

Risk Committee Resource  
Guide for Boards

Illustrative considerations for a  
board of director's self-evaluation



# Illustrative considerations for a board of director's self-evaluation

## Overview

Based on our knowledge, an annual self-assessment/evaluation of board effectiveness is a leading practice and at the standing committee level is a United States stock exchange listing requirement for boards of directors. Many self-assessment questionnaires tend to focus principally on process. Questions may revolve around issues related to attendance records, preparation and distribution of the agenda, preparation of board members prior to the meeting, amount of time spent on discussion as opposed to just presentations by management, etc. One option for you, as a board member, to increase your performance level of overseeing risk management is to include within your annual self-assessment process considerations that address how well the board feels it is doing in fulfilling this oversight role. More importantly, do you feel that the board has assimilated the identification, evaluation, and discussion of risk into the overall processes of the board? Or, as we define it, has the board become "Risk Intelligent?"

This tool provides suggested topics for consideration by a board of directors for inclusion in its annual self-evaluation process. The suggested considerations under each section are meant to be indicative of suggested areas for inclusion in the self-assessment but should not be deemed exhaustive. For each section, we provide specific areas where risk oversight might be included for evaluation. The information included herein can be used as a starting point, and should be customized to the organization. We have broken the tool down into four areas, including board composition and competency, processes and policies, information and communication, and board oversight. One area that transcends all four of these is culture. It is through the culture created by you as a board member that the tone for the rest of the enterprise is defined. Establishing good fundamentals in the boardroom allows for the rest of the company to follow in the board's footsteps in their approach to ethics, integrity, risk, and

the general manner in which managers and employees conduct themselves. In all areas of the assessment, consider the willingness of the directors to challenge and be challenged constructively, whether the discussions on the respective topics (noted below) include a sufficient level of candor and risk awareness and knowledge sharing, and if the board demonstrates the importance of integrity and an ethical climate, while always focusing on protecting the interests of stakeholders.

## Board composition and competency

The nominating/corporate governance committee is usually charged with the duty of developing the composition and competency of the board. The nomination process should ensure that the board is comprised of directors with the right experience, knowledge, and skill set. It should also include the determination of the appropriate board size, committee structures, continuing director education, and the evaluation process for the board and its committees.

## Suggested considerations

- Selection process/evaluation of board candidate credentials and references
- Alignment of board/committee capabilities with organization's markets and stage of development
- Independence as it relates to legal requirements and in the approach to serving on the board
- Diversity of board/committee expertise and backgrounds in order to compose a board that fosters Risk Intelligent decision-making
- Availability of board members to spend sufficient time fulfilling their duties
- Whether board members have sufficient knowledge and understanding of the organization's values, mission, strategy, and business plans

## Processes and policies

An organization needs to be well-founded in its processes and policies, but even the most well-engineered process is still susceptible to failure. Therefore, it is important to understand that processes and policies are the starting point in creating a sound governance environment. The board could assess all of the specific processes and policies undertaken in the governance framework.

### Suggested considerations

- Number and length of meetings
- Organization and management of meeting agendas
- Preparedness of board members at meetings
- Availability of board members to management outside of meetings
- Appropriate prioritization of issues for board deliberation
- Level of information provided by management in pre-meeting reading materials

## Information and communication

With the overwhelming amount of information available to management and the board, it is critical to focus on providing information that is useful to the board's efforts to effectively oversee the company. This requires that management and the board continually engage in a two-way dialogue on the development of effective reporting tools and methods.

### Suggested considerations

- Timely, consistent, accurate, reliable, and relevant to the right issues
- Brief and clear enough to be digestible by the board
- Responsiveness of management to requests for additional information
- Information received is appropriate and sufficiently transparent to enable a risk-focused discussion
- Availability and utilization of professional advisor views

## Board oversight

The role of the board is typically a function of the legal environment in which a company operates. However, there are common responsibilities as a fiduciary that bridge the legal jurisdictions separating enterprises; the board should consider exhibiting a duty of loyalty to the corporation and exercise reasonable care in the performance of its duties.

### Suggested considerations

- Board's understanding of its oversight role and its ability to distinguish such role from managing the company for all responsibilities
- Recruitment, development, and deployment of leadership throughout the organization
- Evaluation of the CEO's performance and ethics
- Effective oversight of both executives' and directors' compensation
- Board's participation in the development of the organization's risk appetite, risk tolerances, and a robust risk framework
- Sufficient involvement in setting strategy (short term, medium term, and long term), with a focus on the critical issues that can significantly alter the company's future

## In summary

There are many topics that you as a board member can cover in the self-evaluation process. The above considerations can help in generating thoughts and ideas in the planning phase for a self-evaluation, which ought to be thorough, so as to achieve the potential benefits of the evaluation process. It is important to have a champion on your board to guide this process, which could be the chair of the board or another leader, such as the chair of the nominating/corporate governance committee. Select an evaluation method that is appropriate to the makeup of your board, such as (1) data driven surveys, (2) more personal one-on-one interviews by an outside third party, (3) a facilitator-led group evaluation discussion, or (4) a combination of these. The purpose of the self-evaluation is not to focus on just "checking boxes" but to assist in the identification of those areas for improvement that are most relevant for your board.

# Contacts

**Henry Ristuccia**

U.S. Co-Leader  
Governance & Risk Management  
Deloitte & Touche LLP  
+1 212 436 4244  
hristuccia@deloitte.com

**Donna Epps**

U.S. Co-Leader  
Governance and Risk Management  
Deloitte Financial Advisory Services LLP  
+1 214 840 7363  
depps@deloitte.com

**Maureen Errity**

Director  
Center for Corporate Governance  
Deloitte LLP  
+1 212 492 3997  
merrity@deloitte.com

**Scott Baret**

Partner  
Global Leader, Enterprise Risk Services – Financial Services Industry  
Governance, Regulatory & Risk Strategies  
Deloitte & Touche LLP  
+1 212 436 5456  
sbaret@deloitte.com

**Edward Hida**

Partner  
Global Leader – Risk & Capital Management  
Governance, Regulatory & Risk Strategies  
Deloitte & Touche LLP  
+1 212 436 4854  
ehida@deloitte.com

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