HEIDRICK & STRUGGLES

new energy finance

The Extreme Corporate Entrepreneur CEO

the leadership skills necessary to build CleanTech companies to world scale

by Anita Hoffmann

Clean technologies will need to grow to world scale to have real impact in combating climate change. To achieve this, a new leadership profile is needed, the 'Extreme Corporate Entrepreneur CEO' – uniquely entrepreneurial and operational.

This key theme emerged during the 2009 New Energy Finance Summit, and has been supported by further research by Heidrick & Struggles.

Scaling for impact

Until mid 2008 the Alternative & Renewable Energy and CleanTech industries were storming ahead with support from governments, investors and banks.

With the onset of the 'credit crunch', project finance has almost entirely dried up and investors are holding on to their cash awaiting consolidation opportunities.

We all know that this industry needs to grow and governments around the world are pledging hundreds of billions of dollars to support 'Green Energy' and energy efficiency projects.

Yet no technology, apart from wind power, is truly proven and of industrial scale. Wind power alone will not make up the looming energy gap. Other technologies like CSP (Concentrated Solar Power), Thin Film Solar and new solar technologies (as well as wave, geothermal, and second generation biofuels), will need to achieve scale if they are to have an impact on the world's energy and carbon balance.

Even with the required financing in place, technologies and companies need the right leadership to grow into new global corporations.

Leaders who build to scale – logarithm of ten

Technologies and companies go through critical transition points from both a technical and leadership point of view during their growth.

The need for different leadership changes radically at the stages of 10, 100, 1,000 and 10,000 employees. A company's character and complexity changes radically at these points; failure to recognise the need for different leadership often causes companies to flounder, preventing them from reaching their full potential.

Rarely will the same leaders take the company from 10–100 people or from 100–1,000 or beyond, as the company will change radically as it grows.

figure 1

Skills and competencies of the 'Corporate Leader'

Visionary Entrepreneur	**Traditional Professional Manager**
Set an **inspirational vision** and **excite team** about the journey	**Relentless** drive to **delivery and execution**
Engender **trust, confidence and belief**	Natural **energy and enthusiasm**
Clarity in communicating with a growing global team	Highly attuned to **global cultural sensitivities**
Passion for **building** a business – and a 'greener world'	Flexible – **always find a way**

Business Builder – 'Corporate Entrepreneur'

The Corporate Entrepreneur

For Alternative & Renewable Energy and CleanTech companies to grow to scale very different leaders are required, especially with the discontinuity we are currently experiencing.

Research conducted by Heidrick & Struggles[1] has shown the emergence of the 'Corporate Entrepreneur'. This executive type blends the skills and competencies of the 'Visionary Entrepreneur' and the 'Professional Manager' *(figure 1)*; they have the foresight and energy to take a company through rapid growth whilst giving enough structure and process to deliver results.

The Extreme Corporate Entrepreneur

In a recent round table discussion with investors and chairmen of Alternative & Renewable Energy and CleanTech companies at the New Energy Finance Summit, we established that what is required to bring these companies to scale is a leader who is extremely strong in both of the two poles – an individual who is simultaneously, an ultra-visionary and ultra-operator[2].

In addition, this leader needs to be extremely attuned to, and able to influence regulatory issues in their industry – driven as it is by regulatory incentives and frameworks, as has been shown in recent research undertaken by Heidrick & Struggles on Tomorrow's Global Talent[3].

Few, if any, executives are strong visionary entrepreneurs and company builders, and effective operators at the same time.

Plan your leadership as a 'relay race'

Instead of expecting one person to take your business from start-up to scale, there are a few options available:

- one 'Extreme Corporate Entrepreneur CEO'
- one 'Corporate Entrepreneur' CEO with an excellent COO
- an operational CEO for the next 1–2 years whilst planning and setting about the hire of the 'Corporate Growth Entrepreneur', for when the credit crunch eases

Questions and strategies for investors

In our experience few investors today have a detailed and evolving leadership strategy and plan for the companies they invest in. Investors today also find themselves looking at longer periods to exit than envisaged even a year ago. The following questions help pin down the talent management challenges inherent in these fast-growing companies:

- Is your management team still the right one to deliver the operational efficiencies needed now, and for future growth?
- If not, how do you plan to grow the business from where it is today, to where you want it to be in 5–7 years, to real scale?
- What could you deliver if you had a CEO or a team with very different skills and capabilities? In the next 2 years, years 3–5, years 5–8?

Investors typically back a competent management team from the start of an investment to exit and construct executive packages accordingly; there is often little flexibility to change management.

Going forward investors need to think through both at the point of investing, and at other investment milestones

[1] *The Secrets of CEOs*, Steve Tappin & Andrew Cave, Nicholas Brealey (2008)
[2] For a summary of the key discussion points arising from the New Energy Finance Summit see the letter to G20 on page 5
[3] *Tomorrow's Global Talent Report*, Tomorrow's Company (2009)

(e.g. new funding rounds) what they need management to deliver in the short and longer term. They then need to develop an 'executive talent plan' for the company, to be reviewed simultaneously with other strategic financial and technical plans.

This might include making shorter contracts for some executives (still allowing for value creation and realisation for the executives) and changing executives as the company's needs evolve through the investment cycle.

Questions and strategies for chairmen

Chairmen spend a lot of time thinking about how the companies they chair can be the best at what they do, and getting the best possible management team in order to deliver this. The following questions help them to do this:

- Looking at the short as well as the medium and long term, are you confident your executive team can deliver the required growth and profitability?
- If not, what can you do to develop them, could you complement their skills with advisors or interim executives who bring the missing strengths?
- Can your current executive team step up and generate serious growth if and when the market allows?
- Do you know their strengths and weaknesses and do you have an external benchmark for how good they really are?
- Do you have a strategy in place for replacing key leaders at critical points in the company's growth?

The role of governments and educators

With the hundreds of billions of dollars needed each year to give the CleanTech sector the critical mass required to have an effect on climate change, large cadres of people are necessary to lead and build these companies to scale.

These individuals should possess both traditional and new management skills. These new skills have been investigated in some detail and include: dealing with much more complexity; managing in different contexts; and communicating effectively to an ever-increasing and varied stakeholder group[4].

Education programmes at graduate level are being considered by governments around the world. The creation of post-graduate and mid-career education programmes to help executives in this sector acquire skills to grow companies to real scale, would help enormously.

Conclusion

The government and educators should consider whether today's executive education should be complemented with development programmes geared at instilling vibrant 'Corporate Entrepreneurship' principles in the young leaders of the next decade. These skills will not only ensure that the solutions for climate change grow to scale, but will surely also help traditional sectors renew and expand.

The future of both our environment and the returns for investors in CleanTech are at stake; hanging on the ability of new technologies to grow to scale.

Investors and boards should consider the competencies and composition of their executive team as a key strategic imperative. They should be investing the same time and effort in understanding and reviewing their talent and planning, as they are in developing their financing and operational excellence.

[4] *Tomorrow's Global Talent Report*, ibid
Report for UN – Developing the Global Leader of Tomorrow, Ashridge Centre for Business & Society (2008)

an open letter to policy-makers and investors

Keeping clean energy investment on track

On 4–6 March 2009, the second New Energy Finance Summit was held for leading executives, investors, regulators and policy-makers. The meeting drew some 275 senior decision-makers from the renewable energy, low-carbon technology and traditional energy sectors, as well as policy-making organisations. They debated the challenges of maintaining investment in clean energy in the current environment, and how to accelerate the growth of this investment from US$155bn in 2008 to US$500bn-a-year by 2020 – the minimum required to bring CO_2 emissions to a peak by then *(see **Needed: US$500bn-a-year** on page 7)*. To quote a thought leader at the Summit, "We're now at the transition, where climate change is becoming so important and the flows of money are going to be so large that if the private sector is going to be part of making the money flow, then…the concern is that the investor voice is not being heard in the policy process".

This letter contains a summary of the intensive discussions and debates at the 2009 Summit.

Ten principles for policy-makers

1 Act fast

Worldwide over US$150bn of stimulus money has been earmarked for clean energy and energy efficiency. The US Government alone has committed US$66bn; the Chinese Government has committed US$59bn. This fresh money must not be held up by administrative bottlenecks or confusion over interpretation. Agencies must ensure that the funds start to flow to project developers and technology providers this year to safeguard companies and maximise job creation.

2 Act at scale

Other than the US and China, G20 economies are lagging far behind the US in their stimulus package commitments to clean energy. So far, the 'green stimuli' from most other countries have been on a very small scale, and some have seen new money lumped in with previously announced measures. While Europe has had policies in place for years to create incentives for clean energy, more can happen through strong stimulus packages. We cannot move to a low-carbon economy with an investment of one or two tenths of a percent of GDP spent over three to five years.

3 Use all your powers

Governments currently have extremely strong leverage over commercial banks as a result of their bail-out packages. They should use it to require that lending to renewable energy and carbon reduction projects be increased by a meaningful amount compared with 2008 levels, subject to appropriate credit risk assessment, of course. The flow of finance to clean energy projects can be spurred by loan guarantee schemes and Green Bonds to encourage debt investment, and capital gains or other tax waivers to encourage equity investment.

4 Hold your nerve

Stick to your published goals for renewable energy and emissions targets. The current financial crisis and recession will have only a small impact on emissions in the long term; it will not significantly help to reach reduction goals. Emphasise that short and medium term targets (2010, 2012, 2020 etc) will be maintained and treaty obligations met. Include all sectors in calculating emissions, and bring in shipping, aviation, and forestry. Do not allow the energy industry to entertain the hope that renewable portfolio standards or renewable fuel standards will be relaxed. The road to a low carbon economy is and will be bumpy, but the fundamentals of clean energy are strong if not stronger than before.

5 Efficiency – keep it simple

Energy efficiency can provide many of the lowest-cost and highest-impact contributions to reducing emissions. Investment in energy efficiency offers strong returns relative to available savings rates. Simplify consumer decisions. Consumers and businesses do not act today because of lack of information, incentives and clarity over support mechanisms. Policy and communications need to help make decisions easy. Grants programmes must be de-mystified, and there need to be fewer, larger and more coherent initiatives. Support service models that take the problem away from the consumer and simply guarantee a lower bill.

6 Keep the standards

Make maximum use of energy efficiency regulations and automobile efficiency standards. These were judged by Summit delegates as the most effective domestic policy weapons of all for shifting the world to a low-carbon future in the long term. Very aggressive medium-term standards have repeatedly shown that unexpected progress can be made at low cost. Downturns can be a great time to introduce tougher standards – to catch the next wave of purchasing decisions.

7 Let losers lose

Let the market decide which technologies will succeed or fail. Do not confuse the need for long-term R&D funding for technologies far from commercialisation with the need for temporary and declining price support mechanisms for immature technologies where costs will decline with economies of scale and experience. Offer incentives for the latter only until they can be expected to be competitive with fossil fuel energy. And don't use stimulus funds to support sunset, high-emissions sectors of industry which cannot survive in a low-carbon future.

8 Balance the books with carbon

Signal a strong intention to use carbon tax, auctioned cap-and-trade allowances and other emissions levies to help balance the national accounts after the recession is over. This will level the playing field, avoid undue inflationary pressure and signal clearly to all economic players that the time for investing in fossil fuel capacity is over, and the time to invest in clean energy is now.

9 Focus Copenhagen on the G20

The success or failure of any international deal on carbon will be decided by its impact on G20 economies. Yet much of the complexity comes from dealing with non-G20 countries and issues. Brazil, China, India, Indonesia are essential for a successful global effort to curb emissions, as are Europe, US, Canada, Japan, Russia and Australia. Many smaller emerging economies and island nations are not, yet they add lots of complexity. Establish a separate track to deal with adequately funding adaptation, which will impact these smaller nations disproportionately.

10 Retain project mechanisms

After a shaky start, the CDM mechanism has funnelled significant investment to the developing world to help it reduce emissions. In the words of Jos Delbeke, deputy director general of DG Environment at the European Commission, "let's concentrate a bit more on the cap and less on the trade…overall, the carbon market is working." It should be kept, improved, and increased substantially – not replaced. Speed up the project approval procedures and tighten the rules on environmental integrity. State clearly that CDM credits will remain acceptable in the EU ETS and ensure they are valid in other developed economy carbon markets. Remove hydrofluorocarbons (HFCs) from the CDM mechanism to draw a line under potential abuse.

Respectfully submitted to the G20 on behalf of the New Energy Finance Summit Advisory Board

London, 31 March 2009

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Needed: US$500bn-a-year in clean energy investment

The world economic crisis has hit investment in clean energy, particularly by stemming the flow of debt finance from banks to renewable energy project developers.

Total new investment in clean energy in 2008 was US$155bn according to New Energy Finance figures, only US$7bn higher than in 2007 – and there was a dramatic slowdown in H2 2008. Investment in Q1 2009 has been well below Q1 2008 levels.

The Global Futures model developed by New Energy Finance shows that investment in clean energy will have to exceed US$500bn-a-year by 2020 if CO_2 emissions are to peak before then. However it also shows that current policy measures are likely to spur investment only to US$350bn-a-year by 2020.

Only if an emissions peak is achieved before 2020 will there be a good chance of limiting the rise in global temperatures to two degrees Centigrade (CO_2 concentrations of 445 to 490ppm), the highest "safe" level according to the International Panel on Climate Change's most recent report.*

*Also see *World Economic Forum Green Investing report*, January 2009

Source: New Energy Finance, *Global Futures 2009*

The Alternative & Renewable Energy practice at Heidrick & Struggles

Our dedicated Alternative & Renewable Energy practice includes more than twenty consultants, based in offices around the world.

We work with our clients as leadership advisors, helping them develop leadership talent strategies and programmes to become the best they can be while also recruiting outstanding leaders to help them grow to scale.

Quite simply at Heidrick & Struggles we are: 'Bringing the world's best talent to the low carbon economy'.

For more information about our work in the CleanTech sector please email **Anita Hoffmann** at ***ahoffmann@heidrick.com***

To learn more about our global capacity, consultants and our representative work, please visit:
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200901PBTSMI28