

“The value of an external review process will be heavily dependent on both the scope of the mandate that is given – that is, the readiness of the board to conduct a wide-ranging, no holds barred evaluation – and the capability of the external reviewer to conduct it.”

Board evaluation is seen by regulators, shareholders and independent directors to be a critical element of global best practices in corporate governance. The Russian and UK Corporate Governance Codes call for Boards of Directors to conduct self-assessments annually and to arrange independent reviews every three years.

Deloitte's Corporate Governance team offers assistance in both facilitating self-assessments and in conducting independent Board Effectiveness Reviews. We provide our services in the CIS through our Moscow-based Corporate Governance specialists, with methodology support and quality assurance by our UK team.

Deloitte Touche Tohmatsu ("DTT") member firms have vast experience in diagnostics and advising on corporate governance in a diverse range of markets, having developed a number of services customized to specific national environments.

Deloitte's Global Center for Corporate Governance, based in New York, acts as a knowledge depository as well as a center for initiating and coordinating research and methodological efforts, led by various national teams. The Deloitte Center for Corporate Governance in the CIS was launched in 2012 and since then has been coordinating all corporate governance-related commercial engagements and research in the region, in close cooperation with the Global Center and the UK Center for Corporate Governance.

The CIS team of Corporate Governance specialists, led by Dr. Oleg Shvyrkov, has considerable experience of governance analysis in the region and internationally. It includes professionals with backgrounds in capital markets, law, and risk management/internal controls.

The Deloitte Center for Corporate Governance in the CIS plays an active role in the major corporate governance fora and policy-making initiatives, including the OECD Russian Corporate Governance Roundtable, The National Council for Corporate Governance, and the Workgroup for Development of the International Financial Center in Moscow.

In 2012, Deloitte was invited by the Federal Service for Financial Markets (now part of the Central Bank of Russia) to assist in development of a revised Code of Corporate Governance, within a framework of a consultancy project financed by the European Bank for Reconstruction and Development. We helped the Central Bank develop several sections of the Code, including the section pertaining to board evaluation procedures, and participated in internal and public discussions on other sections of the Code.

Our services

Facilitated Board Self-Assessment

Deloitte assists Boards by facilitating self-assessments, which typically take the form of an extensive survey. We can help create the survey questionnaire or advise on the Company's existing format. Surveys are completed online and sent to our secure servers, thus ensuring confidentiality. We provide a concise report with aggregate statistics, saving you the time of reviewing raw data.

Board Effectiveness Review

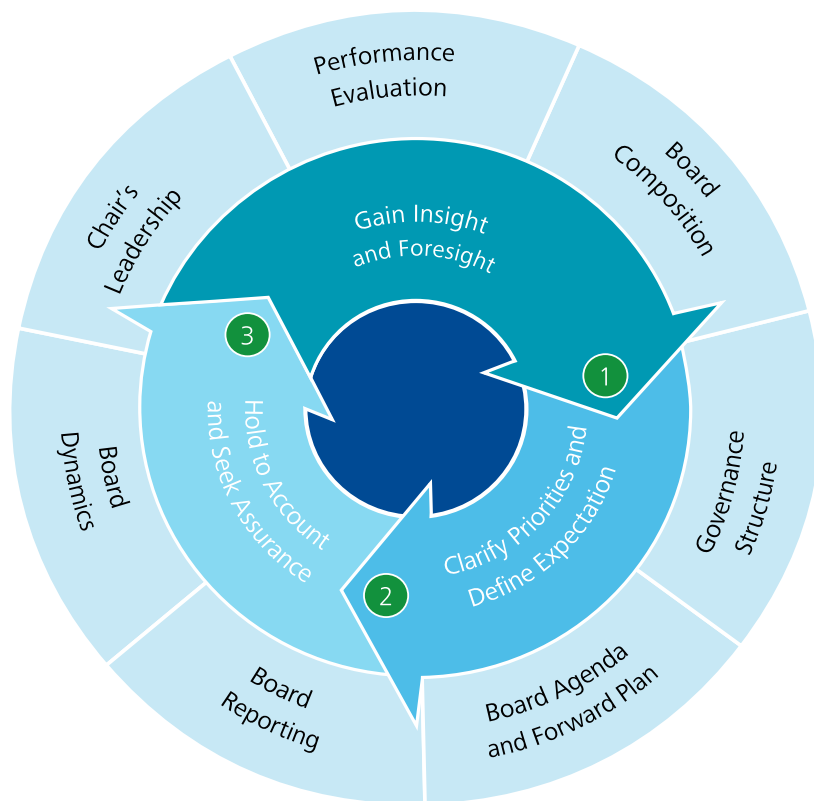
We tailor our well-tested methodology to the specific organization in question. We believe that the evaluation of the Board should encompass more than structures and processes; understanding Board dynamics is a core part of our review. We provide a report with our analysis of the state of the Board and recommendations for improving its effectiveness.

Board Effectiveness Reviews

Methodology

Defining effectiveness – Board roles

We have a defined Board effectiveness framework, which is illustrated in the diagram below. We focus on how the Board discharges three key roles: gaining insight and foresight; clarifying priorities and defining expectations; and holding to account and seeking assurance.



Enablers

The Board's ability to perform its three roles effectively is dependent upon eight enablers, which are seen in the outer circle of the diagram. The scope of our review focuses on these enablers.

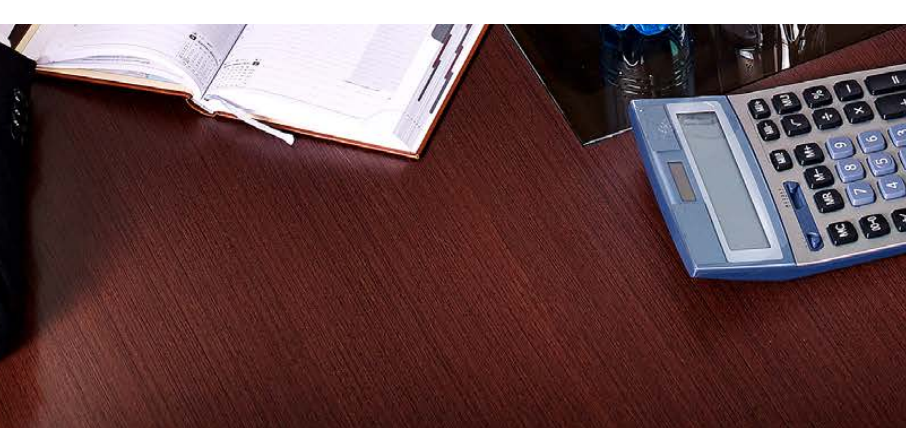
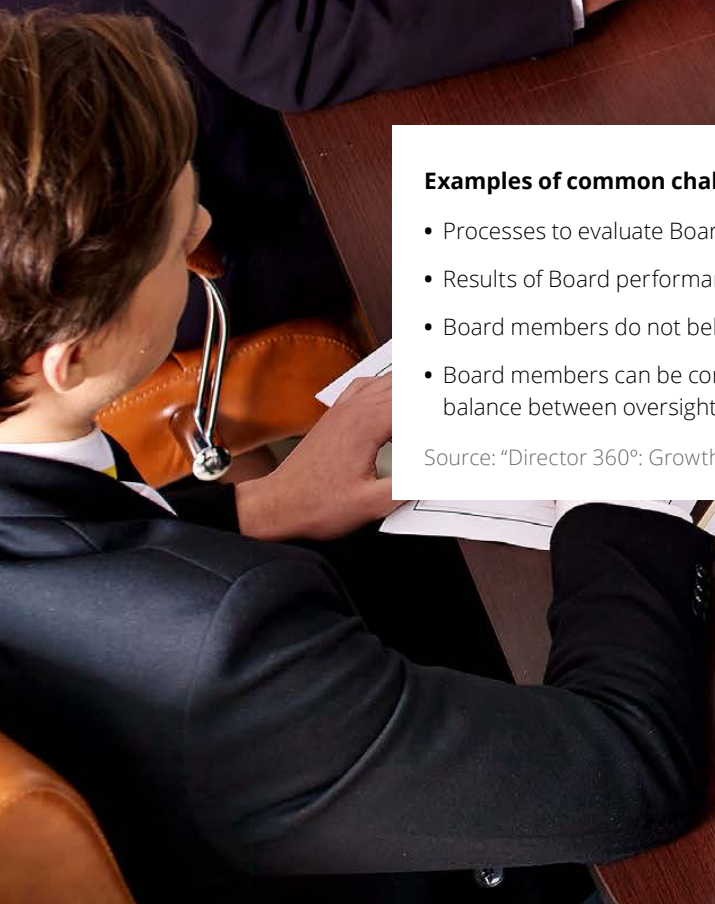
01. Board composition – The Board has the right balance of skills, knowledge and experience to govern the company effectively.
02. Board engagement – The Board engages with its internal and external stakeholders on a timely basis.
03. Governance structure – The Board's Committee structure is clear and provides members with assurance to discharge their duties effectively.
04. Board agenda and forward plan – The Board's meeting agenda and forward plan ensures that members are focusing on the right areas at the right time.
05. Board reporting – The information received by Board members is comprehensive, accurate, easy to understand, timely and appropriate.
06. Board dynamics – Board members operate effectively as a team, striking the right balance between trust and challenge.
07. Chair's leadership – The Chairman is an effective leader of the Board.
08. Performance evaluation – The Board members are continually improving as a group and as individuals.



Examples of common challenges reported by Russian Boards of Directors

- Processes to evaluate Board performance are not sufficiently robust, 61% (vs 28 globally)
- Results of Board performance reviews are not used to drive change, 66% (vs 24 globally)
- Board members do not believe they receive sufficient training, 56% (vs 25 globally)
- Board members can be concerned that they get the focus wrong, not striking the proper balance between oversight of risk, growth, performance, and strategy, 26% (vs 7 globally)

Source: "Director 360": Growth in all directions, Deloitte's survey of non-executive directors", 2013



Assessment Techniques

Options

We will work with you to determine which evaluation tools are best suited to achieve the objectives of your Board Effectiveness Review.

While the use of all techniques would deliver the most comprehensive review, it is possible to focus on those elements that provide the critical mass of information needed to meet the requirements of the Russian (and UK) Corporate Governance Codes.






At a minimum we deploy four integral techniques: document review, interviews with directors, interviews with management, and observation.

Integral [☆]

Document review [☆]	A thorough document review is essential to provide evidence and insight into the parameters within which the Board and organization are working.
Interviews with directors [☆]	We typically meet with or hold telephone interviews with each member of the Board to understand the Board's impact on the wider organization.
Interviews with management [☆]	We look at the perceptions of the Board's effectiveness, for example in setting the overall strategy, decision making and oversight of risk, as well as in coaching and advising management.
Observation [☆]	We observe the Board in action to assess the relationships and dynamics of interaction.
Case studies	It is helpful to look at the governance framework in action by selecting a few issues, transactions or significant decisions and understand the circumstances, escalation, and approval process.
Benchmarking	We look at how your Board is performing relative to best practice, as well as with organisations of a similar nature and scale.
Online survey	We offer the online survey both as part of external reviews and to facilitate Board selfassessment. We typically define three survey tiers: 1) Board; 2) Board-level Committees; and 3) evaluation of individual directors by peers. In the case of Board self-assessment, we recommend all three tiers.

Adding value

There are five factors – the five Cs, as we call them – that are essential to producing a value adding Board Effectiveness Review.

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Context
 Each Board is different and is subject to a range of internal and external factors, such as company lifecycle; corporate structure and culture; industry; regulatory environment; and shareholder relations.
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Communication
 The Board members and evaluator must have positive communication and collaboration. Collective buy-in should be secured from all Board members to encourage them to be engaged, open and honest in the review process. The evaluator should have the communication skills and emotional intelligence to address sensitive issues.
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Confidentiality
 Board members need to trust that the information they provide will be treated as confidential, so that Directors feel free to express their honest views without fear of comments being linked to them.
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Conclusion
 Upon completion of the review, it is vital that the Board discusses the results and agrees on the next steps. This provides a foundation from which to address the key issues identified in the review, determine the root causes, and agree on practical ways to resolve them.
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Continuous improvement
 An effective Board will use the evaluation to undertake a continual self-improvement process, for example by reviewing the action plan regularly throughout the year and holding informal discussions on their performance.

Timeline

Following contract signing, we will establish the project schedule, which typically follows the following timeline.

	Week 1	Weeks 2-3	Weeks 4-5	Weeks 6-7	Week 8
Minimum steps	Scope and planning	Document review	Interviews Observation	Analysis and feedback	Reporting
Board involvement	Attend briefing on what can be expected from the process	Completion of survey (optional)	Face-to-face or telephone interview, observation	Brief the key Board members on feedback	Attend presentation
Optional	Briefing Board members	Online survey	Benchmarking, case studies*	Written status update**	Agreeing implementation**

Note: the optional case studies and benchmarking can occur alongside any stage in the first weeks of the project.

* Recommended additional tools and techniques

** Additional steps to keep the Board and sponsors informed



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