Durham University
Business School

Name of Programme
MSc Accounting

Governance Role of Non-Executive Directors

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Governance Role of Non Executive Directors

- Over the past few decades or so, much regulation surrounding non-executives (in terms of number and independence)

- Important issue relates to the independence of non-executives – extremely difficult to isolate/identify independent directors

- Non-executives with ties such as formal employee, family or business relationship, receiving additional remuneration i.e. share options etc, holding cross directorships, significant shareholding and longer tenure are not perceived as being independent from management

Governance Role of Non Executive Directors

- Board should have a minimum of three non-executive directors. The majority of the non-executives should be ‘independent’ (Cadbury 1992)
- At least half of the members of the board, excluding the chairman, should be independent non-executive directors (Higgs 2003)
- At least half the board, excluding the chairman, should comprise non-executive directors determined by the board to be independent (UK Corporate Governance Code 2024)

Governance Role of Non Executive Directors

Q. **Do non-executives encourage shareholder - orientated behaviour?**

A1. No consistent evidence that more independent boards are associated with better performance (using normal accounting or stock market measures).

A2. There is evidence that more independent boards benefit shareholders in specific areas (where shareholder-manager conflicts are most acute).

Governance Role of Non Executive Directors

- **Dalton and Dalton (2005)**
  "we analysed 159 studies over a 40-year time frame and found no evidence of a systematic relationship between board composition and financial performance"

- **Ghafran and O'Sullivan (2017)**
  "Independent non-executive directors help increase auditor effort and hence improve audit quality"

- **Chen and Zhou (2007)**
  "Independent boards of directors demand better auditor reputation"

- ***O'Sullivan and Diacon (2003)***
  "Relationship between non-executive representation and role duality"

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Thank you for attending

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