

Integrating Sustainability into Management of Family Firms

Practitioner Workshop: «Involving the Next Generation»

Kārlis Jēkabs Īvāns

Associate

ESG offering development lead

12 June 2024



Contents

- 🌿 Administrative burden vs. competitive advantage
- 🌿 Fiduciary duty and sustainable corporate governance
- 🌿 Employee engagement
- 🌿 Upcoming Corporate Sustainability Due Diligence Directive

Ilgtspējas ziņojums

ZAB Eversheds Sutherland Bitāns SIA
2022/2023 finanšu gads



Administrative burden vs. competitive advantage



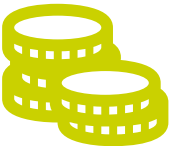
Financing availability



Competitive advantage



Risk management



**Cost reduction
in the future**



Client appreciation



**Supply chain
continuity**

Fiduciary duty



Relationship between fiduciary and the principal or beneficiary on whose behalf the fiduciary acts

Management/
Supervisory Board

Shareholders

Bond Holders / Creditors



Legal responsibility for duties of care, loyalty, good faith, confidentiality, and more when serving the best interests of a beneficiary.
Management's key purpose is to maximize shareholders' value





«In performing his or her assigned duties, each member shall act, with respect to the partnership, with such care and due diligence as can be expected from a worthy and careful manager.»

Article 2250 of Civil Law

«Members of the board and of the council shall perform their obligations as would an honest and careful manager.»

Article 169(1) of Commercial Law

Fiduciary duty in the context of sustainability / ESG factors

-  Incorporate ESG factors into investment analysis and decision-making processes, consistent with investment time horizons of the company
-  Encourage high standards of ESG performance in the companies or other entities in which investments are being made
-  Understand and incorporate sustainability-related preferences of shareholders and other beneficiaries, regardless of whether these preferences are financially material; and/or
-  Report on how these commitments are being implemented

A letter of expectations

Shareholders	Shareholders would incorporate a letter of expectations in which the purpose and main objectives of the company regarding corporate governance, operational structure, and main financials are set forth, this letter of expectations should also include sustainability (ESG) objectives of the company.
Management Board	Considering the letter of expectations, the company's management board prepares: 1. Short-term strategy 2. Medium-term strategy reflecting the key matters considered in the letter of expectations. However, the management board is not required to follow the letter of expectations and prepares the strategy at their own discretion, only considering the letter of expectations.
Supervisory Council	The company's supervisory council reviews, considers and approves strategies, implying that the company in everyday operations will in a certain extent consider and follow sustainability objectives.
Shareholders' Meeting	In any scenario, the shareholders' meeting will be aware of the adopted strategies and each year when approving the annual report. The shareholders' meeting will be duly notified that the company is attaining sustainability objectives.

How to foster employee engagement

Educate



Usually, the best first step is to educate everyone about sustainability, its importance, and climate targets. The education should include not only management but all employees

Engage



Employees in focus groups should be engaged in drafting the strategy, policies, and procedures, and most importantly, in setting specific goals to be achieved by the company

Award



The bonus system should be aligned not only with certain sales targets but also with the fulfillment of sustainability and ESG targets. For example, develop a program to reduce emissions associated with travel

Employee share options program (ESOP)



Align Employee Interests with Long-Term Value: Motivate employees through ownership potential tied to the company's success and sustainability goals



Attract & Retain Top Talent: Offer a competitive benefit that fosters commitment and a shared vision for the future



Enhance ESG Performance: Integrate sustainability metrics into the ESOP, driving positive environmental and social impact



Strengthen Family Legacy: Ensure long-term success of the family business by aligning employee interests with the family's vision and values



Mitigate Risk & Improve Governance: Broader ownership can enhance decision-making and accountability

Proposal for a Corporate Sustainability Due Diligence Directive (CS3D)



CS3D is a planned European Union directive that will oblige public-interest companies to identify, prevent, reduce, and respond to human rights violations and environmental requirements across their supply chains



The aim is to strengthen responsible corporate attitudes and ensure that businesses operate ethically and sustainably



In practice, therefore, any company, even initially outside the scope of CS3D, may be forced to deal with the consequences. Unable to do so, the company covered by CS3D may choose to stop cooperating.

Benefits



Improved corporate governance and accountability



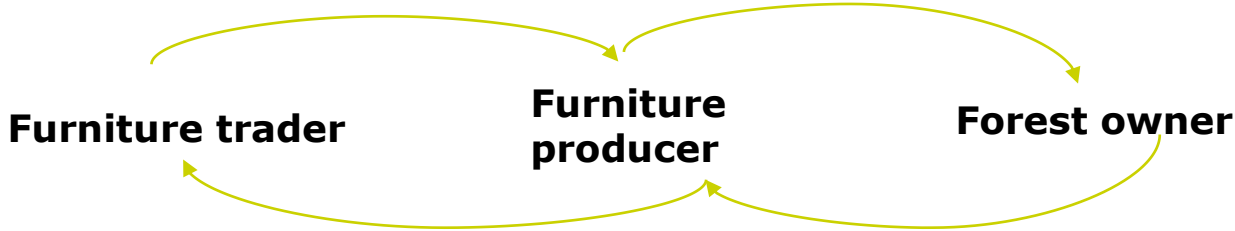
Enhanced protection of human rights and the environment



Better risk management and long-term sustainability

Supply chain management – practical example

1. Sends a questionnaire on compliance with human rights and environmental requirements



2. Provides a response to the questionnaire on compliance with human rights and environmental requirements

The trader finds that the forest owner does not observe human rights practices in the employment of workers and cuts forests using environmentally harmful methods

As a result, the trader discontinues cooperation with the producer because it is unable to successfully integrate into the supply chain, and workers lose their jobs



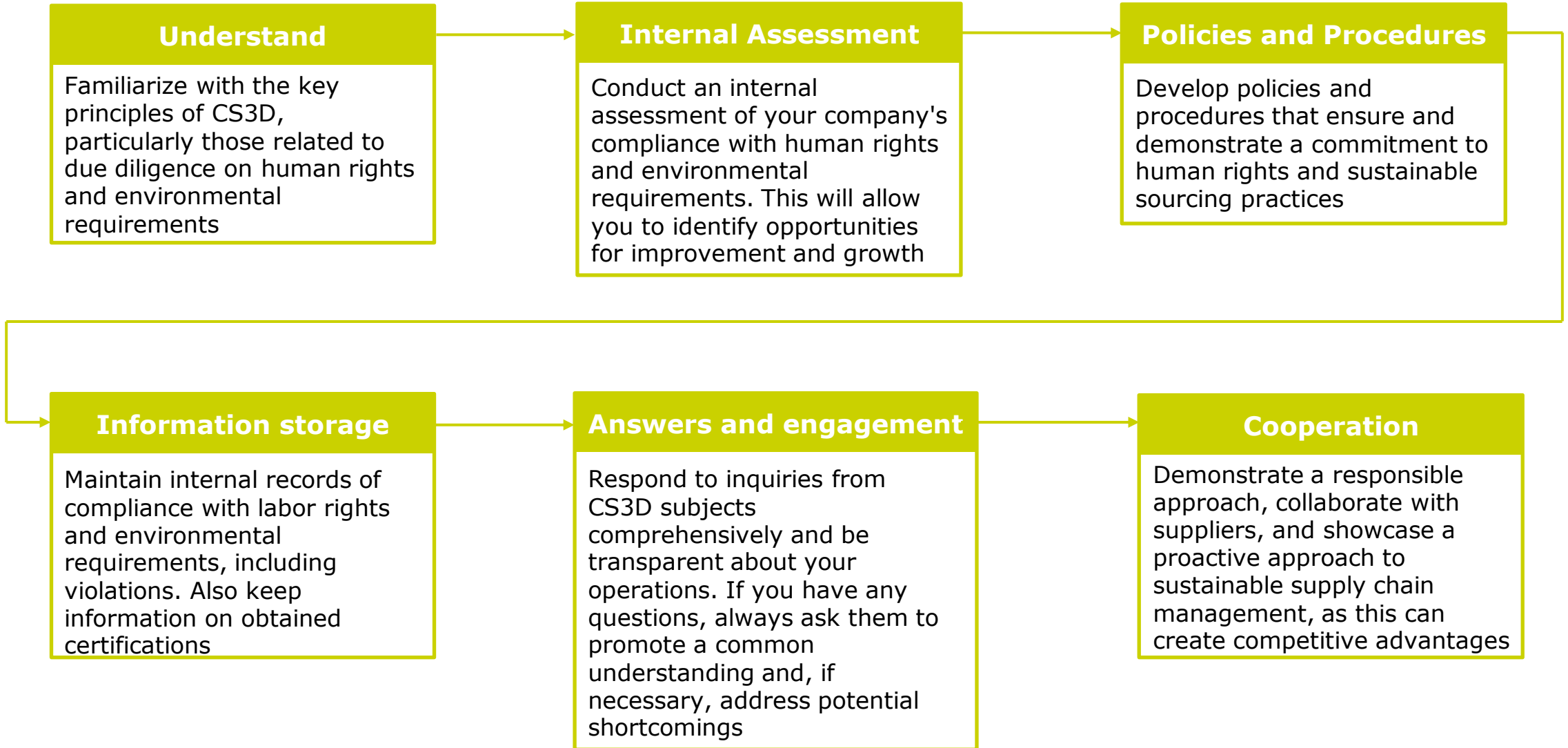
Thus, CS3D can affect any company, and its requirements are essential

ESG
Due Diligence Questionnaire

Proposal to include the following additional questions, consider development of specific ESG section

No.	Question
Purpose and Strategy	
1.	What is the company's assessment of the maturity status of its existing ESG policies, processes, and systems?
2.	Does the company maintain a standalone ESG strategy and procedure? If so, please provide details regarding your approach and commitments to managing key ESG risks and opportunities.
3.	Please provide an overview of the organizational structure and procedures for managing ESG/Sustainability/CSR matters, including key personnel responsible and the existence of any ESG governance committee.
4.	Does ESG receive regular discussion at the Management and Supervisory Board level? If so, please describe the frequency, agenda, and key topics typically addressed.
Risks	
5.	Identify the material ESG-related risks and opportunities considered significant for the business.
6.	Describe the process undertaken to identify key ESG topics relevant to the company and the stakeholders involved in this process.
7.	Are there regular internal or external reviews/audits of ESG processes and systems? If so, please provide details, including the audit types, frequency, auditors, and key findings from the most recent audit.
8.	Have partners, suppliers, or clients imposed specific ESG requirements on the company? Confirm your ability to comply and assess the potential business risks associated with non-compliance.
Disclosures	
9.	Does the company publish an external ESG/CSR/Sustainability report or include a designated section in its annual accounts? If yes, please specify the number of years and provide a copy if available.
10.	List any international standards, industry guidelines, reporting frameworks, or responsible investment initiatives to which the company has committed or contributed.
11.	Is the company subject to the Corporate Sustainability Reporting Directive? If yes, describe your readiness to report in accordance with the Directive. If not, outline any plans to adhere to its requirements and the steps already taken.
Measuring and Monitoring Progress	
12.	Describe the company's system for tracking and evaluating ESG risks and progress. How is this system implemented within the organization?

How can indirect subjects prepare for CS3D?



EVERSHEDS
SUTHERLAND
BITĀNS

eversheds-sutherland.lv

© Eversheds Sutherland 2024. All rights reserved.

Business card:

Kārlis Jēkabs Īvāns

Associate, ESG offering development lead

