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?*