisations.

Private companies and start-ups often face cash constraints. Equity-based remuneration may be used instead of cash fees to compensate experienced board members. In such contexts, share options may be considered a pragmatic way to secure high-quality board oversight without imposing immediate financial burdens. Equity incentives with long vesting periods may encourage directors to focus on long-term value rather than short-term performance metrics. This can reinforce stewardship, particularly in growth companies.

The experience in the US provides some perspective albeit that the corporate governance frameworks differ from the UK. While share options were in the past common for independent directors of SEC registered companies, they started to decline in the wake of Sarbanes-Oxley and now account for only a small proportion of remuneration. Share-based payment, however, remains common with restricted stock units, deferred stock and ownership requirements being the most common techniques, none of which are performance-based.

Private equity owned companies commonly deploy performance-based pay for independent directors, with the approach prioritising alignment with investors over formal independence from executives. That represents an alternative route to addressing the agency problem between shareholders and executives by comparison with the CGC for listed companies. It is implemented across a range of techniques, including share options, growth shares and exit bonuses linked to the value achieved on the eventual sale of the company. As private equity ownership is concentrated in large companies, the operating environment provides a realistic comparator for the UK listed sector albeit that the governance framework differs.

It can be argued, in particular, that the concept of independence operates differently in the private equity sector, where there will often be direct links to the sponsor (the PE owner) that would not typically exist in the listed sector. This reflects a greater reliance in private equity on active boards with relevant industry experience, in contrast to the listed sector's stronger emphasis on independent monitoring.

Arguments against share options for NEDs

Despite these potential advantages, significant governance concerns remain. The strongest argument against share options is that they may compromise the independence of NEDs. Because the value of options depends on the company's share price, directors may become reluctant to challenge executives or take actions that could negatively affect the short-term market value of the company. This conflicts with the fundamental NED duty of providing independent oversight.

Options are commonly linked to performance targets, similar to executive compensation; however, in principle they can be structured in a variety of ways and could therefore be tailored to suit the role of non-executive directors. If NEDs were to receive comparable incentives, this would not necessarily create a new alignment with management, given that directors' duties already require both executive and non-executive directors to promote the interests of the company.

Rather, it would bring into sharper focus an existing tension in the concept of independence, which is often framed narrowly in terms of oversight while underplaying NEDs' role in strategy and growth. In this sense, concerns about blurring the distinction between executive and non-executive roles may be overstated, particularly since executive directors are routinely understood to perform both oversight and strategic functions without this being seen as inherently problematic.

That said, the asymmetric payoff structure of options - offering participation in upside gains without equivalent exposure to downside risk - can encourage risk-taking behaviour. This may be inappropriate for directors whose primary responsibility is oversight and risk control. As a result, institutional investors and governance organisations, including the International Corporate Governance Network (ICGN), generally discourage the use of share options for NEDs. They argue that straightforward share ownership is a more effective means of aligning directors with shareholders without creating distorted incentives. Implicit in this position is the view that share options typically create a more leveraged exposure to corporate performance than fixed share awards.



Ultimately, the key governance principle is that NED remuneration should support independence, accountability, and long-term value creation, while remaining clearly distinct from executive pay structures.

Public vs private companies

The acceptability of share options for NEDs differs significantly depending on the company type. In UK listed companies, share options for NEDs have been generally discouraged. Governance frameworks prioritise independence and transparency, and investors typically prefer fixed fees and deferred share awards (not options).

Across different company types, the appropriateness of paying NEDs in shares or share options depends largely on the regulatory framework, the weight placed on “independence,” and the degree of ownership dispersion. In publicly listed companies, the UK CGC discourages performance-related pay such as options for NEDs, and share awards are therefore more commonly used as a means of preserving independence in dispersed ownership structures.

Private companies,⁷ by contrast, may use either shares or options. However, in larger private companies, considerations of independence may still be relevant, particularly for the protection of minority shareholders. In smaller private firms, NEDs often play a limited, if any, role, as ownership and directorship are typically concentrated in the same individuals.

In private equity owned businesses, ownership is tightly concentrated and independence plays a smaller role, so both shares and options are usually acceptable.

Although shares can be used in all contexts, options are more contentious in public companies because they can distort incentives; vesting periods may mitigate this. The use of options could attract shareholder opposition and raise governance concerns. Granting shares remains better governance as it aligns NEDs with genuine long term shareholder outcomes.



⁷ The Wates Principles for large private companies state in Principle 5 that: ‘A board should promote executive remuneration structures aligned to the long-term sustainable success of a company, taking into account pay and conditions elsewhere in the company.’ The Wates Principles (Principle 5) for large private companies also focus on aligning remuneration with long-term sustainable success and company values. The Wates Principles encourage a ‘pay for contribution’ model, ensuring that compensation (including potential share arrangements) encourages behaviours aligned with the company’s purpose.

Conclusion

Share options for NEDs remain a contentious issue within UK corporate governance. Traditional governance principles discourage performance-linked remuneration for NEDs in order to preserve independence and effective oversight.

Nevertheless, evolving board responsibilities and increasing demands on NEDs have prompted reconsideration of remuneration structures. The recent FRC Guidance and the IoD report both recognise that NED compensation must evolve, particularly to attract high-quality candidates.

It may be the case that with private and smaller companies equity-based remuneration, including options, may be justified where necessary to attract talent or compensate for cash constraints. With listed companies share options are more contentious as it can, in certain situations, be inappropriate due to independence concerns and investor expectations. We are however in favour of the recent Guidance published by the FRC and especially the emphasis on the 'comply or explain' approach. This is also in line with the [IoD report](#), mentioned above, where the report 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. Revitalising the 'explain' element of the 'comply or explain' model would promote more constructive dialogue and empower boards that subscribe to the CGC to remunerate NEDs in a way that better reflects their responsibilities, roles and time commitment.

In conclusion, the use of share options in private companies has more flexibility compared to larger, listed ones. Shares or share options may be appropriate in smaller, unlisted companies, particularly where cash remuneration is limited. When it comes to public companies, and the CGC applies, it should be an option and the company should use the flexible 'comply or explain' approach⁸ to explain the rationale and process for allowing a portion of non-executive director fees to be paid in shares, along with any associated restrictions on the sale of the shares to ensure clarity for stakeholders. **It is the view of the IoD that even though Provision 34 recommends not to make use of share options, boards should use their discretion.**

Boards can 'comply' with the overarching principles of independence while explaining in their annual report why a particular share scheme is appropriate for their company. Partially remunerating NEDs with share options will not, by default, impact their independence. It could potentially foster alignment with shareholder interests and reinforces a commitment to long-term value creation. Linking the options to performance targets, on the other hand, is not appropriate as that can encourage short-termism or conflict of interests. The vesting period linked to options can, however, address some of the fears around short-termism. E.g. until recent Brexit changes, banker bonuses had up to a seven-year vesting period, with the objective of discouraging short-term risk-taking that might unwind later. For SEC registered companies, for example, three-year vesting is most common for NEDs.

⁸ See: media.frc.org.uk/documents/Improving_the_Quality_of_Comply_or_Explain_Reporting.pdf.

Practical guidance: ask the following questions:⁹

What is the rationale or purpose of the share option?

What is the benefit to the company and the shareholders?

What is the view of payment, in part, through equity, e.g. share options?

Would longer vesting periods mitigate concern over share options for NEDs?

What is the view of the NEDs?

⁹ See govcompmag.com/2025/12/17/neds-share-and-share-alike.



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