“Solar Panels Made in Sweatshops”

Keynote Address to: Cleantech Venture Network

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Expansion Capital Partners is a venture capital firm that invests in expansion-stage, Clean Technology enterprises, which present compelling risk-return profiles. Expansion Capital targets companies that offer dramatic improvements in resource efficiency and productivity, while creating more economic value with less energy and materials, or less waste and toxicity. These technologies significantly lower costs to customers and improve profitability.

Mark has 20 years of experience as an entrepreneur, with a broad background in private equity transactions. He has served in multiple venture backed companies in key leadership roles, including CEO, COO, Director of Business Development, and Board Chair. Prior to founding Expansion Capital, Mark had 15 years of financial management experience and was previously the founder of two successful financial management firms: Social Capital Partners (an NASD Member Firm), which raised venture capital and provided strategic advisory services to many industries including Clean Technology, and Symphony Capital Management (and its affiliates), a financial management firm that had 400 corporate and family clients. Mark was a Founding Investor, and serves on the Advisory Board, of the Cleantech Venture Network, which is the leading organization for private equity investors in Clean Technology. In addition, Mark Chairs the Financial Management Committee of the Threshold Foundation and was a Board Member and Chair of the Membership Committee for the Social Venture Network, which is the leading organization for socially progressive CEO’s. Mark has a BS in Investments, with honors, from Babson College and has served for four years on Babson College’s Board of Overseers. He holds a certificate from the Sanno Institute of Business Administration in Tokyo, Japan. In the past, he was also a Certified Financial Planner, among other post-graduate studies.
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The following keynote was presented to the largest gathering, in history, of venture capitalists that specialize in market-based environmental enterprises. Over 500 people were in attendance for this landmark conference, which was hosted by the leading organization in the sector – the Cleantech Venture Network. The following keynote presentation was the first-ever regarding “triple bottom line” investing, at this semiannual gathering of mainstream Clean Technology investors, represented by firms like Kleiner Perkins, Foundation Capital and Draper Fisher.

Good Afternoon. I am honored to address you today.

I hope that my presentation will open a continuing dialogue in our community about several important issues for the Cleantech investor community and our portfolio companies.

This presentation is an invitation to engage.

I do not pretend to have all the answers in the areas that I will address today, yet I have been exploring the areas of sustainability and triple-bottom-line capitalism for 18 years. The “triple bottom line” refers to Financial Profits, plus benefits for People and the Planet.

Often called, “People, Profit, Planet”

All of us have a vested interest in protecting the valuable brand and emerging asset class called Cleantech.

For example, we would each be hurt by a headline in the NYT about “Solar Panels Made in Sweat Shops”…. (a story reminiscent of movie stars having clothing brands made in made in sweatshops). In this respect, Cleantech may be “green” because it is environmentally positive, but it isn’t necessarily “clean.” In fact, our industry’s use of the term “clean”, at least implies that we would want to explore “best practices” to advance our portfolio company production standards, policies related to social justice, employee welfare, and stakeholder relations.

As an example of something to learn from in recent history: for decades the computer and IT industries were regarded as “Clean” and “Non-Toxic,” but the production processes often involved use of heavy solvents, and many toxic
chemicals, very similar to numerous CleanTech businesses. These harmful heavy solvents were often discharged in Silicon Valley over the last three decades.

**Today, Santa Clara County, where Silicon Valley is located, has the unfortunate distinction of having more Superfund Toxic Clean-up Sites than any other county in the United States.**

I have a question. Will the Cleantech industry repeat the same mistakes of the past?

In this respect, solar technologies have often used, and do use, heavy metals, cadmium, arsenic, among other highly toxic chemicals. In the euphoria to develop such beneficial technologies, we cannot forget that other impacts are involved, and that these impacts could cost our portfolio companies dearly in fines, stockholder share value and in customer brand equity.

Many old-line companies, as is self evident today, are becoming aware of this from DuPont to GE, which are belatedly announcing plans for toxins reduction and environmental responsibility. Naturally, I applaud them. Their initiative is fabulous. But, the Clean Technology venture capital industry is at a unique point right now – we can get it right from the start. We are at the foundation building moment of a large new asset class for the deployment of capital.

Importantly, the future of business is entrepreneurship. Furthermore, the future of the environment is largely dependent on business practices, And, entrepreneurship is fueled by the capital of the venture capital industry, so our industry's vision, values and resources will greatly affect the future of our planet's sustainability.

The type of values, world view, and both financial and non-financial objectives, which we bring with our capital, will create the future business environment and environmental ecosystem that we and our families live in.

Ideally, we will be able to embrace green design and production technologies and total life cycle environmental planning, over the course of time, in many of our businesses. Last year, we had an inspiring speech at the Cleantech Venture Forum by Bill McDonough addressing this specific issue. I highly applaud Bill and encourage you to read his books.

Building on this, another interesting dynamic of the Cleantech space today is that much of the money coming into the space is from what’s called the “Socially Responsible Investment” community sometimes referred to as SRI. And that money often times comes with an implicit, if not explicit, expectation regarding certain policies of business management, not just environmental stewardship.
Importantly, since there have been so few options in Socially Responsible Venture Capital, up until now, there is a watershed of funds waiting to be deployed in this industry. We have seen that in our fund, I have seen it in many other funds, because this asset class really hasn’t been available in a broad number of funds. In this respect, our firm co-sponsored a research study in 2002 by Columbia University that looked at all of the socially responsible (double bottom line and triple bottom line) venture capital firms in the world. It’s amazing how few there were in 2002 – firms that were integrating some of these sustainability factors. If you want to see that study, led by Cathy Clark, you can go to RiseProject.org. It is fascinating to see where we were then, vs. today.

There are large numbers of foundations and families of wealth who are looking at what CleanTech VC’s are doing today and saying that this is an SRI VC class, therefore we are going to put money into it. And with that, again, there are expectations of money that are different than other customary buckets of money.

When people look at SRI, many perceive it as reducing financial returns. They feel like we are not going to make the same returns if we apply better policies for treating our employees, improve labor practices, look at the total life cycle costs of products, obey more than the minimum letter-of-the-law, have employee stock ownership for all the employees…… if companies make the effort to be good corporate citizens in all reasonable ways………people say, “well that must be bad for profit.”

My personal experience, and the experience of many people who have studied the area, is that these progressive practices are better for building great companies of sustainable value.

The reality is that virtually everybody in this room wants to make exceptional profit from being in the clean technology venture space. Yet, it is possible to Do Well by Doing Good, and importantly, I know so many of you are doing so much good. This is a wonderful community of caring, intelligent, conscious people. We have an opportunity to really make a difference: to not repeat the mistakes of the past.

Yesterday’s presentation by John Doerr and John Denniston, of Kleiner Perkins, seemed to fully agree with my presentation. They highlighted that “great successes will come from leaders who are not mercenaries, but missionaries.” While I had been a little bit worried about my “controversial” subject today, which Nick Parker and Keith Raab, the co-founders of Cleantech Venture Network, had asked me to talk about, after hearing John and John yesterday, my job became quite a bit easier, because in several areas, I could not say it better than they did.
As a quick primer, to step back for one moment regarding SRI investing, before we go in deeper to how it can enhance our portfolio companies and our financial returns, there are three primary areas of focus that SRI investors look at:

One is community investing – where you want to direct capital into local geographies like a dilapidated inner city area;

The second area is shareholder advocacy – where you want to, generally with a big public company, have shareholder resolutions that force them to perhaps use less toxic chemicals, like chlorine reduction which was one of the initiatives recently against P&G;

And the third area of investor interest is screening: and there are negative screens and positive screens. Obviously a negative screen was used against companies supporting apartheid, in South Africa, a long time ago. And a positive screen is what we have in CleanTech: we have environmentally based, market based solutions.

It is just terrific what we are doing. The companies that we are creating are actually giving a chance to this planet. When you look at the actual statistics and environmental degradation going on globally today, from statistical organizations like World Watch Institute, it is not linear, it is exponential. The only way we are going to counterbalance that, given the facts like we heard yesterday regarding the urbanization of the world, is to have exponential technological innovation. That is going to happen from this community and the companies that we are backing. It is a sacred responsibility and I want us to do it right.

Naturally, with SRI screening will come negative screens, even for a CleanTech enterprise. We can trigger negative screens by bad employment and labor practices, inappropriate outsource of manufacturing without proper controls, lack of board independence or ethics/fairness violations.

One recent initiative that I want to very strongly applaud is that of CalPERS. They have taken the initiative as the fiduciary of the world’s largest pension -- to provide environmental metrics to capture and measure sustainability returns from their CleanTech investments. The venture funds that they have backed so far, from their Green Wave Initiative, must by contract complete annual metrics of their environmental benefits. And my hope is that other large pensions and CleanTech funders will follow their lead.

I believe that CalPERS is also highlighting that there is a fiduciary responsibility to focus on the environment and that you cannot create long term sustainable returns without the environment being a partner in creating those returns. The environment is a crucial tool in capitalism, and we need to respect it and integrate it. CalPERS is looking at it from a 50-year perspective and making some very wise choices in risk
mitigating, by focusing on the environmental risks in ways that many pensions are not.

At Expansion Capital we have also been exploring the measurement of our environmental impact from portfolio companies. As an effort to further enhance the Cleantech brand for all of us, I propose that VC’s in our CleanTech sector annually provide measurement of net environmental savings that we are creating through companies that we are backing.

I have talked about this idea with Nick Parker and Keith Raab, and how we can have measurement – initially unaudited, voluntary, confidential – venture funds could submit through their portfolio companies net reductions in energy, SOX emissions, NOX, water savings, materials efficiency, noise reduction, etc.

The administration of this program could be done through a number of different organizations, yet likely the Cleantech Venture Network, and our firm and our fund would be happy to put up some money to sponsor it, and hopefully others would join in. I think that it would be a good thing for our CleanTech movement to start looking at what type of aggregate benefits are we creating, similar to the leadership that CalPERS is showing within their own portfolio.

While environmental savings are key to SRI investors, there are many other areas of importance. At Expansion Capital, we designed a diligence tool called a “Business Practices Assessment.” This reviews environmental practices, corporate governance, employment practices and stakeholder relations. While that may not be brain surgery, and maybe most venture capitalists in this room look at those areas, we look at all of them all the time. We try to take an integrated approach of evaluating the whole system of the management and decisions of the company. That sometimes reveals risk that would not have been easy to see, so we feel that our Business Practices Assessment reduces our risk, while perhaps even enhancing portfolio performance.

Many people have assisted in our development of these practices, which are a work-in-progress, so I would like to acknowledge a few:

Conrad McKerron from As You Sow Foundation, Tom Van Dyck of Piper Jaffray, Lillian Zhao and her associates from the Kennedy School at Harvard, who have been working with us for many months, who is also in the audience like Conrad, Kjartan Jansen and Diana Propper de Callejon, from our Expansion Capital team, who are also in attendance; the Investors Circle and Woody Tasch, and dozens of CleanTech VC’s who I talked to regarding this presentation.

Going on regarding some of those Business Practice Assessment areas, a few examples that we review include:
Do companies provide 100% ESOP or profit sharing participation to their employees? We feel that if you are an assistant or you are the president, you should get access to creating some financial security in entrepreneurial companies. And all of our portfolio companies currently do that, and we feel quite good about that.

We also want companies to create a formal ethics policy and whistleblower policy. And this is really what is coming out of Sarbane’s Oxley, but it’s also a key technique to mitigate risk. Whistleblower policies can save you money. Things do happen in companies. It’s amazing how many small private companies do not do things like this and do not respect the possibility of having a whistleblower.

And we are also asking all of our employers to pay their employees “living wages.” This means that anybody, who works full time at a company we are funding, ideally should be making at least the level of poverty for income in their respective community. That might not seem like much to ask for, but it’s amazing how many people have to work two full-time jobs to live at the poverty level today, in America today, in the richest economy in the world.

These policies will help us retain and reward the talent we need to build great companies.

We also ask for a Code of Vendor Conduct to be written by portfolio companies, yet we are in the process of exploring the most appropriate policies in this regard.

Labor standards will likely prove to be a very significant challenge in the future for the CleanTech world. Many companies are already utilizing decentralized production networks for products that we are selling. Oftentimes that is in developing countries. Globalization has produced a race to the bottom – often with revelations of poor working conditions, child labor, employee harassment, abuse, and unsustainable wages for factory workers.

Cleantech companies with overseas supply chains really should, and can, adopt and implement strict codes of vendor conduct, and develop implementation and monitoring systems to ensure that the codes are enforced. There are many organizations that can help with this; I would be happy to direct you to some.

The best codes are based on the core conventions of the International Labor Organization, which is a UN agency promoting social justice and internationally recognized human and labor rights standards.

Despite some encouraging progress in these areas recently, it is still unusual for most companies to monitor their supply chain. In the absence of major public controversy, it often does not happen.
In fact, a recent study, released by the non-partisan Investor Responsibility Research Center in 2004, demonstrates that only 12% of S&P 500 companies have formal codes of conduct requiring their suppliers to address labor issues.

Only 4% have codes that address the core issues considered fundamental rights by the International Labor Organization. So, the bar is set pretty low out there today. There is an opportunity to try and do more, to show leadership with the type of capital that’s coming into the CleanTech area, and have greater awareness. Also, we can reduce risk for our portfolio companies with this greater awareness and knowledge, as we hopefully enhance our companies’ profitability over the long term - not overweight revenues with unnecessary expenses, but spend some money to build better companies.

Fortunately, many excellent policy ideas and practices have already come out of Sarbanes Oxley, which has essentially legislated many progressive business values, yet this legislation also creates unwise operational expenses in several areas. While this law is not applied to small private US companies, many of the acquirers of our portfolio companies require Sarbanes Oxley or “SOX” compliance, SOX is the acronym. As such, you enhance the value in an acquisition of your company by being more SOX compliant, in areas that reasonably apply to your operations.

I have seen more than one acquisition fall apart, because in due diligence an acquirer saw that the policies and practices of the acquiree company were so mediocre, that it was not appropriate for the public company to acquire them; it was too much work or too much risk, without knocking the valuation down dramatically.

The world has really changed in recent years. The penalties for ethics and other business practice failures have grown enormously. SOX is just one data point. Another is the “Elliot Spitzer Method” of prosecuting the law. After all, the laws that Mr. Spitzer is administering have not really changed in recent years, but their enforcement has grown tremendously more onerous. We need to better understand this trend, to allow us to protect our portfolio companies, making them better corporate citizens, but also reducing the risks of liabilities. Liabilities, that were not even seen two or three years ago, have emerged by new enforcement guidelines.

For example, when you look at the Foreign Corrupt Practices Act (FCPA), it is fascinating over the last two years what has happened: the number of reported investigations has doubled in 24 months. The size of the fines has exponentiated. One company last year had a fine for a $3.5 million bribe of $28.5 million. This is going to continue being a burden for companies, if they are not fully aware of these risks and have policies to reduce potential problem scenarios.
As Bob Dylan said, “The times, they are a changing.”

At our firm, we have been working on a Statement of Aspirations for our portfolio companies, which outlines a realistic and practical set of policies to guide our companies in many areas. We are happy to share our working draft of these policies with those of you who wish to engage with us. It is imperfect, and we are early in an exploratory process. While these issues have not been broadly addressed by this community, until now, Nick Parker and Keith Raab have offered the Cleantech Institute, which they are launching. The Institute is going to address key issues for the Clean Technology community; creating working groups and white papers, knowledge creation and knowledge sharing.

In our personal firm too, we try to “walk our talk.” I will tell you, that is a tough one. Because we are so imperfect and no policy is ever black and white. Anyway, as a reference point, we:

Provide ownership to 100% of employees, including administrative professionals, ownership in our management company, the parent company, and carried interest in our Fund’s performance.

We provide four weeks vacation; we have work from home options; we have paid maternity and paternity leave, a matching pension plan, personal days off, and more, so that our employees can actually have a quality of life besides just going to work. Our business...when I am working and our team is working, often time seems like a seven day-a-week job. It is a very intense job. We try to create the space for quality of life, for complete human beings to have a home in our company. Afterall, companies are just communities – communities of capitalists, and we must ensure that we support a sustainable quality of life for our team members.

We also give 5% of our carried interest, from our Fund II, to environmental charities, and prior to our fund distributing carried interest, we are supporting about a dozen environmental charities today.

One of our progressive practices is particularly simple - we are a Carbon Neutral Firm.

We simply buy carbon sequestration or subsidize renewable energy projects to an extent that it actually offsets all CO2 emissions. For our firm, we have seven full time employees plus several technology advisers and board members, we travel about 300K air miles a year for business, about 50K work related car miles, we have several thousand miles on trains, and we have all the indirect creation of CO2 on top of that, like our paper usage. Our basic output is about 100 metric tons of CO2. If you take all the indirect affects of our activities, it is about 215 metric tons of CO2 that our firm produces. Just our modest clean technology venture firm, which is
white collar – we are not manufacturing widgets - 215 metric tons of CO2 emissions. What is fascinating too, it only costs $1,200 to buy carbon sequestration… To offset 100% of it! So we do that in our firm. $1,200 annually.

Of note, we have an article at our booth in the hallway regarding how to become a carbon neutral firm.

I would like to propose a challenge to the Cleantech community - that by the next Clean Tech Conference in September, at least 50 of our businesses have become carbon neutral. This is a small amount of money to make a big statement about our appreciation of the environment, beyond our making a financial profit on market-based environmental technologies.

There are so many areas that we can work together. I want to learn from each of you……our whole firm does. We all want to prosper together. We are so blessed right now to be in the Clean Technology world. It’s an exciting time. It is a new frontier and a new era. Great things are happening. Greatness is happening in our movement. And it really is changing my life in many positive ways – personally and professionally, and I know that the same is true for so many of you. This community is very dear to me. I have been here since the early days and I want to learn together and explore.

Importantly, We can Make a Profit While Making a Difference.

I look forward to deeper conversations with each of you, so that we can reach our highest levels of potential successes:

for Ourselves,

for Our Businesses,

for the People Who We Employ, and

for the Planet.

Thank you very much.