5.1.1

COMPANY'S PURPOSE, VISION, MISSION AND VALUES

Before building the strategy, the Board should discuss with the shareholders what the purpose of the company is, and then set the vision, mission and values to provide clarity and direction for its employees, customers, stakeholders and the broader community. These elements serve as a foundation for the organisation's identity and guide its actions and decisions. There are numerous benefits for companies that have a well-established purpose, vision, mission and values, in particular:

- Clarity and focus: define and concentrate on long-term objectives.
- Guidance: support decision-making and strategy.
- Encourage purpose-driven business development.
- Inspire and motivate employees and attract top talent.
- Alignment: encourage collaboration and consistency.
- Competitive advantage: set the company apart from the competition.
- Improve branding and public relations through effective communication.
- Business sustainability: promote long-term growth.
- Resilience: navigate challenges based on purpose and values.
- Build public trust and reputation.
- Enable the company to have a broader and more meaningful impact on the world, beyond profit generation.

Purpose statement sets out the reason or reasons why an organisation exists. It defines the core reason for being and the positive impact the organisation wants to have on the world. The definition of the purpose leads to strategic choices and builds on cultural strengths to drive impact.

What is our purpose as an organisation, and how does it link with our "superpower", our capacity to make a distinctive contribution to the world?

Ask whether your purpose is:

1. Meaningful. In other words, does it make a real difference in people's lives? Does it have the potential to make a meaningful difference for all stakeholders?
2. Authentic. Does it match what people in the organisation care deeply about? Does it resonate with the company's values?

3. Credible. Does it draw on the organisation's unique abilities or assets? Can the company deliver in a way that makes a significant difference? Does it make business sense? Can it be translated into concrete actions?
4. Powerful. Are the needs the organisation addresses important and sizeable? How much good comes from addressing these needs?
5. Compelling. Is it clear, specific and aspirational enough to inspire and mobilise people both within and outside the organisation?

Examples of purpose statements:

- Telecommunication company: Inspire human progress through the power of communication and entertainment.
- Investment company: To help more and more people experience financial well-being.
- Beverage producer: Refresh the world. Make a difference.
- E-commerce company: To empower people and create economic opportunity for all.
- Automobile producer: To drive human progress through freedom of movement.
- Technology company: To create world-changing technology that enriches the lives of every person on earth.

Vision statement describes what the organisation will look like in the future: a big picture of what you want to achieve.

As you develop and review your vision statement, check for the following things:

1. Is it ambitious enough? The statement should feel aspirational, not like a finite goal to be accomplished.
2. Is it realistic enough? Make sure you strike a balance between the aspirational and the realistic.
3. Does it accurately reflect your organisation? Run the statement past internal stakeholders who were not involved in creating it, and ask for their feedback on what may be missing, which parts may be unnecessary, or how certain ideas may be phrased more effectively.
4. Does it make sense? Ask people outside the company to read the statement, to confirm that it makes sense to the average reader.

Examples of vision statements:

- Online technology company: To be Earth's most customer-centric company, where customers can find and discover anything they might want to buy online, and which endeavours to offer its customers the lowest possible prices.

- Financial services company: To become essential to our customers by providing differentiated products and services to help them achieve their aspirations.
- Computing technology company: To make the best products on earth and to leave the world better than we found it.
- Web technology company: To bring the metaverse to life and help people connect, find communities and grow businesses.
- Entertainment streaming company: Becoming the best global entertainment distribution service.

Mission statement describes what an organisation does and for whom, and how the vision will be achieved. The organisation's function, target audience and value proposition are elements often mentioned in a mission statement. The mission is an action statement that usually begins with the word "to".
It is important for:

- motivating employees;
- inspiring customers;
- strategic planning;
- setting values.

Examples of mission statements:

- Seller of furniture and home products: To offer a wide range of well-designed, functional home furnishing products at prices so low that as many people as possible will be able to afford them.
- Mass media and entertainment company: To entertain, inform and inspire people around the globe through the power of unparalleled storytelling.
- Business social media platform: To connect the world's professionals to make them more productive and successful.
- Athletic footwear and apparel producer: To bring inspiration and innovation to every athlete in the world.
- Construction toy production company: To inspire and develop the builders of tomorrow.

Double-check the uniqueness of your statements. They should not be too general and should not fit too many organisations.

Values are very important because they serve as guiding principles that help to shape the culture and behaviour of the company. Values also provide a shared

understanding of what is important for the company and help to align employees' actions with the company's mission and goals. They provide a framework for decision-making: when employees understand the company's values, they can use them as a reference point when making choices and solving problems, which leads to better outcomes and a more predictable corporate culture. Clearly defined values can also attract and retain employees who share them.

When defining the company's values, take into consideration the following aspects:

- Involve employees at all levels of the organisation in the process
- Ensure that your company values align with your purpose, mission and vision
- Keep them simple and easy to remember and apply
- Make them actionable: it should be clear how employees can demonstrate these values in their daily work
- Lead by example: senior management should set a good example and embrace the company's values.

A company's values are not just a statement of what the organisation believes in; they are a strategic tool for shaping culture, behaviour and decision-making. Values play a vital role in creating a positive and effective work environment and are a key component of an organisation's overall identity and success.

These statements are one of the primary starting points for the development of the strategy. They should be reviewed at the beginning of each strategy revision and amended if needed.

KEY TAKEAWAYS

A. Purpose, vision, mission and values are the foundation of strategy and of the company's identity. The Board should agree the purpose with the shareholders and then set the vision, mission and values before the strategy is built.

B. A purpose statement explains why the company exists; it should be meaningful, authentic, credible, powerful and compelling. A vision describes what the company will look like in the future; a mission describes what it does, for whom and how the vision will be achieved.

C. Values are a strategic tool, not a poster: they guide decisions and behaviour, shape culture and attract people who share them. They work only if they are simple, actionable, developed with employees and visibly practised by senior management.

D. The statements must be specific to the company; if they would fit any organisation, they are not doing their job. They should be reviewed at the start of every strategy revision and amended where needed.

QUESTIONS FOR THE BOARD

1. *Have we, together with the shareholders, agreed a purpose that explains why the company exists, and do our vision, mission and values follow from it?*
2. *Would our purpose, vision and mission statements fit almost any company, or do they clearly describe ours?*
3. *Were employees involved in defining the values, and can they say how the values apply to their daily work?*
4. *Does senior management visibly live the values, and does the Board see evidence of this in decisions, not only in communications?*
5. *When did we last review these statements against the strategy, and what changed as a result?*

5.1.2

CORPORATE CULTURE AND TONE AT THE TOP

Corporate culture is the pattern of behaviours that people in the organisation actually follow when no one is watching – how decisions are made, how bad news travels, how rules are applied when they are inconvenient. Tone at the top is the signal the Board and executive management send about which behaviours are rewarded, tolerated or punished. The two are inseparable: culture rarely rises above the standard that its leaders visibly practise. Policies, codes of conduct and training matter, but employees watch what leaders do far more closely than what they publish. A single decision – a sales target met by cutting corners and celebrated anyway, a senior manager whose misconduct is quietly overlooked – can undo years of compliance messaging.

Culture is not a soft topic to be delegated to the human resources function. It is a governance matter, because most corporate failures – fraud, safety incidents, mis-selling, sanctions breaches – are cultural failures first and control failures second. The controls existed; people chose to work around them, and leadership signalled, deliberately or not, that this was acceptable.

What the Board should do

Board actions:

1. Define, together with management, a small number of core values and expected behaviours, and approve the code of conduct that expresses them. Keep the language concrete: “we escalate bad news within 24 hours” is more useful than “we act with integrity”.
2. Model the behaviour personally. Arrive at Board meetings prepared, declare conflicts of interest without being prompted, challenge the CEO respectfully but openly, and observe the same rules that apply to employees – including expense discipline and training requirements.
3. Make culture a standing item, not a crisis item. Review cultural indicators at least annually: employee engagement and exit survey results, whistleblowing report volumes and outcomes, staff turnover in control functions, audit findings on behavioural root causes, and disciplinary statistics broken down by seniority.
4. Test consistency between incentives and values. Ask whether the remuneration system rewards the behaviours the code of conduct describes – or quietly rewards their opposite. Ensure that how targets are met carries real weight in performance evaluation, not only whether they are met.

5. Insist on consequence management at all levels. Verify that misconduct by senior or high-performing individuals is investigated and sanctioned with the same rigour as misconduct by junior staff. Nothing corrodes culture faster than visible double standards.
6. Get beyond the boardroom. Visit sites, meet middle managers and employees without executives present, and hear directly from the heads of internal audit, compliance and risk in closed sessions.

Warning signs

- Consistently positive reporting – no bad news, no near-misses, no dissent recorded in minutes.
- A dominant CEO whom no one, including directors, visibly challenges.
- High turnover in the finance, compliance, internal audit or legal functions.
- Whistleblowing channels that receive almost no reports – silence usually signals fear, not virtue.
- “Star performer” exceptions: targets, rules or investigations applied selectively to protect key revenue generators.
- Values posters on the walls that employees quote with irony rather than conviction.

Common pitfalls and drawbacks

Boards most often fail on culture in one of three ways. The first is delegation by declaration: approving a values statement and assuming the work is done. Culture is shaped by thousands of daily decisions, not by a document. The second is measurement theatre: tracking engagement scores as an end in themselves, which invites gaming and tells the Board little about how people behave under pressure. Indicators are prompts for inquiry, not proof of health. The third is inconsistency at the top itself: a Board that tolerates its own late papers, undeclared conflicts or dominant personalities has no credibility demanding better from management. Board members should also be alert to the opposite risk – a culture programme so heavy with surveys, campaigns and slogans that it breeds cynicism. Fewer, more honest signals outperform elaborate programmes.

KEY TAKEAWAYS

A. Culture is what people actually do when no one is watching; tone at the top is the signal the Board and management send about which behaviours are rewarded, tolerated or punished. Culture rarely rises above the standard its leaders visibly practise.

B. Culture is a governance matter, because most corporate failures are cultural failures first and control failures second. It should be a standing Board item, reviewed through concrete indicators, not a crisis item.

C. The Board shapes culture by defining a few concrete values and behaviours, modelling them personally, testing that incentives reward the right behaviours and insisting on consequence management at every level, including senior and high-performing individuals.

D. Governance professionals translate tone into practice: the company secretary keeps culture on the agenda, compliance makes the code and whistleblowing channels usable, internal audit reports cultural root causes, and HR aligns recruitment, promotion and pay with the stated values.

QUESTIONS FOR THE BOARD

1. *Do our stated values translate into a short, concrete code of conduct that employees can actually apply?*
2. *Does the Board itself observe the standards it expects of management, in preparation, conflicts of interest and open challenge?*
3. *Which cultural indicators do we review each year, and what did the last review tell us about the gap between stated values and daily practice?*
4. *Does our remuneration system reward how targets are met, not only whether they are met?*
5. *Is misconduct by senior or high-performing individuals investigated and sanctioned with the same rigour as misconduct by junior staff?*
6. *When did Board members last meet employees and middle managers without executives present, or hear from the heads of internal audit, compliance and risk in a closed session?*
7. *If an employee saw a Board member or the CEO breaching our code of conduct, would they dare to report it, and to whom?*
8. *When did we last decline a profitable opportunity on values grounds, and did we communicate that decision internally?*
9. *How quickly does bad news reach the Board, and does anyone soften it on the way?*

5.1.3

THE STRATEGY CYCLE: BUILDING, UPDATING, IMPLEMENTING

Strategy is the way in which the company uses its mission to achieve its vision, based on its values and on a clear understanding of the company's purpose and the expectations of the shareholders. The Board has to ensure that all the steps of the process listed below are implemented. Management develops and proposes the strategy and implements it once approved; the Board sets the direction, challenges the proposals, approves the strategy and oversees its implementation. The process below sets out the steps in three phases: development, approval and cascade, and implementation oversight.

Phase A – Strategy development or updating

1. **Agree the process and the roles.** Before any analysis begins, the Board and management should agree who does what, the strategy horizon (typically five to ten years), the timetable and the working format (for example, dedicated strategy sessions or an off-site meeting).
2. **Confirm purpose, mission, vision and values.** The strategy must flow from what the company exists to do and what it aspires to become. If these foundations are outdated or unclear, revisit them first – otherwise the strategy will lack an anchor and discussions will not be consistent.
3. **Map and understand the stakeholders.** Identify the company's key stakeholders and assess their relative power, interest and expectations and agree how conflicting expectations will be reconciled over time. Understanding the stakeholder map is the basis of effective strategy, and a strategy that lacks the buy-in of key stakeholders is unlikely to succeed.
4. **Conduct a thorough strategic analysis.** Analyse the company and its environment from the inside out, using recognised tools such as SWOT, PESTEL, VRIO, Ansoff Matrix, value chain analysis, Porter's five forces and gap analysis, and others that may be relevant for the company. Invite external experts where the in-house perspective is too narrow. Weak analysis at this stage is the most common root cause of later implementation failure.
5. **Identify and assess risks, and set the risk appetite.** Every strategic initiative carries risks, and these change over time. The Board should ensure that key risks are identified, assessed and matched with mitigation measures, and should define the risk appetite within which the strategy must fit. Without this, the result is a "fair-weather strategy" that works only until the first storm. The

Board should also distinguish the company's risk appetite from its risk capacity – the ability to absorb shocks – and pay particular attention to high-impact, low-probability risks, which are often neglected precisely because they seem unlikely to materialise.

6. **Evaluate industry trends, innovation and disruption.** The Board should consider the latest industry developments, technological change, research and development, and actual or potential disruptions to the business model – both as threats and as sources of opportunity.
7. **Integrate sustainability and ESG matters.** Sustainability-related risks and opportunities – including those identified through the double materiality assessment under CSRD/ESRS, where applicable – should be embedded in the company strategy itself, not treated as a separate strategy document. Further guidance on ESG topics is given in the BICG ESG Guidelines for Baltic Boards and the ecoDa ESG Governance Toolkit.[6]
8. **Develop and debate strategic options.** Crystallise realistic strategic opportunities and alternatives, and test them through scenario planning and stress-testing. Each option rests on certain assumptions. It is the Board's duty to challenge assumptions wisely, because assumptions presented by management carry built-in bias. Challenge contributes to the improvement of the strategy. A strategy adopted without genuine alternatives on the table has not been chosen – it has been assumed.
9. **Make the strategic choice.** Decide which alternatives will be embedded in the company strategy, using explicit criteria: value creation, fit with the risk appetite, available resources and competences. Record which options were rejected and why – this discipline will be valuable when the strategy is next reviewed.
10. **Translate the strategy into goals, objectives and action plans.** Ensure a clear hierarchy:
    - **Goals** – what needs to be accomplished to implement the strategy;
    - **Objectives** – specific, measurable milestones with a timeline for achieving each goal (the SMART criteria apply);
    - **Action plans** – how the company will achieve each objective, with named owners, resources and deadlines.
11. **Align resources and incentives with the strategy.** Verify that the budget, capital allocation, financing and people actually support the strategic priorities,

6 BICG (2022), ESG Guidelines for Baltic Boards – What, Why and How, https://www.bicg.eu/wp-content/uploads/2022/09/ESG-Guidelines-for-Baltic-Boards.pdf; ecoDa (2019), ESG Governance Toolkit for Boards, https://ecoda.eu/wp-content/uploads/2019/08/ESG-Governance-toolkit-for-boards_FINAL.pdf.

and link executive remuneration and key performance indicators (KPIs) to the strategic objectives.

Phase B – Approval and cascade

1. **Approve the strategy at Board level.** The Board formally approves the strategy together with its strategic goals, the implementation roadmap and the reporting schedule. Approval should follow genuine challenge and debate, not a single presentation.
2. **Ensure each unit's contribution is defined.** Cascade the strategy so that every business unit has its own sub-strategy (functional strategy) and knows its specific contribution to implementation, reflected in unit-level plans and individual objectives. Cascading does not mean that the creation of strategy is top-down: engagement is an iterative process, and each unit should be given the opportunity to work out what the strategy means for its own work that contributes to the company's objectives – this builds ownership as well as alignment.
3. **Communicate the strategy thoroughly.** Communicate the strategy and its rationale consistently within the company and, where appropriate, its essential parts to external stakeholders. People cannot implement what they do not understand. Boards routinely underestimate how much communication is needed – as a rule of thumb, double what seems sufficient, and then double it again. A concise "strategy on a page", built around a small number of clear strategic themes, is often far more effective than a lengthy strategy document.

Phase C – Oversight of implementation

1. **Assess the company's capability to implement.** A well-implemented average strategy will outperform a perfectly designed strategy that is poorly executed. The Board should periodically assess the organisation's implementation capability across dimensions such as people, organisational structure and resources, understanding of the business case, communication, measures, culture and processes.
2. **Monitor implementation through efficient reporting.** Management reports regularly against the approved KPIs and milestones; the Board reviews progress at an agreed cadence using a concise dashboard that includes leading indicators, not only financial results. Strategy should have a standing place on the Board agenda (2–4 times a year), not appear once a year.
3. **Take corrective action and review the strategy regularly.** Where implementation deviates from plan, the Board ensures that management analyses the causes and adjusts the actions – or, where the environment has

shifted, that the strategy itself is revised. A full strategy review should take place at least annually, and immediately after any material change in the business environment.

Strategy-setting process: Board and management roles

Often it is not clear to companies what the roles of the Board and management are in strategy development. One common failure is when the Board “rubber-stamps” the strategy: management prepares a 150-page strategy document, the Board discusses it for a few hours, and approves it. Another common failure is the “management Board”, where the Board engages itself in designing products, selecting markets, and developing implementation initiatives – effectively doing the job of executives.

There should be a clear division of responsibilities in strategy development: the Board owns the strategic direction, choices, desired outcomes and risk appetite, while management owns the analysis, development of strategic options, resource and capability planning, and execution of the chosen strategy.

The five stages below put this division into practice, alternating lead responsibility between the Board and the executives, so that strategy is set through structured dialogue rather than by either party alone.

STAGE	PRIMARY ROLE	WHAT HAPPENS
1. Strategic framing	**Board**	Board discusses and (re)approves purpose, vision, mission and values, clarifies the expectations of owners, shareholders and other key stakeholders, and sets the ambition, key strategic issues, risk appetite and the questions the strategy must answer. Where a strategy committee exists, it prepares this discussion for the full Board.
2. Analysis & options	**Executives**	Management conducts internal and external analysis (market, competitive, financial and risk) and develops credible strategic alternatives, including underlying, financial implications, risks, trade-offs and how each option addresses the Board's strategic questions. Where useful, scenario planning is used to stress-test alternatives against plausible future conditions.
3. Strategic choice	**Board**	Management presents the strategic alternatives. The Board challenges assumptions, tests trade-offs and, after a thorough discussion, selects the preferred strategic direction(s). The Board's rationale and any conditions attached to the decision are recorded in the minutes to provide a clear mandate for the next stage.
4. Strategy development	**Executives**	Management converts the chosen direction into an integrated strategy: objectives, key performance indicators, initiatives, resource allocation, capabilities, financial plans, risk mitigation measures and an implementation roadmap with clear ownership and milestones.

STAGE	PRIMARY ROLE	WHAT HAPPENS
5. Approval & oversight	**Board**	Board assesses whether the resulting strategy reflects the agreed choices and risk appetite, formally approves it, and thereafter oversees execution through periodic progress reviews against the agreed KPIs and milestones. Material deviations, changing conditions or emerging risks are escalated to the Board, which revisits Stage 1 as needed – making strategy-setting a continuous cycle rather than a one-off event.

Warning signs

- The Board is presented with only one strategic proposal, rather than alternative strategic options and their trade-offs.
- Strategy papers are always approved without challenge or amendment – silence is being mistaken for consent, a classic symptom of groupthink.
- The strategy appears on the Board agenda only once a year, at approval time.
- Unit managers cannot explain their unit's contribution to the strategy.
- Reporting on implementation consists of financial results only, with no leading indicators.
- Sustainability is handled in a separate document that never intersects with the company strategy.
- The assumptions behind the strategy are never revisited once it has been approved.
- No one can say in advance what would cause the Board to reopen the strategy.

KEY TAKEAWAYS

A. Strategy is set through structured dialogue between the Board and management: the Board frames the direction, ambition, risk appetite and questions; management analyses and develops credible options; the Board challenges assumptions and chooses between genuine alternatives; management develops the detailed strategy; the Board approves it and oversees implementation.

B. Strategy development rests on confirmed purpose, mission, vision and values, a clear stakeholder map, thorough analysis, a defined risk appetite (distinguished from risk capacity), attention to trends and disruption, and sustainability embedded in the strategy itself.

C. A strategy adopted without genuine alternatives on the table has not been chosen but assumed. Options should be tested through scenario planning and stress-testing, and rejected options recorded with the reasons.

D. Approval is not the end: the strategy must be translated into goals, objectives and action plans, aligned with budget, resources and incentives, cascaded to every unit and communicated far more than seems necessary.

E. Implementation should be monitored two to four times a year through a concise dashboard with leading indicators, with corrective action where needed and a full review at least annually or after any material change in the environment.

QUESTIONS FOR THE BOARD

1. *Have the Board and management agreed who does what in strategy-setting, the strategy horizon, the timetable and the working format?*
2. *Does the Board set the direction and risk appetite before management develops options, or does it react to a finished document?*
3. *Were genuine alternatives presented, and did we test the assumptions behind the option we chose?*
4. *Is the strategy translated into goals, objectives and action plans with named owners, and are budget and incentives aligned with it?*
5. *Can every unit manager explain their unit's contribution to the strategy?*
6. *How often does strategy appear on our agenda, what does our implementation dashboard show beyond financial results, and when did we last revise the strategy in response to a change in the environment?*
7. *Do we know which risks could break this strategy, and how they will be mitigated?*
8. *Which stakeholders must support this strategy for it to succeed, and how do we know that they do?*
9. *How quickly would we learn that implementation is going off track?*

5.1.4

INTEGRATING SUSTAINABILITY INTO COMPANY STRATEGY, ITS OVERSIGHT, SUSTAINABILITY REPORTING

Sustainability has moved from a peripheral corporate-responsibility function to a core input into strategy. Climate-related risk, resource dependency, workforce and supply-chain resilience, and stakeholder expectations now bear directly on a company's competitive position, cost of capital and even existence. For Boards, this means sustainability cannot be delegated to a sustainability officer, treated as an annual reporting exercise, or managed through a separate sustainability strategy: it must be part of the company's core strategy, set, approved and overseen through the same governance processes.

This holds regardless of whether a company falls within the scope of mandatory EU sustainability regulation. Lenders, investors, customers and supply-chain partners increasingly apply their own expectations, and the underlying business drivers – energy prices, physical climate risks, access to capital and talent – affect every company. The Board's task is not to maximise sustainability ratings, but to ensure that material sustainability factors are properly weighed in strategic decisions.

The role of the Board

Sustainability considerations belong at the stage of strategy development and annual revision, not bolted on after strategic choices have already been made or reduced to a year-end reporting exercise.

Integration of sustainability-related matters into company strategy, revision of business models, and oversight of these activities is getting more attention in boardrooms – and these topics have become even more important as new EU-level regulation, including CSRD, ESRS and CSDDD, has raised the stakes, even though the 2026 Omnibus I amendments narrowed mandatory reporting and due diligence to the largest companies. The Board should take leadership in re-evaluating risks, identifying new sustainability-related risks and opportunities, and reshaping strategy where needed, rather than waiting for management or auditors to surface them.

Sustainability-related issues do not only create obligations to comply with EU regulation and generate risk; they also open access to opportunities that might otherwise go uncaptured, including:

- New business models

- New products and offerings
- Access to green capital on more favourable terms
- Improved competitive advantage
- Reduced energy use, lowering dependence on energy markets and price volatility
- A stronger company brand

The Board's ongoing task is to challenge, approve and monitor: ensuring sustainability-related risks and opportunities are identified through a rigorous double materiality assessment, embedded in the chosen strategy, properly resourced, and reported accurately to the market. Its oversight does not stop at risk and opportunity either – the Board is also expected to act when sustainability management within the company reasonably deviates from the company's stated values.

What the Board should do

1. **Set the sustainability risk appetite** at the strategic framing stage, alongside financial and operational risk appetite, so it shapes strategic choice rather than following it.
2. **Require and challenge a double materiality assessment** – impact materiality (the company's effect on people and environment) and financial materiality (sustainability factors' effect on the company) – refreshed at least annually rather than treated as a one-off compliance exercise.
3. **Assign clear oversight,** either to the full Board or to a dedicated committee (audit, risk, or a standalone sustainability committee), with a defined mandate, reporting line and competence requirement.
4. **Approve measurable targets and KPIs** linked to the strategy – not generic commitments – and track them with the same rigour as financial KPIs in periodic Board reporting.
5. **Oversee the reporting process itself,** including data quality, internal controls and external assurance, for CSRD/ESRS-aligned disclosures where in scope, or proportionate voluntary reporting were not.
6. **Link executive remuneration,** where appropriate, to sustainability KPIs so management incentives align with the approved strategy.
7. **Build Board competence** through training, briefings or committee expertise, so Board members can test management's assumptions rather than defer to them.

8. **Extend oversight into the value chain,** given that suppliers, customers and lenders increasingly request sustainability data and due diligence regardless of a company's own regulatory scope.

Warning signs

- Sustainability strategy, targets or reporting owned entirely by one function, with no Board-level sponsor or committee.
- Public claims or reported KPIs that management – or the Board – cannot trace back to underlying data.
- A materiality assessment that has not changed in substance year on year, or was outsourced entirely with no internal ownership.
- Sustainability reporting produced after the strategy is finalised, rather than informing it.
- No independent assurance over reported sustainability data, or assurance scope quietly narrowing over time.
- Board papers that treat sustainability as a once-a-year agenda item rather than a recurring line in strategy and risk reporting.

Common pitfalls and drawbacks

- **Treating reporting as the objective.** Compliance with CSRD/ESRS, or a voluntary framework, is necessary but not sufficient – a well-reported strategy that does not reduce risk or build resilience has still failed its purpose.
- **Starting too late and under-resourcing the work,** compressing materiality and data-collection into a year-end scramble that degrades quality and invites audit findings.
- **Greenwashing through selective disclosure –** publicising favourable metrics while omitting less favourable ones – which exposes the company and its Board members to reputational and, increasingly, legal risk.
- **Passive Board oversight:** receiving sustainability updates without challenging data quality or the gap between stated ambition and actual resourcing.
- **Treating scope thresholds as the only test.** Following the EU's 2026 Omnibus simplification, direct CSRD scope has narrowed materially (broadly, large undertakings above 1,000 employees and €450 million net turnover); companies below that threshold can still face equivalent demands indirectly, as larger customers, lenders and investors request comparable data down the value chain.[7]

7 Thresholds under Directive (EU) 2022/2464 (CSRD) as amended by the EU "Omnibus I" simplification package adopted in 2025–2026.

- **Underinvesting in Board and management competence,** leaving oversight dependent on external advisers who cannot be held accountable in the way directors can.
- **Waiting for the rules to settle.** National transposition of CSRD is still evolving across Estonia, Latvia and Lithuania, which tempts companies to delay rather than build durable internal processes – a strategy built for the direction of travel, not just the current rules, tends to age better.

Practical, step-by-step guidance and the specific tasks for Boards related to ESG and sustainability can be found in the BICG ESG Guidelines for Baltic Boards, in ESG Governance: questions Boards should ask to lead the sustainability transition, and in A Practical Guide for Boards and Leadership Teams on Sustainability.[8]

KEY TAKEAWAYS

A. Sustainability is a core input to strategy, not a separate reporting exercise. It bears on competitive position, cost of capital and resilience, and it must be integrated into the company's strategy through the same governance processes as any other strategic matter.

B. The Board's role is oversight, starting at strategy development: setting the sustainability risk appetite, requiring and challenging a double materiality assessment, assigning clear oversight, and approving measurable targets and KPIs linked to the strategy.

C. Sustainability creates opportunities as well as obligations: new business models and products, access to green capital, competitive advantage, lower energy dependence and a stronger brand.

D. The Board oversees the reporting process itself, including data quality, internal controls and external assurance, and should be alert to greenwashing through selective disclosure.

E. Companies outside the direct scope of CSRD can still face equivalent demands through customers, lenders and investors, so processes should be built for the direction of travel, not only the current rules.

8 BICG (2022), ESG Guidelines for Baltic Boards – What, Why and How, https://www.bicg.eu/wp-content/uploads/2022/09/ESG-Guidelines-for-Baltic-Boards.pdf; ESG Governance: questions Boards should ask to lead the sustainability transition; BICG (2022), A Practical Guide for Boards and Leadership Teams on Sustainability, https://www.bicg.eu/wp-content/uploads/2022/01/A-practical-guide-for-boards-leadership-teams-on-sustainability-11.pdf.

QUESTIONS FOR THE BOARD

1. *Where in our strategy process do sustainability risks and opportunities enter, and is that before or after the main strategic choices are made?*
2. *Who owns our double materiality assessment, when was it last refreshed, and which external stakeholders were consulted?*
3. *Do we have measurable sustainability targets and KPIs linked to the strategy, and are they tracked with the same rigour as financial KPIs?*
4. *Which of our reported sustainability metrics are independently assured, and can we trace every public claim to underlying data?*
5. *Does the Board have the competence to test management's assumptions on sustainability, or do we defer to external advisers?*
6. *How exposed are we, directly or through our value chain, to CSRD, taxonomy or due-diligence requirements, and how is that changing?*
7. *What are our two or three most material sustainability-related risks and opportunities, and how do they change our strategy, not just our reporting?*
8. *Are our public sustainability commitments and targets consistent with what management is actually resourcing and delivering?*
9. *Does management's remuneration reward the sustainability outcomes we say we want, and what escalation path exists if a target is missed or a material risk emerges mid-cycle?*

5.1.5

CAPITAL STRUCTURE AND DIVIDEND POLICY

How a company finances itself – the mix of debt and equity it carries – and how it returns capital to shareholders are not routine treasury matters. Together they determine a company's resilience under stress, its capacity to fund strategy and growth, its cost of capital, and the confidence lenders, investors and rating agencies place in it. Capital structure and dividend policy sit directly within the Board's fiduciary oversight: decisions here are strategic choices with legal consequences, not calculations to be left entirely to the finance function.

The role of the Board

The Board's task is to set the framework within which capital structure and distribution decisions are made, and to test management's proposals against it – not to draft them. In practice, this means approving a target capital structure and a dividend policy consistent with the company's strategy and risk appetite.

Usually, the final decision to distribute profit rests with the general meeting of shareholders, acting on the approved annual accounts and the proposal of the Board. That does not reduce the Board's role to a formality. The Board reviews and approves the management's dividend proposal before it reaches shareholders. Either way, the Board's job is to confirm that a proposed distribution is lawful, that it does not compromise the company's solvency or its ability to fund strategy, and that it is consistent with a policy the Board has itself endorsed – rather than an ad hoc figure produced late in the reporting cycle.

What the Board should do

1. **Set and periodically review a target capital structure** – an acceptable range for leverage and the debt/equity mix – aligned with the company's risk appetite and strategy, not simply the lowest available cost of capital or short-term tax optimisation.
2. **Approve a clear, published dividend policy** (a payout ratio range and a stated priority between reinvestment, deleveraging and shareholder returns) so that distributions follow a discipline the Board has set, rather than being decided year to year. The dividend policy also plays an additional role: it explains transparently to the shareholders and all relevant stakeholders how dividends are set. This is particularly important where some shareholders demand high dividends without regard to the financial health of the company.

3. **Verify the statutory distribution tests** before recommending any dividend to shareholders. Estonian law requires that equity remain at least half of share capital and that a distribution not endanger solvency; Latvian law prohibits distribution if own funds would fall below share capital; Lithuanian law restricts distribution that would reduce equity below authorised capital or mandatory reserves. These are Board-level checks, not back-office formalities.[9]
4. **Stress-test the capital structure** against adverse scenarios – a revenue shock, a rise in interest rates, tighter refinancing terms, or a market unwilling to roll over debt – rather than relying solely on the base case.
5. **Assess covenant headroom and refinancing risk** before approving new borrowing or a distribution that would reduce that headroom, and monitor both on an ongoing basis, not only at renewal.
6. **Maintain a predictable, well-communicated policy,** particularly for companies listed on Nasdaq Baltic, where unexplained deviation from stated dividend guidance affects market credibility and share price.
7. **Record the rationale** for capital structure and dividend decisions in Board and shareholder minutes, including the basis for the distributable-profit calculation – closing the same accountability gap this Handbook flags for strategic decisions generally.

Warning signs

- A dividend maintained or increased despite weakening cash flow, rising leverage or narrowing covenant headroom.
- No clearly articulated capital structure or dividend policy – distributions and financing decided ad hoc, year to year, with little Board discussion.
- Distributions approved without documented confirmation that statutory solvency and net-asset tests were met.
- Growing reliance on short-term or refinancing debt to fund distributions or ongoing investment.
- Capital structure decisions driven primarily by tax optimisation, with limited regard to underlying business risk.
- Little or no Board challenge to management's proposed leverage, payout ratio or financing structure.

9 See the provisions on the distribution of profit and the protection of capital in the Estonian Commercial Code, the Latvian Commercial Law and the Lithuanian Law on Companies.

Common pitfalls and drawbacks

- **Treating dividend policy as a technical finance decision,** delegated entirely to the CFO and rubber-stamped by the Board rather than scrutinised as a strategic choice.
- **Protecting a stable or progressive dividend at the expense of strategic investment,** including transition or resilience-related capital expenditure, weakening the company's longer-term position to preserve a short-term signal to the market.
- **Carrying leverage inconsistent with the business's actual risk profile,** either too conservative to fund growth or too aggressive relative to the volatility of the underlying business.
- **Overlooking the statutory distribution tests,** which in each Baltic jurisdiction can expose Board members to personal liability for an unlawful distribution – this is a compliance matter, not only a financial one.
- **An inconsistent or opportunistic dividend policy** that damages market credibility and, for listed companies, raises the cost of capital by increasing perceived uncertainty.
- **Ignoring the tax asymmetry across the Baltic states** when structuring group financing and dividend flows – moving cash between an Estonian or Latvian entity, where reinvested profit is untaxed, and a Lithuanian parent taxed annually, without coordinated group tax planning.
- **Failing to document the Board's reasoning,** leaving no audit trail for why a particular capital structure or distribution was approved – a gap that becomes costly precisely when a decision is later questioned.

As elsewhere in this Handbook, the mechanism of approval differs by structure – the Supervisory Board or Council in the two-tier structures common across Estonia, Latvia and Lithuania, or the non-executive members of a one-tier Board – but the standard does not: a disciplined, documented policy, tested against the law and the company's own risk appetite, before it ever reaches the shareholders who make the final call.

KEY TAKEAWAYS

A. Capital structure and dividend policy are strategic choices with legal consequences, not routine treasury matters. They determine the company's resilience, its capacity to fund strategy and its cost of capital.

B. The Board sets the framework, a target capital structure and a published dividend policy aligned with strategy and risk appetite, and tests management's proposals against it. The final decision on distributions usually rests with the shareholders, acting on the Board's proposal.

C. Before recommending any distribution, the Board must verify the statutory tests in the relevant Baltic jurisdiction; an unlawful distribution can expose directors to personal liability.

D. The different tax treatment of retained and distributed profit in Estonia, Latvia and Lithuania should inform where cash is held and how intra-group distributions are structured.

E. The capital structure should be stress-tested against adverse scenarios, covenant headroom and refinancing risk monitored continuously, and the rationale for every decision recorded in the minutes.

QUESTIONS FOR THE BOARD

1. *Do we have an approved target capital structure and a published dividend policy, and when were they last reviewed against the strategy and risk appetite?*
2. *Is the current dividend proposal consistent with that policy, and if it deviates, has the Board recorded why?*
3. *Who verified that the statutory solvency and minimum-equity tests are met for this distribution, and is that verification documented?*
4. *How would our leverage and liquidity hold up under a revenue shock, higher interest rates or a tighter refinancing market?*
5. *Are we retaining enough capital to fund the strategy without becoming dependent on external financing?*
6. *Does our group financing and distribution structure take account of the differing tax treatment of profit across the Baltic states?*
7. *What is our target leverage range, and why is it the right one for our strategy and risk appetite, not simply the cheapest available financing?*
8. *What covenant headroom do we have today, and how does this financing or distribution decision change it?*
9. *If a lender or rating agency reviewed our capital structure today, what would concern them most?*

5.1.6

MERGERS, ACQUISITIONS AND MAJOR TRANSACTIONS

Few decisions test a Board as severely as a merger, an acquisition, a disposal of a core business or another transformational transaction. The amounts at stake are large, the information is asymmetric, the timetable is compressed, and the atmosphere is often charged with ambition. Research consistently shows that a substantial share of acquisitions destroy value for the buyer – not because the idea was bad, but because the price was too high, the risks were underestimated or the integration failed. The Board's role is therefore not to run the deal, but to ensure that the company enters it for the right reasons, at a defensible price, with open eyes and with a credible plan for what happens after signing.

Major transactions also concentrate governance risks that are diffuse in ordinary business: conflicts of interest, related party transactions, insider information, disclosure obligations and shareholder rights all converge on a single decision. In smaller markets, where the counterparty may well be connected to a shareholder or a director, this convergence deserves particular attention.

The role of the Board

The Board owns three things in any major transaction: the strategic rationale, the approval decision and the oversight of execution. Management identifies opportunities, negotiates and integrates; advisers value, structure and document. The Board's distinct contribution is disciplined judgement – whether the transaction serves the company's strategy or merely someone's ambition, whether the price rests on realistic assumptions, and whether the organisation can absorb what it is buying. The Board must also safeguard process integrity: conflicts of interest, inside information, equal treatment of shareholders, and disclosure and merger control requirements.

What the Board should do

Board actions:

1. Anchor every transaction in strategy before discussing price. Require management to show how the deal fits the approved strategy and what the realistic alternatives are – including organic growth, partnership or doing nothing.
2. Establish the process at the outset: a clear mandate for management, approval thresholds, a timetable for Board involvement, and rules for confidentiality and

insider lists. For significant deals, consider a transaction committee of unconflicted Board members with relevant experience.

3. Identify and manage conflicts of interest immediately. Require every Board member and senior executive to declare any connection to the counterparty, its owners or its advisers. Conflicted Board members must be excluded from deliberation and decision, and related party transaction procedures must be applied where the law or the company's corporate governance code requires.
4. Commission genuinely independent advice. Ensure that financial, legal and tax due diligence is proportionate to the deal, and consider an independent fairness opinion on valuation – especially where a shareholder, a director or management has an interest in the outcome.
5. Interrogate the assumptions, not only the model. Ask which synergies are proven, which are hoped for, and what the deal looks like if revenue synergies are removed entirely. Require a downside case and a walk-away price, and hold the Board to it when negotiation pressure mounts.
6. Approve the integration plan together with the deal, not after it. Require named accountability for integration, a budget for one-off costs, retention plans for key people of the target, and milestones the Board will track.
7. Review the outcome. Twelve to twenty-four months after closing, compare actual performance against the investment case presented at approval, and record the lessons for the next transaction.

Warning signs

- Deal momentum: the transaction accelerates while scrutiny weakens, and the question shifts from "should we" to "how fast can we".
- A CEO personally invested in the deal as a legacy project, with the Board hearing only supporting evidence.
- Due diligence findings dismissed as "deal points" without analysis of their long-term cost.
- Advisers remunerated only on completion, with no one in the room paid to say no.
- Undeclared connections between the counterparty and shareholders, Board members or executives.
- No integration plan, budget or named owner at the moment of approval.

Common pitfalls and drawbacks

The most expensive pitfall is overpayment driven by momentum and optimism: once time, money and reputation have been invested in a deal, walking away feels

like failure, and Boards approve prices they would have rejected at the outset. The second is treating approval as the finish line – most value is won or lost in integration, which begins the day after closing and typically takes years. The third is process failure: a conflicted Board member who participated in the decision, a missed disclosure, a breach of insider rules or an overlooked merger control filing can invalidate the transaction and expose Board members to personal liability. Boards should also recognise the drawbacks of excessive caution: a Board that demands certainty on every point will lose good opportunities to faster competitors. The aim is disciplined speed – a well-designed process that allows the Board to decide quickly without skipping the questions that matter.

Guidance for other governance professionals

Company secretaries, general counsel, chief financial officers and internal auditors carry much of the practical burden of a clean transaction. The company secretary should design the decision trail: properly convened meetings, complete papers, minutes recording the alternatives considered and the reasons for the decision, declarations of interest, and insider lists maintained from the first confidential discussion. General counsel should map the approval requirements early – shareholder approvals, related party transaction procedures, merger control filings, disclosure obligations – and build them into the timetable. The chief financial officer should present the investment case with its assumptions visible and testable, including a downside scenario, and resist pressure to tune the model to a predetermined answer. Internal audit should review the process after closing. The guiding principle for all of these roles: the file should show that the Board decided carefully, on complete information and free of conflicts.

KEY TAKEAWAYS

A. Major transactions test a Board more severely than any other decision: large amounts, asymmetric information, compressed timetables and charged ambition. A substantial share of acquisitions destroy value because the price was too high, the risks underestimated or the integration failed.

B. The Board owns the strategic rationale, the approval decision and the oversight of execution. Management negotiates and integrates; advisers value and document. The Board's contribution is disciplined judgement and process integrity.

C. Every transaction should be anchored in strategy before price is discussed, run under a clear process with approval thresholds and insider rules, and protected against conflicts of interest through declarations and exclusion of conflicted Board members.

D. Independent advice, interrogated assumptions, a downside case and a walk-away price protect against deal momentum. The integration plan, with named accountability and a budget, is approved with the deal, not after it.

E. Outcomes should be reviewed twelve to twenty-four months after closing against the investment case, and the lessons recorded.

QUESTIONS FOR THE BOARD

1. *Do we have a defined process for major transactions: mandate for management, approval thresholds, Board timetable, confidentiality and insider lists?*
2. *Has every Board member and senior executive declared any connection to the counterparty, its owners or its advisers, and have conflicted Board members been excluded?*
3. *Is our due diligence and valuation advice genuinely independent, and have we seen a downside case and set a walk-away price?*
4. *Is there a named owner, a budget and milestones for integration at the moment of approval?*
5. *Are our advisers paid in a way that gives someone an incentive to say no?*
6. *When did we last compare a completed transaction against its investment case, and what did we learn?*
7. *Why this target, why now, and what happens to our strategy if we do not proceed?*
8. *What did due diligence find that we are choosing to accept, and why?*
9. *If this transaction appeared on the front page tomorrow, could we explain the process and the price with confidence?*

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

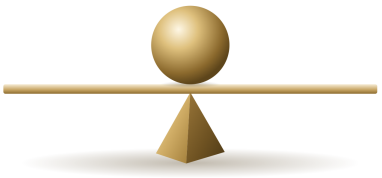
A. Once targets are set, the Board defines specific KPIs for the company and the CEO, monitors performance against them at least quarterly and takes corrective measures where performance falls short.

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.

IN THIS SECTION

5.2.1	Control environment	93
5.2.2	Internal control framework	98
5.2.3	Risk governance, Three Lines Model	104
5.2.4	Resilience: crisis preparedness, business continuity and recovery	116
5.2.5	Cybersecurity and information security oversight	124
5.2.6	Internal and external audit	128

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.