Thai Institute of Directors

Guideline on Division of Responsibilities

between Board and Management

Content

Preface

The Board is a group of people with key role as the "leader" in driving the organization toward sustainable growth. It is responsible for governing the organization to achieve its objectives and purpose, based on social and environmental responsibilities as well as fairness to shareholders and other stakeholders.

According to good corporate governance principles, the board's responsibilities include the determination of business direction, strategies and key policies that will create sustainable value for the organization. While the implementation tasks belong to the Management, the Board will provide guidance with long-term perspective and closely monitor the performance as it is entrusted by shareholders to perform fiduciary duties.

Since the Board and Management must work together, the Board effectiveness is relevant to the Management. Therefore, all directors should emphasize on collaborative leadership to enhance constructive relationship between the Board and Management. Besides appropriate governance structure, a clear common understanding of the scope, roles, and responsibilities of the Board and Management is also essential in creating healthy relationship and ensure smooth collaboration between both parties.

Clear division of responsibilities between the Board and Management will not only enhance operational flexibility of both parties but also strengthen the check and balance mechanism, which will allow the Board to monitor performance of the Management more independently.

The development of this guideline reflects the significance of the matter. We sincerely hope contents of this document will help the Board perform their roles more effectively. They can also be used as a guideline in dividing roles and responsibilities between the Board and Management, which will further uplift the quality of corporate governance.

• Thai Institute of Directors •

Working Committee on ESG

Guidelines for Boards (2020)

1. Mr. Kulvech	Janvatanavit	Chief Executive Officer, Thai Institute of Directors (Committee Chairman)
2. Mr. Rapee	Sucharitakul	Consultant, Thai Institute of Directors (Committee Consultant)

3. Representative from the Stock Exchange of Thailand

Ms. Sineenart	Chamsri	Vice President-Head of Corporate Governance Development Department
Mr. Pornchai	Tavaranon	Deputy Head of Corporate Governance Development Department
Mr. Suraphon	Buphakosum	Deputy Head of Corporate Governance Development Department

4. Representative from Government Pension Fund

Ms. Srikanya	Yathip	Secretary General
Mr. Supawit	Chotiwit	Senior Director & Department Head, Investment Research Department

5. Representative from Association of Investment Management Companies

Ms. Voravan	Tarapoom	Honorary Chairman
Ms. Duangkamon	Phisarn	Secretary General

6. Experienced directors at listed companies

Mr. Yuth	Worachattarn	Expert on Corporate Governance and Social Responsibility The Stock Exchange of Thailand
Mr. Veerasak	Kositpaisal	Chairman Eastern Water Resources Development and Management Public Company Limited
Ms. Patareeya	Benjapolchai	Expert on Corporate Governance and Social Responsibility The Stock Exchange of Thailand

7. Experienced Company secretaries

Ms. Kobboon	Srichai	Company Secretary and Senior Vice President Charoen Pokphand Foods Public Company Limited
Ms. Siribunchong	Uthayophas	Company Secretary and Executive Vice President, Corporate Office Division, Corporate Strategy and Business Development Function Siam Commercial Bank Public Company Limited
Ms. Boonsiri	Charusiri	Former Company Secretary and Consultant Banpu Public Company Limited

8. Knowledge Department, Thai Institute of Directors (Secretary of Working Committee)

Ms. Sirinun	Kittiwaytang	Executive Vice President - Knowledge (Research & Development and Curriculum & Facilitators)
Ms. Wirawan	Munnapinun	Assistant Vice President – Research & Development
Mr. Tanakorn	Pornratananukul	Assistant Vice President – Curriculum & Facilitators
Ms. Vilaitip	Wattanavichaikul	CG Supervisor– Research & Development
Mr. Apilarp	Phaopinyo	Senior CG Analyst– Curriculum & Facilitators

Section 1

Key Principles

Section 1 Key Principles

1. Good corporate governance is essential mechanism that connect shareholders, the Board, and Management. Each party must understand and perform their roles and responsibilities appropriately to ensure operations are in alignment with expectations of stakeholders. (*See Guideline 1*)

2. The Board and Management have different roles and duties. The Board has roles to oversee, set objectives, purpose, and key policies while the Management has roles to implement in accordance with direction set by the Board. (*See Guideline 2*)

3. By granting administration authority to the Management, the Board and the Management have to work closely. Therefore, the Board should ensure relationship with the Management is positive and based on common understanding to create smooth collaboration. (See Guideline 2)

4. The Board should perform its duties and express opinions independently, based on quality information adequate to make sound decision through reports presented by the Management, to ensure resources are effectively utilized in alignment with objectives. (*See Guideline 2*)

5. The Board should encourage a climate of trust and openness in working with the Management to make them feel confidence in seeking guidance, advice, as well as disclosing comprehensive and straightforward information to the Board. (*See Guideline 1*)

6. The Board should set the scope, roles, and responsibilities of the Board and Management in written so that both parties can use as reference in performing their duties. (*See Guideline 2*)

7. The oversight roles of the Board require various forms of supports from the Management.
   - 7.1 Primary responsibilities of the Board - The Board may assign the Management to propose or support information for the consideration of the following matters:
     - 7.1.1 Determination of business objectives and purpose for sustainability and long-term value creation
     - 7.1.2 Driving ethical corporate culture and good corporate governance
     - 7.1.3 Determination of appropriate Board structure and practices
     - 7.1.4 Selection, compensation setting, performance evaluation, succession planning for the CEO and key executive positions
     - 7.1.5 Determination of personnel compensation structure framework

7.2 Shared responsibilities between the Board and Management - These are matters that both the Board and Management should jointly consider and decide. The Management is tasked to implement and periodically report progress to the Board. They include:

7.2.1 Determination and revision of strategies, goals and annual plan

7.2.2 Oversight of risk management and internal control

7.2.3 Appropriate delegation of authority to the management

7.2.4 Determination of budget and appropriate resource allocation framework

7.2.5 Monitoring and evaluation of the Management's performance

7.2.6 Ensuring disclosure of financial and non-financial information

7.3 Primary responsibilities of the Management – The Board only has monitoring role in the policy level and monitor implementation progress of the Management. (*See Guideline 3*)

8 The Board may need to contribute more time to collaborate with the Management in various matters as deem appropriate, particularly in situations significantly affecting corporate sustainability. (*See Guideline 3*)

9 The Board and Management should jointly consider reviewing the scope of roles and responsibilities of both parties on an annual basis. They should directly communicate expectations toward each other to create better understanding that would lead to more effective work process. (*See Guideline 2*)

Section 2

Guidelines

Guideline 1 | Relationship between the Board and Management

1.1 The Board is a group of individuals entrusted and appointed by shareholders to perform oversight role in both corporate performance and conformance aspects.

1.2 The Board has the status of an agent of shareholders and accountable for the achievement of determined objectives for the utmost benefit of the companies and stakeholders.

1.3 Shareholders' trust in the Board creates four fiduciary duties in accordance with good corporate governance principle. All directors are equally obliged to such duties including:

- Duty of Care – Make prudent informed decision and act rationally as other directors would do under similar situation.
- Duty of Loyalty – Aim for the utmost benefit of the company without conflict of interest.
- Duty of Obedience – Complies with relevant laws, regulations, objectives of the company, Board's and shareholders' resolutions.
- Duty of Disclosure – Disclose accurate, comprehensive, transparent, and timely information to shareholders, regulators, and stakeholders.

1.4 In principle, duties of the Board in governing the company do not cover day-to-day operations. The Board assigns "Management", led by CEO, to run day-to-day operations. However, if the "authorization" is not based on adequate, careful, and informed decision for the utmost benefit of the company, the Board will still be held accountable for the particular issues.

1.5 In practice, a "shareholder" can be appointed as "director" and/or "Management" at the same time. In such case, the person must be careful in performing each role and divide clearly whether which role he/she is performing at the time because the positions have different roles and responsibilities. For example, if a person is performing the roles of director, he/she must not perform the roles of Management. The person must always keep in mind that he/she is acting as a director and must make decision and be held accountable in accordance with the scope of authority.

1.6 As the Board authorizes the Management to administrate the company, both parties must collaborate closely. Therefore, the Board should ensure the structure and composition of the Board accommodate the check and balance mechanism against the Management. The proportion of “Executive Director”, “Non-Executive Director” and “Independent Director” should be appropriately set, subject to the context and readiness of each company.

1.7 The Board should determine clear and appropriate relationship between the Board and Management to enhance effective collaboration. The alignment between both parties rely on common understanding of the following issues:

- Objectives and purpose of the organization
- Business characteristics, short- and long-term strategic plans
- Company status and business potential
- Levels of knowledge and expertise of the Board and Management
- Attitudes of the Board and Management toward each other

1.8 The Board should encourage transparent, open, and relaxing atmosphere in working with the Management. It may seek to meet formally and informally to make the Management feel confidence in reporting accurate, comprehensive, and straightforward information to the Board.

1.9 The Board should seek opportunities to have conversation with or get to know C-Suites executives and middle-level Management in order to broaden perspective and strengthen understanding in the Management’s operation, corporate culture, and business characteristics. However, the Board should lay out clear objectives and implement with care to maintain positive atmosphere in working with the CEO.

Guideline 2 | Differences between Governance and Management Roles

2.1 As the Board authorizes the Management to run day-to-day operations, both parties have different responsibilities.

- The Board has "governance role" to ensure that business operations are in alignment with determined objectives or purpose of the company.

- The Management has "management role" in accordance with the scope of authority granted by the Board to utilize resources effectively.

2.2 The "governance role" is vital in driving the "management role" toward sustainability because such role creates a balance between the Management's perspective (emphasizing particularly on short- and medium-term performance) and the Board's perspective (emphasizing on holistic approach, external factors, and long-term performance) to make them align and support each other.

2.3 Practically, it is quite a challenge for company to make a clear-cut division of the "governance role" and "management role". However, the Board may set a broad framework for issues that should be under discretion and responsibilities of the Board.

- Issues concerning Board structure such as consideration of Board composition, Director and CEO recruitment, appointment of committees, and Board evaluation etc.

- Issues that would affect achievements of the company's objectives, purpose, and long-term operations such as determination of strategies, vision, mission, or annual strategic plan etc.

- Issues that would have substantial impact on business model or earnings such as merger, acquisition, and corporate restructuring etc.

- Key matters that need to be established as policies to provide operating guideline for personnel such as code of conduct, risk Management policy, human resource policy, anti-corruption policy, and data security policy etc.

- Issues categorized as significant transactions or required approval from shareholders such as connected transaction, capital increase/reduction etc.

- Issues that Management need special support from the Board such as crisis Management etc.

2.4 The Board oversees Management operations and make key decisions based on information screened and proposed by the Management. The Board must ensure that information reported by Management is quality information that accommodates the Board's decision on key matters appropriately. Therefore, the Board should establish a reporting standard and communicate such expectations to the Management so that the latter can comply accordingly. For examples:

- Information in the report must have clear objectives, relevant to duties of the Board, and link with achievement of the company's goals
- Information in the report must be credible, rational, based on appropriate assumptions and comprise of both positive and negative perspectives
- Information in the report must be present and timely
- Information in the report must be substantial enough to accommodate decision making

2.5 The Board should reiterate that Management emphasizes on long-term value creation together with attempts to achieve short-term goals. The Board should make remark when the following incident occurs.

- Management report presented to the Board focus on measurement of past success or short-term projects.
- Issues discussed at the Board meeting lack future-oriented topics such as business trend, changes in industry condition, potential threats, or new business opportunities etc.
- Non-financial performance indicators that link with sustainability or long-term corporate growth such as customer satisfaction, employee engagement, product quality, mitigation of environmental impact etc. are not adequately mentioned in the Management report.

2.6 The Board should demonstrate trust and readiness to support or provide useful guidance to make the Management feels confidence in performing duties while not interfering with the Management's decision.

2.7 The Board and Management should agree upon the clear boundary of their roles and responsibilities so that it can be used as references. The agreement should be in written form to allow both the Board and Management use as reference to perform their duties. It could be in the form of Board charter etc.

2.8 Benefits of the Board charter

- The Board and Management will have clear focus of their respective roles and aware of issues that they should or should not involve with. This will create positive relationship between the Board and Management and allow each party to fully perform their roles.
- The Board, led by Chairman and CEO, can jointly consider appropriate Board meeting agenda, focusing on issues that require Board resolution, Board comment, or Board monitoring.
- New director can use as a handbook to study and comprehend with roles and responsibilities to perform director's duties properly.
- Help the Board and Management set the right expectations toward each other in performing duties for the utmost benefit of the company, shareholders, and stakeholders.

Board expectations toward Management	Management expectations toward the Board
Honest, transparent, efficient, and effective Management	Readiness to contribute time to support or help in relevant matters
Communicate – report about key performance regularly	Set clear target / direction and evaluate objectively
Deliver quality information adequate for decision making	Provide long-term perspective, outlook and useful guidance

2.9 Board charter has no fixed format. However, the Board should ensure contents of the Board charter covers key matters as follow:

- Governance structure such as size and composition of the Board, qualifications of director, recruitment and nomination, terms.
- Board function including authorities and responsibilities of Chairman, individual director, CEO, and appointment of Committees' members.
- Board process such as the Board meeting, determination of meeting quorum etc.
- Board effectiveness such as Board evaluation, Committee evaluation, director orientation and development etc.

2.10 The Board and Management should jointly consider reviewing the scope of roles and responsibilities of both parties on an annual basis. They should directly communicate expectations toward each other to create better understanding that would lead to more effective work process.

Guideline 3 | The Division of Board and Management Responsibilities

3.1 The scope of Board and Management responsibilities can be divided into three types.

1) Primary responsibilities of the Board - The Management may propose or support information in this matter.

2) Shared responsibilities between the Board and Management – The Board should ensure the Management implement as jointly agreed.

3) Primary responsibilities of the Management – The Management has been assigned by the Board to implement while the Board only has monitoring role to ensure the implementation is in line with the agreed framework.

3.2 Primary responsibilities of the Board – Issues that the Board should have a role to lead and initiate process. Therefore, the Board needs to have thorough understanding of the matter to be able to consider and operate effectively. The Board may assign the Management to propose or support information for consideration. Issues that should fall into primary responsibilities of the Board include:

1) Determination of business objectives and purpose

- The Board should consider, express opinions, and approve clear objectives or purpose of the organization to be used as a guideline in determination of business model. They can be in the forms of vision, mission, core values etc. The Board should ensure that
  - Objectives and purpose have been stipulated in written.
  - Objectives and purpose are clear, concise, and easy to understand.
  - Objectives and purpose are achievable, rational, inspirational, future-oriented, and taking long-term perspective.

- To determine objectives and purpose, the Board may ask the Management to share opinion and gather useful information such as economic and industry condition, social and environmental issues, demand of customers, stakeholders, readiness of the company etc. in order to create sustainable value for the company and stakeholders.

- The Board should ensure that the Management operates in alignment with objectives / purpose approved by the Board, and communicates throughout the organization.
- Even though the objectives and purpose are to set to determine long-term business direction, they should be reviewed annually to ensure they still fit with rapid and ever-changing business contexts.

2) Driving corporate culture and good corporate governance

- The Board should initiate the creation of ethical standard and code of conduct for all employees to use as practical guideline. The Board should ensure the company has CG-related policies in written. The Board may ask the Management to develop such policies and propose to the Board for consideration and approval.
- The Board has a role in driving ethical culture through leading by example and adhering to good corporate governance principles. The Board should also ensure the Management has communicated with personnel at all levels to make them understand objectives and key substances of the policies.
- The Board should review the appropriateness and key substances of the CG policy and code of conduct annually.

3) Determination of Board structure and duties

- The Board should set the minimum number of directors as required by laws. It should consider appropriate number of directors in accordance with size, type, and complexity of business with enough directors to ensure Board effectiveness.
- The Board has a duty to nominate one director as the Chairman of the Board to preside the meeting and monitor performance of the Board and Vice Chairman to act when the Chairman is not able to perform his duty.
- The Board should appoint Committees to support the Board's operations as deem appropriate and regularly monitor their performance.
- The Board should set the Board structure that consists of members with qualifications required by laws or regulations of particular business. The Board structure should have diversity in terms of skill, gender, age, experience, competency, and qualifications necessary for achievement of the organization's purpose.

- The Board should arrange for clear and transparent nomination process. The Board has a role to identify and select qualified candidates to propose to the shareholders' meeting for directorship appointment.

- The Board should jointly consider appropriate director compensation scheme that match with responsibilities and compatible with business of similar size and type in the same industry. The compensation, to be proposed to shareholders' meeting, should be sufficient to motivate the Board to lead the organization toward short- and long-term goals.

- The Board should conduct orientation for new directors to create clear understanding about roles and responsibilities of director, business characteristics, and relevant regulations. The Board should also support all directors to constantly develop new skills and knowledge to catch up with ever-changing business environment.

- The Board should conduct annual performance evaluation of the Board, Committees, individual director, and use the result as guideline for development.

- The Board should consider setting qualifications of Company Secretary with necessary knowledge and skills that would support the Board function and approve a person to assume such position.

4) CEO selection, development, compensation setting, and performance evaluation

- The Board should set criteria and methods to recruit qualified individual for the CEO position. The Board should also approve succession plan to ensure continuity and smooth transition of the CEO position.

- The Board should set policy and guideline for the CEO in assuming directorship at other companies including type of directorship and number companies that each director may assume positions.

- The Board should consider appropriate format and criteria for CEO performance evaluation and inform the CEO in advance.

- The Board should conduct CEO performance evaluation annually and inform the evaluation result and suggestions to the CEO. This might be done by the Chairman.

- The Board should consider and approve CEO compensation structure that links with performance evaluation and the purpose of the organization.

5) Determination of personnel compensation structure

- The Board should set up proper compensation mechanism to motivate senior Management, which should be aligned with their short- and long-term performance.
- The Board should consider the overall picture, annual compensation structure framework, and appropriate compensation criteria for personnel of all levels by taking into account factors such as performance evaluation, position, scope of duty and responsibility, competency, and industry average etc.
- The Board may assign the Management to consider the budget, pay rise framework, annual bonus, other special remunerations and propose to the Board for approval.

3.3 **Shared responsibilities between the Board and Management -** Issues that both the Board and Management are accountable and should jointly make decision. The Management is assigned to propose issues for the Board to take parts and consider approving. The Board should also ensure that implementation of these issues is in alignment with business objectives and purpose by monitoring periodical management reports. Matters that the Board should conduct together with the Management include

1) Corporate strategy development

- The Board should collaborate in and offer suggestions about direction, strategy, policy and key work plan. These could be developed and proposed by the Management for Board approval. The Board should consider issues such as
  - Do the direction, strategy, policy or key work plan in alignment with vision, mission, objective, and purpose of the organization?
  - Do the direction, strategy, policy or key work plan take into account sustainability issues and interest of all stakeholders?
  - Do the direction, strategy, policy or key work plan take into account surrounding factors, business opportunities, and risk appetite?
  - Do the company have potential and adequate resources to implement the strategy, policy and key work plan?
  - Do the direction, strategy, policy and key work plan base on valid assumption?

- The Board should emphasize on the development of “Corporate strategy”, which is the determination of business direction in the big picture, and “Business strategy”, used in business competition. The Board should assign the Management to develop “Operational strategy”, concerning works in the functional level.
- The Board has duty to approve direction, strategy, policy and work plan before assigning the Management to implement as deem appropriate.
- The Board should ensure the Management implement the approved strategy, policy, and work plan. The Management has duty to regularly report progress development to the Board.

2) Risk management

- The Board should understand key risks of the company and collaborate with the Management in considering all surrounding factors, both external and internal, that could prevent the company from achieving objectives.
- The Board should emphasize on governing “Enterprise Risk Management”, concerning key risks that could affect goals and purpose of the organization, and let the Management tackle “Functional risk”, or risks derived from operations of each department or unit.
- The Board should consider and approve “Risk Management Policy” in accordance with objectives and corporate strategy to use as operation framework for all personnel. The Board may ask the Management to develop such policy and propose to the Board for consideration.
- The Board should screen and approve “list of key risks” and determine “risk appetite” for the Management to use as administration guideline.
- The Board should monitor and evaluate the efficiency of risk management process / plans with the Management on a regular basis. The Board may ask Management to report progress periodically and suggest ways to mitigate or prevent those risks.
- The Board may consider setting up “Risk committee” to assist the Board in risk management oversight as deem appropriate.

3) Appropriate authorization in accordance with the Management's responsibilities

- The Board should set appropriate scope of authority and level of transactions that can be approved by the Board and Management. The Board may ask the Management to consider and share opinions about the possibility, business flexibility. This should be clearly written in authority handbook.
- The Board and Management should jointly and regularly review the scope of authority to ensure appropriateness and compliance with changes in requirements of regulators.
- The Board must ensure any delegation of authority to the Management will not grant them authority to consider and approve transactions that may affect their own interests or trigger conflict of interests.
- To set the scope of Management's authority, the Board must take into account competencies and experiences of the Management, risk of transaction size, adequacy of auditing, screening, and authorization control systems.

4) Resource and budget allocation

- The Board should consider and approve the annual budget allocation proposed by the Management and provide suggestions for improvement in accordance with the company's policies and direction.
- The Board should carefully and cautiously screen the Management's proposals in setting investment policy, business expansion, and financial plans.
- The Board should ensure that the company has policies in place to properly allocate resources, such as, human resource, IT resource etc., for business operations. Management may be assigned to develop such policies for Board approvals.
- The Board should approve and provide suggestions about the appropriateness of capital structure, liquidity, asset management, debt financing (such as issuance of debt instrument), and long-term investment (such as in equities, bonds, etc.) to the Management.
- The Board should ensure the Management utilized allocated resources effectively and in accordance with the approved plan. The Board may ask the Management to report progress periodically.

5) Monitoring and performance evaluation

- The Board has duty to monitor and ensure that the Management follows policies, strategies, work plans and budget approved by the Board and the operations are based on sound risk management and compliance with relevant regulations.
- The Board should work with the Management in the determination of business targets and performance indicators to evaluate performance in accordance with the organization's purpose. The Board should ensure the Management provided useful in-depth information and agreed with those performance indicators.
- The Board should emphasize on corporate level indicators to measure achievements of strategic objectives, while assigning the Management to determine business-unit level indicators.
- The Board should ensure the Management regularly monitor, evaluate, and report company's financial position to the Board. Should there be any red flag (such as financial liquidity, debt serviceability etc.), the Board and Management must work together to quickly resolve the issue.
- The Board may ask the Management to attend Board meeting as deem appropriate. This will allow the Board to hear directly from Management responsible for issues in the agenda item, while the Management may learn and understand the Board's perspective.

6) Disclosure of financial and non-financial information

- The Board is responsible for the preparation of accurate financial report in compliance with accounting standard. The Board must ensure that the company has conducted financial statements and signed off before forwarding to the shareholders' meeting for approval.
- The Board has duty to approve the selection of qualified external auditor and consider compensation in accordance with Audit Committee's opinion before forwarding to shareholders' meeting for approval.
- The Board should assign the Management to conduct "Management Discussion and Analysis", or MD&A, along with the disclosure of quarterly financial statements to make investors aware of information and gain better understanding of the changes in financial status and earnings performance.
- The Board should ensure the Management has disclosed corporate information in compliance with regulators' requirements through various channels.

To collaborate with the Management in aforementioned matters, the Board should carefully consider surrounding factors and context in order to perform its roles properly. Different situations provide opportunities for different levels of Board engagement.

- Level 1: Certifying Board – The Board lets the Management assumes key roles while the Board plays supporting roles by providing opinions, evaluate, probe issues and monitor progress periodically to ensure that management's decisions and implementations are appropriate and effective.

- Level 2: Engaging Board – The Board participates in the consideration process together with the Management, contributing more time to make joint decision, suggesting options, and regularly follow up progress with the Management.

- Level 3: Guiding Board – The Board acts as catalyst, initiating consideration and decision about the issues, participating in all processes, and guiding direction while the Management provides supports.

The level of Board engagement depends on the Board's discretion, agreement with the Management, complexity of situation, adequacy of available resources, and level of knowledge and expertise of directors on the subject.

In certain cases, the Board may need to contribute more time than usual when the organization's long-term viability is threatened.

- Company faces with challenges on sustainability issues such as business activities that adversely affect society, community, or environment etc.
- Company faces with challenges on liquidity/capital structure.
- Company faces with challenges on industry disruption.
- The Board finds Management incapable of handling the issue effectively.
- Company faces with crisis, such as emergence of negative news that severely damage company's reputation.

3.4 **Primary responsibilities of the Management** – Matters that the Board should not execute but assign the Management to perform instead. The Board only has role to monitor the Management and ensure the latter perform within stipulated framework. The Management has duty to regularly conduct and present reports to the Board. Among issues that the Board should not perform on its own are

1) Execution in accordance with strategies and work plans approved by the Board

   - The Board should ensure the Management's "scope of operational authority" and "exceptions" are all stipulated clearly as policy framework. The Board should regularly monitor Management's performance but refrain from interfering with decision of the Management.

   - Examples of issues that should be under primary responsibilities of the Management:

     - Preparation of action plans, based on resources and budget approved by the Board.
     - Development of operational system, structure, and work process of each unit in the organization to ensure they are in alignment with direction and policies approved by the Board such as supplier selection, procurement under business-as-usual, hiring and compensation consideration of personnel in the operation level, marketing activities, daily accounting audit etc.
     - Communicate and clarify guideline to complies with policies approved by the Board with staff in hierarchical order.
     - Human resource planning, recruitment process, employee's performance evaluation, compensation and incentives comparable to the industry average
     - Co-ordination and follow up progress of action plan implementation from each unit/department.

2) Restricted issues such as the approval of transactions concerning interest of director or engaging in connected transaction with the director or related parties that could trigger conflict of interests.

Appendix

Example: Board Charter

1	**Objectives**
2	**Board composition**
	• Number of Board members • Chairman / CEO positions • Portion of Independent Director • Board diversity
3	**Board qualifications**
	• Skills, knowledge, experiences • Prohibited characteristics • Position in other companies • Definition of Independent Director
4	**Term of directorship**
	• Condition for dismissal
5	**Scope of authority and responsibilities of director**
	• Responsibilities of the Board • Responsibilities of the Chairman • Responsibilities of the CEO
6	**Board meeting**
	• Number of meetings • Meeting agenda • Meeting quorum, voting • Meeting minutes
7	**Approval authority of the Board**
8	**Board compensation**
9	**Performance evaluation**
	• Board/Committee evaluation • Individual director evaluation
10	**Director orientation and development**

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Thai Institute of Directors

Thai Institute of Directors Association

Capital Market Academy Building 2, 2/9 Moo 4 Northpark Project,
Vibhavadi - Rangsit Road, Thung SongHong, Laksi, Bangkok
10210, Thailand

Phone : (66) 2955 1155 Fax: (66) 2955 1156 - 57 www.thai-iod.com