5.1.7

BUDGET AND KPIS FOR THE COMPANY AND CEO, PERFORMANCE MONITORING AND EVALUATION

When targets are defined, the Board must set specific KPIs or other agreed performance measures for the company and for the CEO, monitor regularly (at least quarterly) how management is performing against the set KPIs, and take the necessary measures if performance is not satisfactory. The more often the Board monitors performance, the more opportunities it will have during the year to take the measures needed to adjust operations and drive the company to better results.

KPIs should be both financial and non-financial (e.g. related to ESG and sustainability). It is not obligatory to set the same KPIs for the CEO as for the company. The CEO could have additional (e.g. “soft”) KPIs related to organisational culture and the well-being and satisfaction of employees.

It is good practice not to set too many KPIs. With more than 10 KPIs, the weight of a single KPI will be less than 10 per cent, and the motivation to achieve it may be weak.

KPIs should be defined very clearly and understandably, in order to avoid discussions after the year end about whether or not they have been achieved.

It is good practice to use the SMART concept when setting KPIs. Some companies use the SMARTER concept (specific, meaningful, achievable, relevant, time-bound, evaluate and readjust).

A budget sets out the income and expenses planned for the company. The budget should be challenging enough on both the income and the expense side. This gives management a sense of urgency, makes them continually search for the best and most innovative solutions and the most efficient way of operating, and keeps the company highly competitive. All these measures help to ensure that the value created is maximised.

KEY TAKEAWAYS

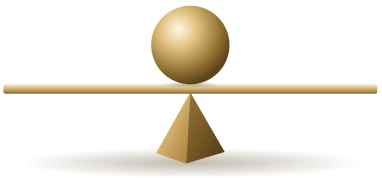
A. Once targets are set, the Board defines specific KPIs for the company and the CEO, monitors performance against them at least quarterly and takes corrective measures where performance falls short.

B. KPIs should be both financial and non-financial, few enough for each to matter (more than ten dilutes their weight), defined clearly enough to avoid year-end disputes, and SMART. The CEO's KPIs need not be identical to the company's and may include softer measures such as culture and employee well-being.

C. The budget should be challenging on both the income and the expense side, giving management a sense of urgency and keeping the company competitive and focused on value creation.

QUESTIONS FOR THE BOARD

1. *Do the company and the CEO have a short set of clearly defined, SMART KPIs, financial and non-financial, aligned with the strategy?*
2. *Is any KPI so weakly weighted that it no longer motivates, and are the definitions precise enough to leave no room for dispute at year end?*
3. *How often does the Board review performance against the KPIs, and what happened the last time performance fell short?*
4. *Is the budget challenging enough on both the income and the expense side, and how do we know?*
5. *Are the CEO's KPIs and remuneration consistent with the company's KPIs and with the behaviours we expect?*



CHAPTER

5.2

CONTROL, RISK AND ASSURANCE

How the Board makes sure that controls work, risks are understood and managed, and the company can withstand and recover from disruption.

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5.2.1

CONTROL ENVIRONMENT

The control environment of an organisation refers to the **collective attitude, awareness and actions** of the Board, management and employees towards internal controls. It establishes the **tone at the top** for the entire company's control system and influences how employees perform their duties.

A strong control environment is one in which employees understand their roles, act within their authority and are committed to doing things correctly. It is fundamental to a company's health and sustainability, supporting **risk management, operational efficiency, regulatory compliance and accountability**. Ultimately, it builds **confidence among the Board and shareholders** that the company can achieve its goals while protecting its assets and upholding ethical standards.

For the Board, an effective control environment provides greater confidence that the company is well managed, key risks are identified, financial and non-financial information is reliable, and decisions are implemented responsibly. For the company, it supports better performance, fewer surprises, stronger accountability and a more disciplined use of resources. For shareholders and other stakeholders, it strengthens trust that the company acts lawfully, ethically and in line with its long-term interests.

The control environment consists of several **connected elements**. These include the company's values, ethics and culture; clear roles and responsibilities; the organisational structure; the competence and integrity of management and employees; policies and procedures; risk management practices; internal controls; reporting and escalation mechanisms; and the work of internal audit, external audit and compliance functions where applicable. A good control environment is not only a set of documents or formal procedures. It is also about **how people actually behave**, how decisions are made, how issues are reported, and whether accountability is applied consistently across the company.

The Board and management have different but complementary responsibilities in ensuring an effective control environment.

The **Board is responsible** for setting expectations, approving key policies, overseeing risk management and internal control systems, challenging management, and regularly assessing whether the control environment remains appropriate for the company's size, complexity, strategy and risk profile.