



CONTEXT

- Currently, approximately 750 million people worldwide live without access to energy, and a further billion are connected to an unreliable grid. Although the number of people living without electricity has fallen significantly over the past decade worldwide, it has increased over the same time period in Sub-Saharan Africa.
- Solaris was founded by Mr. Brian Roberts, who recognised that there is currently a reliance on dirty and (relatively) expensive forms of energy to power off-grid communities in rural East Africa, who are often reliant on inefficient backup generation via kerosene and diesel, and set about developing a range of clean, solar alternatives.
- Mr Roberts, who holds a master's in engineering and has extensive experience working in the region for large power companies (though no previous experience founding and running a business), decided to found Solaris to address this problem and support a shift to green, clean, reliable energy.
- Solaris's main products are a set of solar "kits" containing solar panels, mounting brackets, connectors, cables, and other components designed for on-site assembly by the purchaser. The company also sells stand-alone solar battery-powered home appliances such as cookers, and air conditioning systems.

EARLY-STAGE [PRE-SEED]

- Solaris aims to bridge the poverty gap faced by off-grid, rural communities in the region who lack grid infrastructure by providing access to pay-as-you-go solar kits, as well as to solar battery powered home and kitchen appliances.
- Products are ordered online or over the phone and distributed across the country from a single warehouse near Nairobi, where Solaris has its office. Local partnerships and expertise helped Solaris' initial expansion in rural Kenya, founded with a small, initial staff of twelve people. Solaris collaborates with other local companies to deliver its products and provide on-going support services to customers at an additional fee.
- When founded, Solaris was initially assisted by an Advisory Board set up by Mr Roberts in 2013. However, more recently in 2015, he formed a Board of Directors, and invited Ms Sally Bowles, an old business contact and friend from university in the same engineering course who previously worked

for a large solar panel manufacturer as Chief Operating Officer, to join the Board as Executive Chair. Ms Bowles also purchased a 15% stake in the company.

- However, the Board established is largely symbolic. Most Board discussions remain operational in nature and Mr Roberts largely dictates how the company is run despite the input from Sally and two other board members, Mr Florian Schneider and Ms Gillian Vartan (both Europe-based NEDs who know Brian from when he worked in Germany for a major industrial company).
- The Board composition is as follows:

Name	Role	Board tenure	Nationality	Other information
Mr Brian Roberts	Founder	2012 – Present	Dual citizen: UK and Kenya	Owns an 80% stake.
Ms Sally Bowles	Executive Chair	2015 – present	UK	Owns a 15% stake.
Mr Florian Schneider	NED	2015 – present	German	Owns a 2.5% stake.
Ms Gillian Vartan	NED	2015 – present	French	Owns a 2.5% stake.

- Mr. Schneider and Ms. Vartan each own a 2.5% stake in the firm. They have confessed to one another that they often feel side-lined in discussions between Brian and Sally (who unbeknownst to them also hold informal weekly catch-up sessions outside of the Board's bi-monthly meetings) and are concerned that not enough attention is paid to the medium- and long-term vision of the company, and in particular product innovation. They are also unclear of the exact divisions of responsibility between Sally and Brian. There are also questions on whether the Board obtains an objective picture on the performance of Solaris.
- However, Brian is pleased to announce to the Board at the end of 2015 that the firm looks on course to record its first annual profit.

Discussion:

1. What corporate governance challenges exist from the perspective of Mr Roberts? Identify three.
2. If you were asked to invest in the company at this stage, what governance risks would you perceive? Would these deter you from investing?

ACTIVE GROWTH [SEED]

- It is now approaching end of 2016. Up until now Solaris has continued its growth path. It opened a second office in Kisumu at the start of the year with an accompanying warehouse, and the total number of employees has increased to just over 30.
- However, the Board soon becomes aware that sales growth has slowed rapidly. The two other Board members, Florian and Gillian, are surprised by this news, having not previously been aware that sales were underperforming.
- Spooked by the third quarter financial results which indicate the company has made a loss for the second consecutive quarter, and believing that a shake-up is required, the role of Executive Chair is separated into CEO and Board Chair – Mr Roberts takes the role of the latter, and Ms Bowles, due to her prior experience working in an operational role in a solar panel manufacturer quits her other external Board positions to work for Solaris as a full-time CEO. Mr Schneider also recommends the appointment of Paul Bateman, who works for another OGS company in Tanzania, as COO.
- Trying to find the cause of slowing sales, as her first action as the new CEO, Sally undertakes a benchmarking review comparing Solaris's product offerings to competitors. The external consultant hired to support the competitive positioning analysis finds that the original set of products introduced by Solaris have now fallen behind new products on the market launched in the last year, which have greater efficiency at a lower cost. While Solaris' name-recognition remains strong, price is cited as the number one reason why customers are choosing other companies' products.
- Following discussions with Mr Bateman and the other Board members, Brian agrees to focus efforts on developing the next generation of Solaris products, to counter slowing sales. He also develops and introduces an organisational chart with a new Product Development division. However, this chart has no job descriptions apart from distinguishing between the roles and responsibilities of the Board Chair and CEO, and the COO observes that the reporting lines it supposedly establishes have yet to been fully practiced.
- Regardless, after four years of operations, in 2017, Solaris receives its first round of investment: a 20% share from EcoCapital, a London-based venture capital firm specialising in sustainable innovation. A pre-condition for investment, an EcoCapital representative, Mr Lynch, is appointed to the Solaris' Board, and the firm has final sign-off on any new products developed by Solaris. Brian maintains majority ownership.
- The Board composition is now as follows:

Name	Role	Board tenure	Nationality	Other information
Mr Brian Roberts	Founder	2012 – Present	Dual citizen: UK and Kenya	Owns a 65% stake.
Ms Sally Bowles	CEO	2015 – present	UK	Owns a 10% stake.
Mr Florian Schneider	NED	2015 – present	German	Owns a 2.5% stake.

Ms Gillian Vartan	NED	2015 – present	French	Owens a 2.5% stake.
Mr Dominic Lynch	Investor Representative	2017 - Present	USA	EcoCapital representative. EcoCapital have a 20% stake

- EcoCapital wishes to professionalise Solaris' Board with a formal calendar for board meetings with recurring agenda items, a new practice of circulating the board minutes and resolutions to all board members and key executives after each meeting, and defined KPIs for senior management. EcoCapital also wishes to increase independent representation. While Brian is happy with the former, he is hesitant about replacing Florian or Gillian with unknown outsiders.

Discussion:

1. What in your view are the three main corporate governance challenges that EcoCapital is likely to ask to be addressed at this stage?
2. Develop an action plan to address these challenges, based on the IFC handbook and expectations of firms at this level of maturity.

ORGANISATIONAL DEVELOPMENT AND BUSINESS EXPANSION [POST-SEED]

- By the end of 2020, after eight years of operation and fuelled by the success of the companies second generation “New Dawn” panel kits and new home appliance offerings, Solaris has recently expanded its operation to four countries, prompted by the COO’s desire to diversify sales beyond Kenya. Sales in Uganda, Tanzania, and Ethiopia now account for nearly one-third the company’s revenues. The firm now employs over 50 people, generates consistent, growing profits and is about to open a new office in Arusha.
- Such success prompted EcoCapital to exercise a clause to increase its holding share in Solaris to 40% and EuroInvest, a development finance institution, provides further investment (a 20% share). Solaris consequently has two institutional representatives on its Board, and EuroInvest has a third. The Board now comprises seven members, with Mr Schneider and Ms Vartan having left the Board at the end of 2018, replaced by two new independent directors.
- The Board of Director’s composition, as of December 2020, is currently as follows:

Name	Role	Board tenure	Nationality	Other information
Mr Brian Roberts	Chair and founder	2012 – Present	Dual citizen: UK and Kenya	Owns a 35% stake
Ms Sally Bowles	CEO	2015 – 2020	UK	Owns a 5% stake in the company. Due to step down 31/12/2020
Mr Dominic Lynch	Investor Representative	2017 - Present	USA	EcoCapital representative
Mr Edward Tarkovsky	Investor Representative	2020 – Present	USA	EcoCapital representative
Mr Mathias Martel	Investor Representative	2020 – Present	France	EuroInvest representative
Ms Francisca Allende	INED	2019 – Present	Argentina	Previously founded and ran an Argentinian renewable wind energy firm
Mr Peter Ruto	INED	2019 – Present	Kenya	Well-respected businessman and former Member of the Kenyan Parliament

- However, divergent visions of growth from the institutional representatives and founder have created a tense Board dynamic, exacerbated by supply chain and distribution issues brought on by the COVID-19 pandemic. The main cause of these tensions is Brian’s view Solaris should be looking to expand both its range of products and beyond solar panels. He is particularly keen to begin developing a new set of wind power-based products. Brian fears that, if they don’t act, they may see a repeat of the sales slowdown in 2016. The majority of the rest of the Board feel that is a risky push

away from Solaris's core expertise of solar products, even though Ms Allende has significant wind power experience. The investors want to focus for now on sales maximisation and current profits.

- In July 2020, Sally Bowles announced that she would be standing down as CEO by the end of the year to return to Scotland to be closer to her family. Paul Bateman, still COO, is due to take over as her successor. EcoCapital and EuroInvest have proposed as replacement COO a candidate with a background in private equity with whom they have worked previously. They are pushing hard for him and want to hire him ASAP. Although Paul thinks he would be a good appointment, Sally has expressed to Brian privately that she thinks he lacks the required industry experience, with no experience on product development.
- As part of the terms agreed when EuroInvest invested, the Board agreed to implement an Audit Committee to oversee financial reporting and internal controls. It is composed of the founder, one of the new INEDs (Ms Allende), and Mr Lynch from EcoCapital. Mr Lynch is also the Audit Committee Chair.
- Mr Roberts personally feels increasingly stifled by the committees' work and what he sees as increasing company bureaucracy at the expense of market responsiveness and innovation. He fears a repeat of the sales slowdown in 2016 and is pushing for the firm to begin working on non-solar energy products, particularly wind power, which others feel is a risky push away from Solaris's core expertise.
- There is also frustration that, in the absence of an executive committee, operational matters are escalated up to the Board and Audit Committee whilst inhibiting agility in executive decision-making.
- At this point, Solaris has introduced and embedded formal governance policies, including a Board Charter, Code of Business Conduct, as well as a Partner Code of Conduct. A misconduct reporting mechanism is defined in the Code of Business Conduct. However still no formal whistleblowing procedure has been set up, despite Mr Bateman's repeated requests.
- Both investors are entering the latter end of their time horizons. With the exit strategy in mind, Mr Roberts is considering the possibility of listing Solaris on the Nairobi Stock Exchange or selling to a new strategic investor. He personally would not be sad to see Mr Lynch and Mr Tarkovsky leave the Board. The relationship between the three have been tense since the exit of Florian Schneider and Gillian Vartan from the company at the end of 2018, which Brian resisted for over a year, and their replacement with the two new INEDs.
- In a recent Board strategy retreat, the first held by the company, Mr Roberts and Mr Tarkovsky publicly clashed over EcoCapital's recent proposal to raise the prices of products by 25% in the face of rising inflation and global supply chain disruption, which Brian feels goes against the firm's founding mission, with Ms Bowles forced to act as a mediator.

Discussion:

1. What potential corporate governance challenges remain?
2. What are the gaps which still exist in the governance framework? Identify three.
3. How would you advise Brian to approach the potential exit of the current investors and next round of financing?



ANNEX : LIST OF CHARACTERS

- Mr Brian Roberts – Company Founder. A dual Kenyan-British citizen, he grew up in Kenya as a child, before moving to London as a teenager. Holds a master’s degree in engineering from Oxford University and has extensive experience working in the region for large power companies.
- Ms Sally Bowles – An old friend of Brian’s from university, Sally originally joined Solaris as an Executive Chair, before becoming the CEO. Also holds an engineering degree and previously worked for a large solar panel manufacturer as Chief Operating Officer.
- Mr Florian Schneider – Non-executive Director on the first Solaris Board and old business colleague of Brian. Left the Board at the end of 2018.
- Ms Gillian Vartan – Non-executive Director on the first Solaris Board and old business colleague of Brian. Left the Board at the end of 2018.
- Mr Dominic Lynch – First EcoCapital Investor representative on the Solaris Board. Joined the Board in 2017.
- Mr Edward Tarkovsky – Second EcoCapital Investor representative. Joined the Board in 2020.
- Paul Bateman – Chief Operating Officer. Previously worked for another OGS company in Tanzania, also as COO.
- Mr Mathias Martel – The sole EuroInvest Board representative. Joined the Board in 2020.
- Ms Francisca Allende – Independent non-executive director who joined the Board in 2019. She previously founded and ran a renewable wind energy firm in Argentina, where she is from.
- Mr Peter Ruto – A former Member of the Kenyan Parliament and well-respected businessman. Joined the Board in 2019.