

Guideline on Board's Role in Strategy for Business Sustainability



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Preface

In the midst of volatile and uncertain economic condition, organizations are facing challenges that can present both threats and opportunities. Therefore, business adaptability becomes vital in ensuring sustainable growth under intense competition environment. Emphasizing only growth and financial return under capitalism concept do not correspond with the path of sustainable growth. In some cases, businesses were stalled because they failed to take into account environmental and social impact right from the start. For instances, waste water and dust pollution from manufacturing process could spur community objection while failure to consider resource sufficiency may lead to material scarcity. These issues can generate adverse effect to the organization, either by creating bigger constraint or even stall business operations. Advanced communication technology allows widespread information that could severely deteriorate the organization's reputation. Nowadays, any organization that was reported to be the source of environmental problem would be questioned by the society. This could make consumers refuse to accept or even take actions against goods or services of the organization, which could generate severe impact against the corporate image in the long run

Such changes led to expectations from stakeholders, demanding businesses to pursue sustainable growth. Sustainability may exist when 'business as usual' takes into account profitability together with effective risk management as well as

impacts on all stakeholders in accordance with good corporate governance principles. Strategic planning is one essential business process that would drive business toward determined direction. As organization leader, the Board has a major role in providing guidance to ensure corporate strategy gears toward business sustainability.

Therefore, the Thai Institute of Directors Association (IOD) has prepared this Guideline on Board's Role in Strategy for Sustainability in alignment with key principles stipulated in the Securities and Exchange Commission's Corporate Governance Code for listed companies 2017 (CG Code). The IOD hopes this Guideline will help the Board performs its roles in determining business as usual strategy and take into account sustainability issues. This guideline divides into two sections including 1. Key Principles and 2. Guidelines. In an attempt to concretely drive business sustainability, each organization may opt to proceed in the form and manner that fits with its own context.

• Thai Institute of Directors Association (IOD) •





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Guidelines for Boards (2019)

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Section 1



Key Principles

Section 1 Key Principles

- 1 The Board should consider and set corporate vision and purpose toward business sustainability. It should take into account financial performance together with effective risk management as well as positive and negative impacts on all stakeholders in accordance with good corporate governance principles. The vision and purpose should be determined in collaboration with the management and communicate with both internal and external stakeholders. *(See Guideline 1.1)*
 - 2 The Board should establish organizational culture and values (both business and ethical values) to drive sustainable growth and lead by example. *(See Guideline 1.2)*
 - 3 The Board should ensure integration of factors affecting sustainability, both opportunities and threats, relevant with the company's business context. These factors should be taken into account in the formulation of strategy for business sustainability in order to respond comprehensively to opportunities and threats in the sustainability aspects that could affect the organization and stakeholders. *(See Guideline 1.3)*
 - 4 The Board and the management should jointly determine short-, medium-, and long-term strategy for business sustainability to ensure appropriate achievement in each level. It should take into account resource, innovation, technology, and other factors needed to drive other strategies to ensure target achievement. *(See Guideline 1.3)*
 - 5 The Board should consider building board structure and composition that can oversee strategy for business sustainability. It may assign a committee to oversee the implementation of strategy for business sustainability. *(See Guideline 2.1.1-2.1.3)*
 - 6 The Board should support the development of directors' knowledge and expertise through various channels, emphasizing on sustainability aspects relevant to the company's business to ensure directors clearly understand business sustainability. *(See Guideline 2.1.4)*
 - 7 The Board should evaluate level of understanding and efficiency of strategy for business sustainability in annual performance evaluation of the Board and individual director. The evaluation result can be used to develop and enhance Board efficiency. *(See Guideline 2.1.4)*
 - 8 The Board should build organizational structure that will accommodate strategy for business sustainability and clearly assign roles and responsibilities to relevant units. *(See Guideline 2.2)*
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- 9 The Board should ensure the organization has an effective stakeholder engagement process, including communications and hearings to understand expectations of each stakeholder. It should also ensure public disclosure of information gathered from stakeholder engagement through various channels. *(See Guideline 3.1)*
 - 10 The Board should ensure the management analyze and prioritize issues raised by stakeholders in order to plan appropriate response, manage risk, make improvement, and use arising opportunities to develop innovation of goods and services. *(See Guideline 3.2)*
 - 11 The Board should conduct and review policies to accommodate strategy for business sustainability that covers environmental/economic, social, and governance aspects. This is meant to demonstrate the Board's intention and provide guidance for personnel, ensuring the company has a mechanism to bring policy into full implementation. *(See Guideline 3.3)*
 - 12 The Board should ensure the management allocate resources effectively and in accordance with priorities to fulfil short- and long-term strategic goals. Such allocation must take into account impact and resource development throughout the supply chain. Six types of resources that the company should consider are Financial Capital, Manufactured Capital, Intellectual Capital, Human Capital, Social and Relationship Capital, and Natural Capital. *(See Guideline 3.4)*
 - 13 The Board should ensure the management set key performance indicators that fit with strategy for business sustainability and the context. The Board should also set appropriate monitoring timeframe. *(See Guideline 4.1.1)*
 - 14 The Board should set a timeframe to monitor key performance indicators and hold meetings to follow up progress, seek information, provide direction and guidance to the management for operation improvement. *(See Guideline 4.1.2)*
 - 15 The Board should ensure the organization present performance information in accordance with strategy for business sustainability through various communication channels to thoroughly inform stakeholders in a way that fit with the organization's context. *(See Guideline 4.2)*
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Section 2



Guidelines

Guideline 1 Strategic Leadership

Key roles of the Board in leading the organization toward business sustainability should consist of:

1.1 Vision and Purpose

- 1.1.1 The Board should consider and set corporate vision and purpose that reflect business sustainability. The vision should reflect long-term goal that the organization wants to achieve while the purpose should indicate objectives of the business. The Board should ensure that vision and purpose align with each other.
 - 1.1.2 To set corporate vision that reflects business sustainability, the Board may consider the following elements:
 - Purpose in driving the organization toward sustainability.
 - Identify significant sustainability issues that will lead the organization toward the purpose such as emphasis on governance, environmental friendliness, environmental impact mitigation, social, business stability, and appropriate risk management etc. Identifying these sustainability issues reflect how the organization comprehensively recognizes impact on environmental/economic, social, and governance aspects in conjunction with long-term performances.
 - 1.1.3 The Board should collaborate with the management in setting vision and purpose of the organization. While management understands business context and able to provide opinions on related stakeholders, the Board will guide the management with long-term direction of the organization.
 - 1.1.4 The Board should frequently communicate vision and purpose of the organization with both internal and external stakeholders. This is meant to create commitment and steer operating direction of internal personnel as well as informing external parties how the organization emphasizes on sustainability.
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1.2 Value and Culture

- 1.2.1 In order to drive the organization toward sustainability, it needs accommodative corporate value and culture. The Board has a role to work with the management in setting corporate value and culture that will support staffs to jointly push the organization toward sustainable growth.
- 1.2.2 The Board should consider establishing corporate value that consists of two components:
- Business values that will lead to solid earnings in the long run such as teamwork, innovation, excellence, and service-mind etc.
 - Ethical values that recognize business ethics and impact on stakeholders such as commitment to corporate governance, integrity, and environmental friendliness etc.
- 1.2.3 The Board should set corporate culture together with the management to ensure it accommodates sustainable growth. The corporate culture should align with corporate value and strategy for business sustainability. It consists of two components:
- Performance culture – a culture that will encourage staffs to aim primarily at organization's purpose. It is a culture that accommodate staff to initiate innovation or create new products etc.
 - Ethical culture – a culture that will embed and reiterate ethical values to ensure compliance of staff.
- 1.2.4 Prudent corporate value and culture can materialize if the Board leads by example, signaling to the management and staff that the Board take these matters seriously.
- 1.2.5 To lead by example, the Board should
- Hear from the management key issues in environmental, economic, social and governance aspects that could affect the company. The Board should also seek external knowledge to participate in discussion of matters relevant to strategy for business sustainability
 - Set clear meeting agenda to accommodate discussion of value and purpose, value and culture, and strategy for business sustainability.
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- Supervise and monitor performance of the management by requiring regular report to ensure the management complies with strategy for business sustainability. The Board should also communicate and embed value that emphasizes sustainability through objectives, policies, guidelines, decisions, and incentives provided via human resource management system.
- Communicate regularly with staff about corporate value and culture.
- Ensure that the management evaluate corporate culture if it aligns with corporate value and purpose. It must also establish whistleblowing channel for staff and other stakeholders, allowing them to file complaint to the Board should they find malpractices or practices that are misaligned with corporate value and culture.

1.3 Strategic Plan

- 1.3.1 After the vision, purpose, value and culture are set, the Board must collaborate with the management to determine strategy that will make the organization achieve its vision and purpose. The strategy must also be in alignment with corporate value and culture.
- 1.3.2 To determine strategy for business sustainability, the Board and management must jointly consider sustainability issues including opportunities and threats in relation with the business context. Both internal and external factors must be included in the determination of 'business as usual' strategy. This will allow the company to respond comprehensively to opportunities and threats in the sustainability aspects that could affect the organization and all stakeholders. It will also create genuine sustainable corporate value. The Board must also ensure the management regularly analyzes and prioritizes sustainability issues, both opportunities and threats. (see more details in Guideline 3) The information can be used to analyze, monitor, and review the organization's strategic plan and prevent potential loss in business opportunity or confidence, which could affect sustainable growth.

- 1.3.3 In order to determine strategy for business sustainability that fits with the organization, readiness in the following aspects must be taken into account. They include business complexity, stakeholders, number and skills of personnel, level of business sustainability understanding of staff etc. In case the company is not ready to include sustainability issues, either opportunity or threat, into the determination of 'business as usual' strategy, the Board and management may start by complying with basic rules and regulations relevant to the business context and consider tackling only sustainability threats to mitigate potential impact on stakeholders and the organization.
- 1.3.4 The Board and management must jointly set short-, medium-, and long-term goals of the strategy for business sustainability and jointly determine strategic plans to achieve the goals properly. These strategic plans must be in sync and respond comprehensively to expectations of stakeholders.
- 1.3.5 The Board and management must jointly consider resources, technological innovations and key factors needed to drive other strategies in order to accommodate implementation of existing strategies and ensure that the goals will be achieved.
- 1.3.6 The Board and management should jointly set clear timeframe and agenda for annual business sustainability strategic planning to ensure the Board and management has a framework for collaboration and able to monitor the strategic plans effectively. *(See example of business strategy development process in Appendix 1)*
- 1.3.7 The Board must seek information from the management and external sources to monitor internal and external business situation in a timely manner. The information can also be used to determine and review strategic plans, goals, and future plans.
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Example of information that the Board should obtain from the management

- The company's financial status and earnings projections in the short- and long-term.
- Management report on the progress of strategy for business sustainability, threats and opportunities, as well as plans to manage emerging threats and opportunities.
- Peer comparison to compare the company's competitiveness with the market.
- Complaints, news, or issues raised by stakeholders via available channels.
- Other key statistics from the management.

Example of information that the Board may seek from external sources

- Industry analysis (including positive and negative suggestions).
- Information and views from securities analysts.
- Discussion with investors, fund managers, and key stakeholders through meetings or annual meeting.
- Publicly disclosed information of companies in the same industry or related industries.
- Information obtained from hiring the Board's advisor, auditor, financial advisor, and other external advisor.
- Trade information, government information, and reports from experts.
- Participation in Board development programs, training courses, seminars and academic events conducted by external experts.

Source : The Board and Long-Term Value Creation, National Association of Corporate Directors (NACD), 2015



Guideline 2 Governance

The Board should ensure the organization has governance system that will help driving implementation of strategy for business sustainability.

2.1 Building Board Structure and Composition for Business Sustainability

- 2.1.1 To govern the business toward sustainability, the Board should have diversity in gender, age, knowledge, skill, and experience to accommodate comprehensive consideration of relevant factors. The Board should also understand business sustainability and capable of linking key sustainability issues that could affect long-term growth prospect of the business.
 - 2.1.2 To enhance the Board's understanding of business sustainability and ability to oversee strategy for business sustainability, the Board may consider the following steps:
 - 2.1.2.1 Educate and develop current directors to make them understand business sustainability. For example, the management may present analyzed data on sustainability relevant to the business or hire an external expert to analyze direction, trend, impact on the company's sustainability and present to the Board.
 - 2.1.2.2 Skill, expertise, and experience in sustainability aspect are set as requirements in the Board Skill Matrix in the nomination of new directors. The organization must be able to identify sustainability issues relevant to the business in order to specify desirable director's qualifications. For example, key sustainability issue of a company in natural resource business is environmental conservation. Therefore, the Board may set 'expertise in environmental issues' as one required qualification in director nomination.
 - 2.1.2.3 Recruit persons who can represent key stakeholders or those with experiences in building relationships with stakeholders to join the Board. This is particularly important for organization with business that tends to have explicit impact on certain group of stakeholders.
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2.1.3 Determination of the structure and roles of the Board

- 2.1.3.1 Sustainability performance should be added into the Board's roles and responsibilities. This should be included in the Board's charter since the Board has key roles in determining and approving strategy for business sustainability as well as overseeing implementation by the management.

Example of Board's roles

Governance

- Set vision, direction, strategy, purpose, policy for business sustainability and oversee, monitor to ensure implementation of key strategies and policies.
- Monitor global direction and trend of sustainable development and potential impact on the company's business to review policies supporting strategy for business sustainability.
- Ensure proper allocation of necessary resources to achieve the pre-determined management framework.
- Ensure continuous process within pre-determined framework and available resources / competencies.
- Ensure disclosure of information regarding strategy for business sustainability implementation in accordance with relevant regulations, standards, and guidelines.

Risk Management

- Ensure that relevant sustainability issues are included in the organization's risk management framework and risk management plan.
- Consider trend of sustainability issues that may affect the company's business and the whole supply chain in short-, medium-, and long-term.
- Provide suggestions, guidance, and ways to mitigate risks within acceptable levels as well as monitor, evaluate, and improve operating plan to continuously mitigate the risks.
- Require report on risks that could affect the implementation of strategy for business sustainability.

Example of Board's roles

Board nomination and development

- Conduct long-term plan for the Board composition and set nomination criteria, specifying skills, competencies, experiences, and diversity as required qualifications in the Board Skill Matrix. These specified qualifications should also accommodate sustainable growth of the company's business.
- Evaluate effectiveness of Board nomination process annually to ensure alignment with the purpose to drive the organization toward sustainability.
- Evaluate performances and prepare succession plans for the CEO and senior executives in accordance with the company's requirements and long-term view.
- Provide Board training, development, and evaluation to enhance director's competencies in governing the organization in alignment with strategy and goals for business sustainability.

Remuneration consideration

- Integrate the purpose in driving organization toward sustainability as part of director evaluation criteria.
- Consider annual operating plan and performance evaluation of the CEO and senior executives to ensure alignment with strategy for business sustainability. Also consider leadership capacity to achieve pre-determined purpose in order to provide incentives and motivations to push for long-term goals achievement.
- Ensure sustainability principles are included in compensation policy of all personnel in the organization i.e. wage, welfare, fairness etc.

Auditing

- Audit compliance through report of internal auditor to ensure that work process of the management complies with the regulations, policies, and guidelines.
- Audit internal control system to mitigate risks that could affect implementation of strategy for business sustainability.

Example of Board's roles

Auditing

- Ensure existence of information technology system and reporting process of strategy for business sustainability implementation, both internally and externally. This will also ensure the company has done adequately, in alignment with key performance indicators, and able to build trust of external parties.
- Audit key sustainability information disclosed via various channels such as documents filed to government agencies and regulators, financial statements, presentations to investors etc.

Source : Corporate Secretaries Guide Board Sustainability Governance, The United Nation Global Compact (UNGC), 2016

2.1.3.2 The Board may assign existing committee to monitor the implementation of strategy for business sustainability by the management and lay work process between the Board and management to ensure it continuously monitors the implementation of business sustainability strategy on a regular basis.

2.1.4 Board development to enhance Board effectiveness

2.1.4.1 The Board should continuously be educated and developed to understand business sustainability so that both new and existing directors can develop their competencies to cope with ever-changing trend and situation. The development should emphasize on sustainability issues relating to the business in accordance with levels of the Board's competency and expertise and adjust to fit with challenges of the company or the industry.

Example of key contents to educate the Board

New Board members

- Director orientation should include meeting and discussion with senior executives responsible for corporate sustainability.
- Sustainability policy, strategy, and relevant reports.
- Stakeholder engagement policy, strategy, and framework.
- Key sustainability issues of the company and business case study.
- Visit sites and sources of information on sustainable development.

Example of key contents to educate the Board

All Board members

- There should be a survey of each director's demand and interest in sustainability aspect.
- Annual informative session to update the Board about threats and opportunities on sustainability aspects relevant to business operations.
- Set agenda for annual Board meeting to discuss strategy for business sustainability and key issues relevant to stakeholders.

Source : Corporate Secretaries Guide Board Sustainability Governance, The United Nation Global Compact (UNGC), 2016

2.1.4.2 The Board may consider other activities to enhance business sustainability expertise and experience of the directors such as

- Invite external expert to join the discussion and share insights about the organization's key sustainability issues.
- Provide opportunities for directors to participate in sustainability meetings or seminars, both locally or abroad, to hear debates and discussions in sustainability aspects.
- Meet with companies or organizations in the same industry to discuss and exchange views on key sustainability issues.
- Visit sustainable development projects relevant to the company's supply chain to make the Board aware of issues that could affect the company's business operation.

2.1.4.3 The Board should integrate sustainability issues into annual evaluation of both full Board and individual directors. The evaluation result can be used to consider Board development program in order to enhance effectiveness and can also be used to review Board structure and composition.

2.1.4.4 Key issues that should be included in Board evaluation are

- Knowledge about business sustainability policies and application with the company's business.
- Recognition of sustainability issues, both opportunities and threats that could affect the company's supply chain and business context over the long run.
- Recognition of expectations and demand of stakeholders.
- Decision-making efficiency on issues relevant to strategy for business sustainability.
- Effectiveness of the Board's and Committees' roles in supporting and supervising the implementation of strategy for business sustainability.

The Board may consider using questionnaire, interview, or evaluation by external agency.

2.2 Building a Organizational Structure for Business Sustainability

2.2.1 The Board and management should jointly determine organizational structure and develop effective framework to ensure the strategy for business sustainability is implemented throughout the organization.

2.2.2 The Board should assign the CEO to put policy, strategy, and direction from the Board into implementation. In this regard, the CEO must continuously report to the Board.

2.2.3 The Board should ensure the organization has a structure that accommodate the integration of sustainability into business strategy. This can be done through

2.2.3.1 Establishment of Working Committee on sustainability in the form of Cross Functional Team. The team should comprise of representatives from units accountable for driving strategy for business sustainability such as risk department, finance department, operations department etc. This will create connection and communication with relevant units throughout the organization and lead to operational alignment.

2.2.3.2 In some cases, capable organizations or those wanting to have a specific unit being held accountable for the implementation of strategy for business sustainability may consider establishing sustainability management unit. This unit will be under C-Suite executive, the Chief Strategy Officer (CSO), who will report directly to the CEO as sustainability should be integrated into the determination of 'business as usual' strategy. The roles and responsibilities of the unit may be stipulated as follow

- Provide information and suggestion to the CEO and the management to develop and review work plan, initiate process, and implement the strategy for business sustainability.
- Develop a system to monitor the implementation of strategy for business sustainability by units within the organization.
- Set operating measures and goals in the short-, medium-, and long-term in alignment with strategy for business sustainability and consider seeking verification or work process audit from external agency.
- Consider reviewing and approving sustainability report in the management level and present to the Board.
- Present sustainability progress to the Board on a regular basis.

Source : Sustainability Guide for Boards, Singapore Institute of Directors (SID), 2017

Guideline 3 Oversight Role

The Board has an oversight role to ensure the management drive sustainability into systematic implementation as part of business as usual process.

Roles of the Board, management, and relevant units



3.1 Stakeholder Engagement

3.1.1 The Board should ensure the management has stakeholder engagement process. Since stakeholders are anyone who may gain or lose from the company's business operations, their opinions, expectations, and concerns as well as issues that the company may be affected and expected from them will be material information in determining and reviewing strategy for business sustainability.

3.1.2 The Board should ensure the management has a process to identify key stakeholders, which may differ upon business contexts. Moreover, the management should indicate channels to properly access each group of stakeholders because different groups may be accessible through different approaches.

- 3.1.3 For stakeholders who have significant impact on the company, the Board may seek to engage them to acknowledge key problems that could affect decision-making. The Board's engagement and communication with stakeholders can be conducted in various levels depending on the priorities such as interview, seminar, public hearing etc.
- 3.1.4 The Board should ensure there is a review of stakeholder engagement process to consider the outcome, then fix and improve the process. The Board should also ensure public disclosure of information gathered from stakeholder engagement through various channels such as sustainability report, annual report, website, or other types of public relations media.

Example of stakeholders' expectations	
Stakeholders	Expectations relating to business sustainability
Employees	<ul style="list-style-type: none"> • Fair compensation and welfare. • Workplace safety. • Fair opportunity to grow and advance in career. • Sufficient training. • Accommodating tools, equipment, and work environment.
Suppliers	<ul style="list-style-type: none"> • Fair and transparent operations throughout the supply chain. • Ethical business operations and decent work conditions. • Fair compliance with terms and conditions of business contracts.
Customers	<ul style="list-style-type: none"> • Low adverse impact from products on the environment and society. • Protection of customers' data. • Take sustainability into account throughout the supply chain.
Investors	<ul style="list-style-type: none"> • Sustainable business growth and long-term value creation. • Effective sustainability indicators. • Good corporate governance.
Government and regulators	<ul style="list-style-type: none"> • Compliance with relevant rules and regulations. • Good corporate citizen of the society. • Good corporate governance. • Fair competition.
Community and Non-governmental organizations	<ul style="list-style-type: none"> • Ethical business operations. • Take into account environmental and social impacts.

Source : Sustainability Guide for Boards, Singapore Institute of Directors (SID), 2017

3.2 Materiality Analysis

- 3.2.1 Sustainability Materiality derives from identifying and prioritizing issues that have significant positive or negative influences over decision-making, operations, company's performance, and stakeholders in the short-, medium-, and/or long-term. They cover the economic, environmental, and social dimensions.
 - 3.2.2 The Board should integrate materiality into the determination of the company's direction, strategy, and operations to ensure sustainability and mitigate business, environmental, and social risks throughout the supply chain.
 - 3.2.3 The Board should ensure the management analyze and prioritize materiality gathered from stakeholder engagement. This is key to the consideration of company's material issues and is also a process to consider issues to respond and disclose progress to investors and stakeholders.
 - 3.2.4 Since potential impacts on economic, environmental, and social aspects can change any time, the Board should ensure the materiality analysis and prioritization of sustainability issues are conducted continuously and being reviewed annually.
 - 3.2.5 The Board should ensure sustainability materiality are managed properly. Threats that may affect the organization or stakeholders should be mitigated while opportunities should be captured to develop new products. This should be included in the preparation or revision process of the strategy for business sustainability.
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Example of materiality analysis by the management

Step 1 : Set objectives and scope

- Collect issues and demand from internal and external stakeholders.
- Divide issues into key sustainability threats and opportunities.

Step 2 : Identify material sustainability issues

- Assign working committee or relevant units (depending on organizational structure) to jointly consider the significance of identified issues.
- Initiate process to regularly monitor change in material issues, which can change over time with business situations.

Step 3 : Categorize

- Categorize selected material issues into groups or topics as some may require similar treatment.

Step 4 : Compile information about impact and significance of each issue

- Compile actual and/or potential impacts of each material issue.

Step 5 : Prioritize and seek ways to manage

- Analyze the priorities of each issue in terms of significance to business operations, economic, environment, social, and significance to stakeholders.
- Score each material issue by taking into account impact on business objectives against impact on key stakeholders.
- Find ways to manage material topics. Threats that may affect the organization or stakeholders should be mitigated while opportunities should be captured to develop new way of operations
- The Board and management should integrate ways to manage both threats and opportunities into the preparation or revision process of strategy for business sustainability.

Step 6 : Board engagement

- The Board grants approval to the overall process.

Step 7 : Consideration of stakeholders' feedback




- The performance and progress must be communicated with both internal and external stakeholders.
- Analyze responses from both internal and external stakeholders to the company's performance.

Source : Sustainable Insight : The Essentials of Materiality Assessment, KPMG International, 2014

3.3 Establishing Policies and Practices

- 3.3.1 The Board should consider establishing policies that are in alignment with the company's key sustainability issues. The policies should cover operations that will drive the company towards sustainability in various dimensions and achieve objectives in the following aspects :
- 3.3.1.1 Environment - Focus on mitigating environmental impacts, balanced utilization of natural resources, adoption of clean technology, innovation to conserve environment, protection of bio diversity to create global ecosystem stability, and adaptation to changes.
 - 3.3.1.2 Social – Focus on fair treatment to internal and external human beings in various aspects, promotion of fairness and equality, promotion of diversity, and participation of all walks of life.
 - 3.3.1.3 Governance – Focus on governing the organization to ensure ethical, transparent and fair operations in compliance with relevant laws and regulations.
- 3.3.2 The Board should oversee continuous review and improvement of relevant policies to ensure they are up to date and fit with business context as well as international trend and direction.
- 3.3.3 In case the company already has policies and guidelines, the Board should ensure there are processes to put policies and guidelines into full implementation. The Board should also consider policies that will affect operations of those related to the company such as supply chain management etc.
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Examples of sustainability policies the company can consider

Environmental Policies	Social Policies	Governance Policies
 <ul style="list-style-type: none"> • Mitigate environmental impact. • Greenhouse gas emission. • Conservation of natural resource and environment. • Waste management. • Supply chain management. • Circular Economy. • Technology and innovation development. 	 <ul style="list-style-type: none"> • Human resource management. • Fair compensation and welfare. • Career opportunity. • Fairness and equality. • Occupational safety and health. • Human rights. • Personal data protection. • Corporate social responsibility. • Stakeholders' hearing. 	 <ul style="list-style-type: none"> • Board structure. • Determination of management's compensation. • Shareholders' rights. • Trade competition. • Anti-corruption. • Political neutrality. • Legal compliance. • Anti-money laundering. • Ethics and code of conduct. • Conflict of interest. • Filing complaint and whistleblowing.

Source : Sustainability Guide for Boards, Singapore Institute of Directors (SID), 2017

3.4 Resource Allocation

3.4.1 The Board should monitor the management to ensure efficient resource allocation in alignment with both short-term priorities (i.e. present investment) and long-term strategic goals (i.e. seeking new opportunities in the future) while taking into account impacts throughout the value chain.

3.4.2 Besides financial capital and manufactured capital that directly affect business operations, the Board should oversee the necessity and changing trend of other resources that may affect the organization. The Board should ensure that the management respond to business sustainability objectives and consider investing in appropriate resources that will enhance value for both business and stakeholders.



3.4.2.1 Human capital

As vital resource for all businesses, the Board should see that the organization appropriately invest in personnel and enhance their expertise. Particularly, in key positions like head of sustainability unit, environment expert, and the hiring of external specialist. The Board should also emphasize on training staffs and promoting sustainability-minded culture.



3.4.2.2 Intellectual capital

Investment in intellectual capital is essential in creating and maintaining competitive advantage. For example, investment in data management system will allow timely data compilation, timely analysis to improve quality, significant cost saving, and connectability with other systems.



3.4.2.3 Natural capital

Investment in innovation and technology to reduce dependence on natural resources, particularly businesses that rely on scarce natural resources as part of their production processes like coal and natural gas.



3.4.2.4 Social and relationship capital

Company can establish sustainable relationship with the community by identifying and responding to expectations and concerns of stakeholders. Investment in social and relationship capital can be done through community development or in the form of social enterprise.

Guideline 4 Reporting and Assessment

Reporting and assessment are key processes that the Board uses to monitor the implementation of strategy for business sustainability.

4.1 Measuring Performance

4.1.1 Determination of sustainability indicators

- 4.1.1.1 The Board should emphasize on assessing management's performance to ensure the alignment of strategy and goals in short-, medium-, and long-term through 'performance indicators' that reflect the implementation of strategy for business sustainability.
- 4.1.1.2 Each organization may have different details in determining 'performance indicators'. Therefore, the Board should select those which fit with the company's context. It may compare with external relevant standards to ensure the quality and credibility of indicators, which can be used as references to support decision-making.
- 4.1.1.3 The Board and management may consider using the following examples as references in determining indicators that fit best with the company.

Examples of sustainability indicators

Environmental aspect	
Emissions	<ul style="list-style-type: none"> Greenhouse gas emission reduction target.
Energy	<ul style="list-style-type: none"> Electricity and/or fuel reduction target. Electricity and/or fuel usage volume. Alternative energy usage volume (by category).
Water	<ul style="list-style-type: none"> Water usage reduction target. Water usage volume. Volume of waste water being treated and recycled.
Effluents, waste and pollution	<ul style="list-style-type: none"> Effluents, waste, and pollution reduction target. Volume of effluents or waste being recycled.

Examples of sustainability indicators

Social aspect

Labor practices	<ul style="list-style-type: none"> • Ensure compliance with the company's labor policies and practices that take human rights into account. • Ensure compliance with business partners' labor policies and practices that take human rights into account. • Number of staffs or number of fixed and temporary employees by gender, age, and position. • Number of staffs or employees with disabilities or other disadvantages. • Compensation gap between male and female employees. • Employee development expenses. • Number of hours spent in training or knowledge development activities of staffs or employees (per head per year). • Occupational health and safety development target. • Sickness, injuries, and mortality statistics related to work of staffs or employees. • Employee engagement evaluation. • Resignation rate.
Responsibility to customers	<ul style="list-style-type: none"> • Customer satisfaction ratings. • Number of incidents or complaints that derived from failure in providing services to customers.
Community development	<ul style="list-style-type: none"> • Expenses or resources spent in social/community development. • Qualitative and quantitative gains on the community and the company from project implementation. • Level of community satisfaction toward the business.

Examples of sustainability indicators	
Governance aspect	
Good Corporate Governance	<ul style="list-style-type: none"> • Proportion of independent directors in the Board. • Proportion of non-executive directors in the Board. • Pre-determined board skills necessary for the business • Evaluation of individual director. • Provision of knowledge on code of conduct for directors, employees, and relevant parties such as suppliers and joint ventures.
ESG risk management	<ul style="list-style-type: none"> • Risks, impacts, and opportunities in environmental, social, and governance issues as well as indication of emerging risks. • Frequency in practicing contingency plans such as emergency plan, crisis management plan, and business continuity plan.
Value chain	<ul style="list-style-type: none"> • Supply chain management target. • Proportion of new suppliers that met ESG criteria.
Innovation	<ul style="list-style-type: none"> • Innovation information on environmental- or social-friendly process, products, or business model. • Innovation development target. • Financial gain from innovation development such as cost reduction, sales of environmental- or social-friendly products.

Source: Template SET Sustainability Reporting Content Index, Stock Exchange of Thailand (SET), 2019

4.1.2 Performance monitoring by the Board

- 4.1.2.1 The Board should discuss with the management to set timeframe for regular monitoring of indicators as deemed necessary, such as quarterly or annually, to allow timely adjustment if needed.
- 4.1.2.2 The Board should receive information from the management prior to the Board meeting to allow time for thorough consideration. The Board may ask the management to gather further information from relevant units.
- 4.1.2.3 In case of sizable company or complex operations, the Board and management may consider investing in software or system designed to monitor, compile, and analyze actual data in timely manner. This will provide accurate report and mitigate potential mistakes. In a follow-up meeting, the Board should ask for information as well as provide suggestions to the management to help them improve performances on a regular basis.

4.1.3 Designing compensation plan

- 4.1.3.1 The Board should consider management compensation guideline and format that fit with short-, medium-, and long-term goals to drive strategy for business sustainability. Appropriate compensation scheme such as incentives, pay raise, annual bonus, stock option, pension fund will provide the right incentive to accelerate management's performance.
- 4.1.3.2 Since compensation could create both positive and negative impacts, the Board should comprehensively consider relevant factors and business context. It must have clear and transparent process in linking indicators with compensation structure.

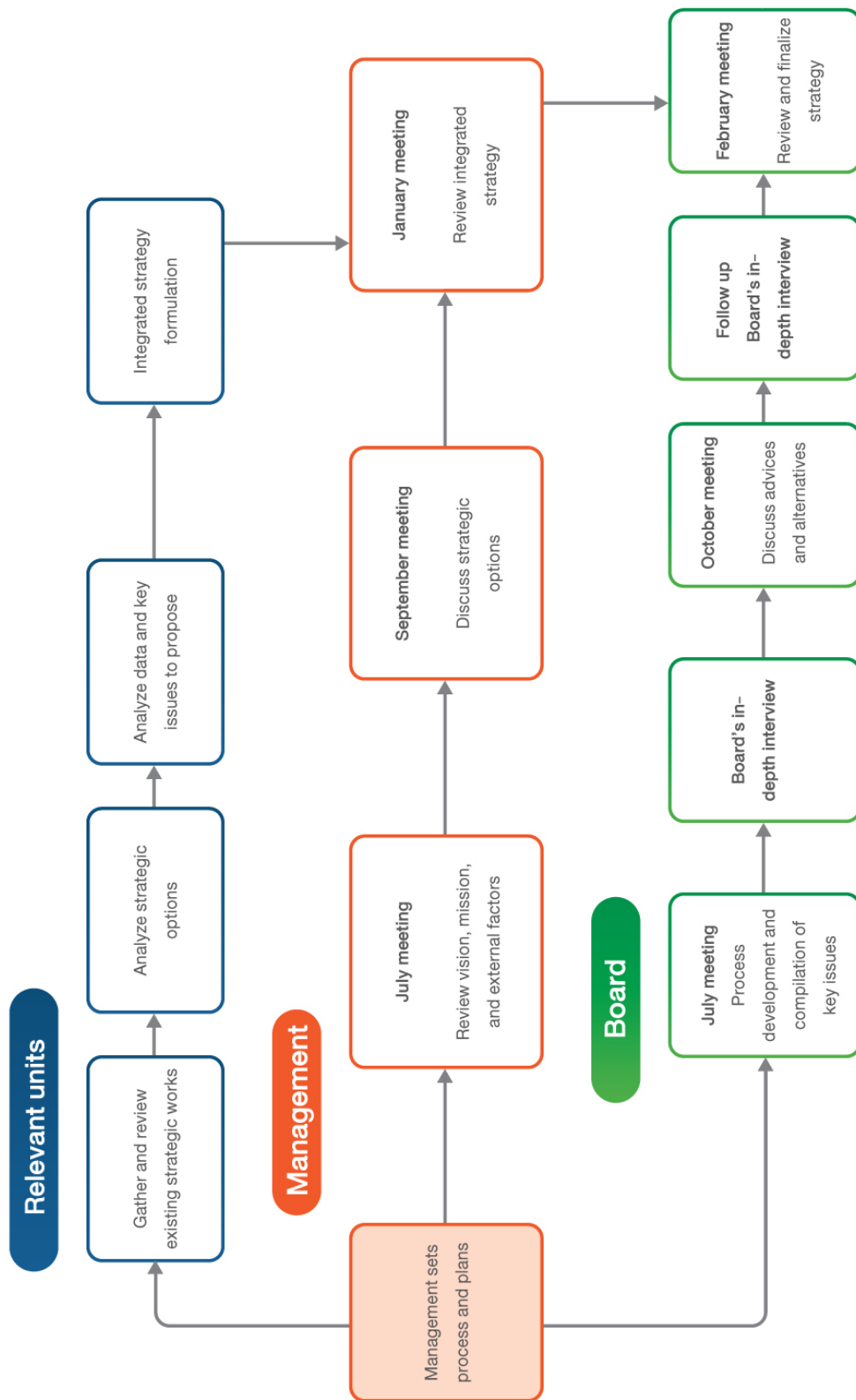


4.2 Disclosure

- 4.2.1 Disclosure is an indicator of the efficiency of board's oversight. The Board should disclose information matched with stakeholders' expectations. For example, financial and strategic risk information might be needed by investors to support their investment decision. This could be done through various channels such as annual report and quarterly financial statements.
- 4.2.2 Sustainability Report / ESG Report / Sustainable Development Report are widely accepted by Global investors, raters, and stakeholders as the key channels used to assess organization's sustainability practices. These reports present key information beyond financial aspects and in-depth information related to sustainability strategy, management, and outcome. The Board should consider using internationally-recognized reporting format to make it comparable with other companies.
- 4.2.3 To create confidence and enhance credibility for those receiving information. The Board may encourage disclosure that has been verified by independent assurance agency for completeness of contents in accordance with relevant criteria.
- 4.2.4 Investors also emphasize on the information provided on the company's official website. Complete disclosure on such channel – where the information could be adjusted swiftly and timely - can be a significant opportunity for the company to demonstrate its sustainability commitment.

Appendix

Appendix 1 Example of strategy formulation process



Source : Engaging the Board in Corporate Strategy, Nadler Advisory Services, 2014

Appendix 2 Example of Board Evaluation Form on business sustainability

- Score levels**
- **0-30** : The Board has not appropriately considered sustainability issues in the decision-making process. It should weigh sustainability issues more in the determination of business strategy.
 - **31-55** : The Board has governed the organization by moderately taking sustainability issues into account and can extend it further in various processes.
 - **Over 55** : The Board has properly integrated business sustainability into the governance system and the determination of the company's business strategy and purpose.

Number	Checklist	Yes (2 points)	Partially (1 points)	No (0 points)
Integration with the Business				
1	Did the Board have a role in creating corporate value and culture to drive business sustainability?			
2	Has the Board considered sustainability issues relevant to the company's business?			
3	Has the Board considered sustainability issues in the determination of business strategy?			
4	In risk assessment process, has the company considered sustainability issues that could affect the business and report to the Board?			
5	Has the company considered environmental, social, and governance issues that could affect the business and expectations of stakeholders in making decision about the company's operations?			
6	Has the Board linked sustainability issues and potential impact on the company and informed shareholders accordingly?			
7	Does the Board understand the impact of sustainability issues on business supply chain?			
8	Does the company take sustainability issues into account in its business continuity plan?			

Number	Checklist	Yes (2 points)	Partially (1 points)	No (0 points)
Integration with the Business				
9	Does the company consider sustainability issues covering the environmental, social, and governance aspects in the Enterprise Risk Management (ERM) process?			
10	Does the Board oversee the organization's risk management?			
Governance Structure				
11	Has the company authorized the Board or committee to have oversight roles in the implementation of strategy for business sustainability?			
12	Has the company appointed senior management to be responsible for considering sustainability risks?			
13	If there is an appointment in no. 12, has there been any report to the Board?			
Board Composition and Skill Sets				
14	Is there at least one director with expertise in sustainability that relates to the company's business?			
15	Has the Board appointed independent advisor or working committee to provide advices on sustainability?			
Performance Oversight				
16	Has the Board approved the company's purpose that will lead toward corporate sustainability?			
17	Has the Board regularly monitored implementation progress of strategy for business sustainability?			
18	Has the financial performance of strategy for business sustainability implementation been reported to the Board?			
19	Has the Board set sustainability-related performance indicators as monitoring tools?			
20	In determining sustainability-related performance indicators, has there been comparison with top-tier companies, industry leaders, or industry peers?			
21	Has the company concretely linked management compensation with long-term goals?			

Number	Checklist	Yes (2 points)	Partially (1 points)	No (0 points)
Internal and External Reporting				
22	Has the company communicated business sustainability performance to shareholders?			
23	Has the company conducted sustainability report?			
24	Has the Board approved key contents in the sustainability report stated in no. 23?			
25	Have key contents indicated in the sustainability report been verified by independent external agency?			
26	Has the company disclosed complete sustainability information relevant to its business?			
27	Has the company's sustainability information been fully disclosed to relevant stakeholders?			
28	Has the company declared its commitment to business sustainability and communicated to the general public?			
29	Does the company have appropriate governance structure to ensure the management fully report and disclose information?			
30	Has the Board assigned a person responsible for sustainability performance reporting?			
31	Does the company have measures to validate information disclosed?			
32	Do internal and external auditing units participate in information disclosure?			
33	Do audit committee have a role in checking the accuracy and completeness of information?			

Source : Self-Assessment: Is Your Board Sustainability-Ready?, National Association of Corporate Directors (NACD), 2017

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