

Across the Board

A Publication by: The Audit Committee Institute in Thailand

Sponsored by KPMG

April 2008

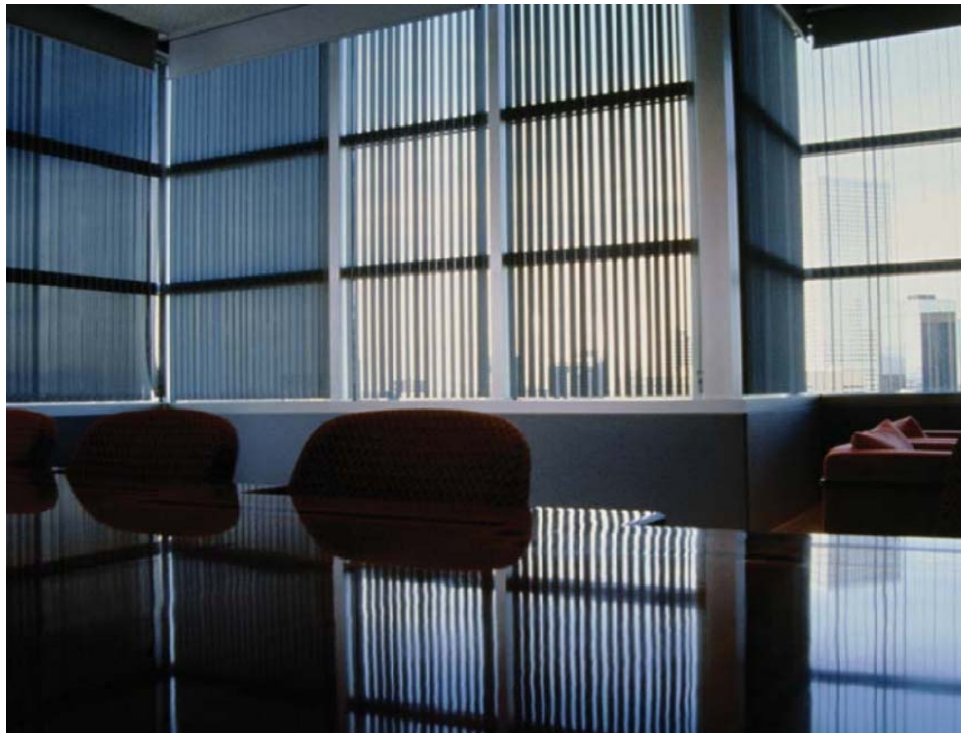
Newsletter for Thailand directors – Issue No. 2

Board Performance: Today's hot topic in corporate governance What gets measured gets managed – a fresh approach to assessing board performance

Many evaluations of corporate board performance rely heavily on the structural characteristics in particular the Audit Committee being a key delegate of the Board to oversee matters such as financial reporting, internal controls and risk management with the view to enhance effectiveness and accountability. Yet experienced company directors and shrewd observers of the corporate scene know that structural elements are a necessary but not sufficient condition for board effectiveness.

They appreciate that information on structural condition tells us a limited amount about how boards actually work and how they make informed decisions. They understand that the structure of a board is an imperfect indicator of how well it undertakes its primary responsibility – to create and preserve shareholder value. Thus, some boards that exhibit all the structural indicators of good governance can fail while others seen to be deficient by structural measures of good governance manage to perform exceptionally well over long periods.

Conventional structural measures of corporate governance are limited in much the same way that traditional financial reporting is limited. Financial information which underpins the valuation of public companies tells only part of the story. The 'value' of non-financial factors will also affect an organisation's ongoing performance and will be built onto its market valuation. Likewise there are elusive intangible or soft elements of board performance that are difficult to measure, but will certainly affect the quality and effectiveness of an organisation's governance performance. And if these



elements do not get measured, there is a good chance that potential for improvement will not get managed. So how should boards go about measuring the quality of their own performance – beyond the structural aspects – and how might this process be managed to help ensure that the board is performing adequately? The external facilitator is typically able to provide a structured, rigorous, thorough, yet constructive, board assessment process involving a quantitative (through self-assessment surveys and benchmarking) and qualitative (through individual director interviews, Chairman feedback and facilitated boardroom discussion and debrief) evaluation approach that builds

on the strengths of and helps manage developmental opportunities for the Board. To give some flavour of such an approach the accompanying paragraphs provides an insight into the questions boards should usefully ask of themselves in assessing their performance.

1. Pre-Evaluation

- The Board must determine the remit of their responsibilities. The broad responsibilities stipulated by the Principles of Good Corporate Governance for Listed Companies issued by the Stock Exchange of Thailand (SET) provides guidance.

- The Board must then set objectives for themselves within those broad responsibilities which they can eventually measure their performance. The Board should create this set of objectives annually (usually at the beginning of a fiscal year or as otherwise agreed by the Board) and it should reflect the collective judgement of the Board?
- A nomination Committee may design an initial set of objectives which the Committee believes, covers the essential responsibilities of an effective board. The Board as a whole should then take time to discuss, debate and agree to the final set of objectives and establish priorities among them.

2. Evaluation Process

The basic steps for conducting an evaluation of the Board were outlined by Hilmer and Tricker (1990). This may serve as a useful guideline which in no means exhaustive and should be applied to the circumstances of the company:-

- Get the commitment and support of the whole Board.
- Decide who is to do the work. Is it the Chairman, Nominating Committee, the Senior Independent Non-Executive Director, an external Consultant?
- Collect the basic information. This would include data on the company, ownership, board structure and processes, backgrounds of directors.
- Collect qualitative information. This may take the form of written questionnaires or a series of interviews or workshops, focusing on attitudes and perceptions of how the Board functions. Separate discussions might be held with individual directors, the company secretary, institutional investors, bankers, major shareholders or any other parties deemed interested.
- Establish key issues emerging from the data collection process. Are a number of directors, investors raising the same question or issues?
- Generate alternative options and ideas. How can the problems be improved or resolved?

- Draft the report
- Table the report for discussion
- Develop strategies for action based on the findings, to improve performance.
- Ensure the process and resulting actions are evaluated.

3. Questions for the Board

The following questions should only serve as a guide only, intended to assist the evaluation process. The issues specific to a particular Board may mean that some questions are irrelevant or that others, not included here, must be raised:-

- What evolutionary stage is the company at presently - entrepreneurial start up, growing and expanding, mature, declining? What sort of Board is most appropriate for the current phase?
- What is the environment facing the company? Is it dynamic and rapidly changing? Stable? In decline?
- What is the definition of success for the company? Long term or short term goals? Financial results? Image? Corporate Citizenship? Quality?
- What are the major strategic challenges facing the company in the next period? For example restructuring, product development, research, international expansion or trade, acquisitions or divestments, industrial relations or new technology.
- What kind of skills are needed around the Board table to respond to these challenges? for example marketing, financial, international, import/export, information systems, environmental management, planning, total quality management
- Is the Board aware of all the potential areas of conflict for directors?
- Are new directors given orientation briefings and plant visits to bring them "up to speed"?
- Are all directors kept up to date on their legal duties and liabilities?
- Are there continuing programmes in place to keep up all directors up to date? Are directors encouraged to attend seminars and course to improve their skills? Does the company contribute to training?
- Are executive directors encouraged and given the opportunity to broaden their experience and learn about other companies and industries? Do they understand the different duties and expectations of board members compared with their role as executives?
- Is there a good balance between executive directors and non-executive directors?
- Is there a good dose of independence on the board or are too many directors closely affiliated with the company?
- Are directors on fixed term contracts?
- Is there a specific retirement age?
- Is directors remuneration commensurate with the caliber of person needed and the level of time commitment expected?
- Are directors properly covered by indemnity insurance?
- Do directors feel they are making individual and full and proper contributions to the Board?
- What is the Board trying to achieve and is it doing what it has set out to do? Has the Board agreed a role for itself which adds value to the company? Has the Board developed a mission statement spelling out what it hopes to achieve
- Is there a clear definition of the role of the board and the role of management so that people know what is expected of each?
- Has the Board identified priorities?

Effectiveness of chairperson

- Is our chairman building healthy boardroom dynamics? Is he/she relating well with directors and management, dealing effectively with dissent and working constructively towards consensus?
- Does the chairman oversee an effective decision making process? Does he/she aim to ensure that for crucial decisions alternatives are considered, thorough discussion and analysis is encouraged and different perspectives are brought to bear? Are we satisfied that the best decisions are being made and that these are being subsequently supported by the board?
- Does the chairman aim to ensure the board's workload is properly managed and, where appropriate allocated to delegated committees with specific terms of reference proved by the board
- Are our committee chairs properly discharging their responsibilities, marshalling resources and expertise, and providing appropriate reporting and recommendations to the full board?
- Do we choose our board and committee chairs based on appropriate criteria? Are we properly considering the responsibilities of the position, including the ability, experience and expected performance of the candidate?
- Are our board and committee chairs setting a good example to the board and holding us all to appropriately high standards?

Chemistry

- Does the board work constructively as a team through collegial, productive working relationships that foster trust and respect?
- Is the effectiveness of our collective decisions as a board greater than the sum of individual director contributions?
- Do I know as much about the qualities of my fellow directors as I do about those of our CEO?
- Do our board discussions enhance the quality of management decision-making? Do we engage constructively with management to stimulate its thinking and performance?

- Does the board respond appropriately to management, building trust and encouraging openness and candour?
- Does management's involvement in board meetings contribute to the board effectiveness?
- Do the chairmen of our board committees maintain positive working relationships with the relevant managers?
- Are dissenting views of board members appropriately addressed?
- Has the board shown an openness to new ideas and different views in its deliberations?
- Do the board demonstrate probing and challenging of the information presented before it?
- Do the board have access to appropriate internal and/or external resources to assist the board in understanding and dealing with complex and difficult issues on a timely basis?
- Assess the board's confidence in dealing with any complex and difficult matters on a timely basis.

Meeting administration

- Do the board have a plan of matters to be dealt with over the coming year?
- Are minutes received as soon as possible after the board meetings?
- Are board meetings at the best time of the year to properly discharge their duties?
- Do the board agenda setting process allow for all the necessary matters to be included?
- Can and do management influence the content of the board agenda?
- Is the board agenda structured to allow sufficient time to discuss the most complex and critical issues?
- Do board members receive agenda items and supporting papers in sufficient time prior to meetings?
- Are the board agenda supporting papers and recommendations of sufficient clarity and quality to make informed decisions?
- Are board meeting papers too voluminous?

Board communications

- Is the quality of the board committee's communications to the board about the committee's deliberations assessed regularly?
- Is there an assessment by the board of the quality of the minutes of the board committee's meetings?
- Is the board well informed on a sufficiently timely basis regarding the board's deliberations?

Composition, establishment and duties

- Do the board have written terms of reference that adequately and realistically define the board's role?
- Have board committee's terms of reference been adopted by the board?
- Are terms of reference of board committee's reviewed annually to take into account governance developments and the remit of other committees within the organization?
- Are changes to board committee's current and future Workloads discussed and approved at board level?
- Are board members independent of the management team?
- Does each board committee report regularly to the board?

More information

Audit Committee Institute (ACI) Thailand is sponsored by KPMG in Thailand. The Institute's primary mission is to serve as a forum and dedicated resource to keep Audit Committees (AC) informed of regulatory matters, company law and accounting and auditing issues. Ultimately, the Institute seeks to enhance the AC's awareness of, commitment to, and ability to discharge their responsibilities. To learn more about the Audit Committee Institute Thailand or to access our resources, please visit www.acithailand.org or e-mail us at auditcommittee@kpmg.co.th

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Please e-mail any comments you may have, including topics you would like to see in the future issues to auditcommittee@kpmg.co.th

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