Teakwood Wisdom

As one of Teakwood's most valued friends and business partners, we would like to express our appreciation for your partnership with Teakwood. In an effort to continue building our relationship with you, we would like to share our thoughts with a small group of people, including you, on a continuing basis.

We plan to periodically send excerpts from our quarterly letters to our Limited Partners. In addition, we may provide additional insight that we gain though interaction with our business partners, limited partners or portfolio companies. Our goal is to provide something that is valuable to you, yet brief.

Please don't hesitate to give us ideas regarding what would be valuable to you or comments on the information we send to you.

Thank you for your continued partnership,

Teakwood Capital

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MARKET CONDITIONS:

Our plan has been to share some of our comments with you from our 12/31/10 letter to our limited partners. Although these recent market gyrations have stolen some of our thunder, we hope the following proves insightful to you.

12/31/10 Teakwood Capital Investor Letter Excerpt:

We have not changed our opinion that there are meaningful risks both to the global economy and to public stock markets. This recovery will be measured in years and provides Teakwood with a long

runway to acquire valuable assets at rational prices and terms. The coming years will offer some interesting challenges and opportunities, which need to be thoughtfully navigated.

This excerpt from the Financial Times is particularly interesting, and we wanted to share it. It has broad implications on many fronts from energy to inflation to US involvement in the Middle East.

> *"Saudi Arabia could need the oil price to average more than $100 a barrel by 2015 to sustain the big public spending rises it plans in an effort to forestall the political unrest sweeping the Middle East. The oil market is growing increasingly worried about Riyadh's fiscal needs as it fears that they could force Saudi Arabia to pursue oil policies similar to those of Venezuela and Iran, traditionally the price hawks at the OPEC oil cartel.* ***The breakeven oil price the Gulf kingdom requires to balance its budget will jump from $68 last year to $88 this and then to $110 in 2015, according to new estimates by the Institute of International Finance (IIF), a leading industry group. Only a decade ago, Saudi Arabia balanced its budget with oil prices averaging $20-$25 a barrel.***
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> *The forecast shows the size of the task facing Saudi Arabia, the world's largest oil producer and a crucial plank of the west's regional security strategy, as it grapples with a growing population and increasing infrastructure problems."*

Regarding the stock market, we feel that it is not a reliable barometer for economic health and direction of the country and economy. There are too many variables that impact its performance outside of rational analysis of the value of companies and their performance and potential. The days of old, wherein investors bought and held, are disappearing.

*It's fast becoming a trader dominated market. We feel there is a "convexity" embedded in the market, which is growing in severity, meaning there is not an equal risk/reward tradeoff between upside potential and downside risk. Let us explain: If you play cards and want to bet a dollar, you want there to be a good chance of winning another dollar or losing the dollar that you bet (ignoring any advantage of the dealer, etc). However, in this market, the reality
seems to be that you bet a dollar to win $1.00 or lose $1.25 (insert your own numbers). Whatever the true numbers are, we believe there is meaningfully more downside risk than there is upside potential over the same period. Additionally, we feel that the frequency of extreme peaks and valleys might increase over the coming years, as a result of the geopolitical and fiscal issues facing the world and the United States.*

On another front, our elected officials are "drunk on spending" and are unfortunately closely tracking the logic exhibited in the stock market. They are focused on short term gain and getting reelected (hence not focusing enough on long term investments in areas such as education). This will only exacerbate an already material issue: US government spending is representing a larger and larger percentage of total US GDP. In 2000, US government (federal, state and local) spending represented 32.6% of total US GDP. In 2010, that number increased to 40.0%; that is a 23% increase in 10 years.

Think about this government spending challenge in terms of what Teakwood focuses on when investigating the purchase of a business, relative to customer concentration: Target Company is growing nicely and is profitable. Teakwood evaluates purchasing it. Teakwood then realizes that Wal-Mart has grown from 32% of all of Target Company's revenue to 40%. What does Teakwood do? Teakwood runs for the hills. If Wal-Mart wakes up on the wrong side of the bed and decides to transact elsewhere or materially reduce its purchases, then Target Company is in big trouble. What happens when the US government can no longer sell bonds with cheap coupons to finance supporting a

huge part of US GDP? Well logically, that 40% might be forced to decrease to 35%, 30% or lower? As a point of reference, decreasing from 40% to 30% would represent a reduction in US GDP of approximately $1.45 TRILLION dollars in 2010 terms. The more the government spends, the larger this problem becomes and the more painful it will be when it unwinds.

What does all of this mean? Government entities, associations, charities, public/private companies, individuals, etc. will have to tighten belts and do more with less. Teakwood's investment focus facilitates these much needed efficiency gains. It will be an interesting ride, and Teakwood's current/future portfolio is well positioned to assist others in navigating the waters ahead.

RESPONSES FROM OUR SEASONED BASE OF LIMITED PARTNERS, AS PART OF THE TEAKWOOD WISDOM PROGRAM:

Here is the question asked:

What is the best method, practice or exercise to keep employees motivated during challenging times?

Responses received:

Over 70% of our respondents suggested an open and effective communication channel as the key to motivating employees during challenging times. In addition, over a third believed that tough times require management to lead by example and reward top talent. Creating a strong company culture that can survive highs and lows was also a recurring theme.

Here are valuable snippets from the responses:

Keep them well informed of what's going on with the company, where we are going, and why? We do quarterly updates, monthly lunch and learn sessions, and periodic all-company events.

Make sure they realize that we are in this with them and we understand their challenges.

Occasional, purely fun, group events - e.g. team lunch.

No single answer for this, everyone has different drivers. Discover the driver, within the following categories:

1. Compensation tied to Performance Measures

(Some people want options to earn more income, but simply raising the salary is not the answer. Set goals that are good for the business, and reward them for achieving them)

2. Challenging work assignments
(Some people do not like complacency, simply need stimulation)

3. Provide Leadership Opportunities
(Some need a career path, where position in the company is important. Some just have a need to "tell" and not be "told". Seek a win/win to provide this opportunity)

4. Continuous Positive Reinforcement
(Everyone needs this. Empower managers to provided such environments to learn, work and be rewarded together)

5. Realize when employee is producing enough, and is at an acceptable steady state.
(Do not work to motiviate when it will not be useful or accepted, or is simply not necessary.)

Keep employees informed. If they know what is going on it will keep the rumor mill down and hopefully make them

feel more involved in the solution. I believe communication is key to keeping employees motivated both in bad and good times.

Good communication of a realistic plan led by capable and optimistic leaders. The practice of leadership by example, with vision and realistic optimism, by key individuals can really motivate employees.

Also if employees have a stake in the success and feel rewarded and recognized for their contributions then challenging times can be an opportunity for renewal, invention and improvement in an organization. Adaptation to change is the key and if the leadership can adapt well, this should be communicated to employees and can result in strong motivation.

(Of course all of this is hard to do...but the outcome should be well worth the effort.)

I believe the most important issue in keeping the team motivated when times are tough is steady and constant communication! Let your people know what expectation are of them and how they can best impact the success of the business. Increase normal communication. If you have a regular staff meeting, include a state of the union discussion at each of these and discuss how you can do things different, better or add capabilities to respond to the challenges in the market. This tends to make them come together more and feel like they are part of the business and can aid in their understanding of what it takes to win.

http://www.youtube.com/watch?v=u6XAPnuFjJc

Set specific goals and clearly and frequently communicate goals to employees.

Include incremental milestones in these goals and celebrate their achievement. Little things like pizza lunches or leaing early on a Fri afternoon.

Recognize and reward outstanding performers.

Solid purposeful Leadership is the short answer. When a company has articulated a clear vision and mission, and the employees are kept informed about the import of their contribution in that quest, they will be inspired. "Inspiration" is the key ingredient during challenging times since it is longer lasting than most motivational methods. It yields special trust, confidence, respect, and hope.

When employees are inspired by their leaders, they often become self motivated. Certainly, there are incentives, rewards, and words of praise and recognition that help multiply the effects of inspirational leadership on the organization.

The evidence of a well-led and inspired workforce is found in the following areas:1)whether or not they are aware & self-motivated about their mission, 2) disciplined & willing to work as a team personally sacrificing to increase productivity and inspired to believe that through increased company profitability we make strides in achieving the Vision.

Get out of the office and into the field - employees love to know management is not scared to get involved and understand the business from the ground up.

As always, take time to know your employees, their families, and what is happening away from the office. This is why they are at work in the first place.

A couple of our companies have adopted open book management (not trying to sell anyone but check out "The Great Game of Business"). We have found that being open about all aspects of the business engages them more fully and motivates them.

Invite them to participate in the problem definition and developing solutions. Listen to them - they usually know more about improving the processes than the people who occupy mahogany row.

1. Have the look at their superiors/boss and be inspired by their work ethic, sharing skills, and drive.

2. Hold meetings that set goals, give direction, and inspire the employees.
3. Have social get togethers whether it be a 1/2 day field trip or dinner get together at night to build bonding between everybody if not friendships.
4. Try and add a little fun in every day instead of always so serious.
5. Try and be optimistic about the future and let them know that they are a Big part of that future!

The key to motivating employees, whether times are challenging or not, is to develop a sustainable culture where the mission of the organization is well understood, goals that are reasonable and attainable, and more than anything leading by example. An organization that has a strong, success-oriented culture with a management team that lives and breathes it every day will stand strong in the face of adversity in challenging times. So, the key is to develop that culture long before challenging times are upon you. Inevitably, every organization will face challenging times, so thinking-through the elements of your organizations fundamentals with respect to motivation and culture is a high priority for any C-level executive. Attempting to motivate in a unique way ONLY when times are challenging has a high likelihood of failure, since it's unlikely to be a sustainable motivating force in the organization over time.

First - select employees who are passionate about winning the end game/delivering the end user a real value collectively as well as individually.

Real value well beyond the thinking of competitors - again collectively & individually.

Imagine a company where every employee views themselves as their own business unit, their own P&L, are vigilant in maintaining each their own competitive position in the market, & clearly understands where their "business unit" contributes to the collective "business" team win.

Second - materialize the employees "business unit" risk and reward with equity ownership in the team. In challenging times, equity positions slows good people from jumping to perceived greener pastures. In challenging times, dedicated employees to the "mission" can tolerate even pay cuts / sacrifices, if they can maintain or grow their longer term equity stake. Employee equity stakes strengthens teamwork ("all in this together") & helps prevent silo-ed self interests.

Share with them the challenge and ask for their input and participation in overcoming it. Having some input over ones destiny is inherently motivating.

How about emphasizing survival and besting the competition? The pleasure of success in overcoming adversity and the competition? Best accomplished, in my experience, by the management leading by example. Put in the Saturday work ethic. Make the extra trip. Write the extra proposal. And fly coach and discover that Holiday Inn Express is very acceptable.

Having employees invested in to the company culture and mission is the most critical way of engaging employees during challenging times. If there is not a clear, defined culture and mission within the company then it is very likely that employees will not respond well to adverse conditions. When times are good, it is easy for employees to be engaged but when times get difficult and if they do not have a personal feeling of investment in the company purpose, then it is very easy for them to turn away or disengage when the going gets tough.

What works for me is to try and interact with employees at least a couple of times a week when possible. This helps me gauge attitudes, concerns, etc. It is important to listen and observe.

Primarily its communications. Understanding where the company is and
o why is it in this position
o what are we doing to work our way out
o how they can help the process

then communicating the movements through the process and celebrating even small victories. Eventually they roll up into big ones

Transparency seems to be one of the most used catch phrases of the modern day business world. However when I consider the question of how to keep employees motivated during challenging times, I think of communication and feedback.

Communication is critical because you need the employees to understand what is going on in the big picture. They are often not privy to or protected from what is happening in the marketplace and how it affects them. In difficult times it is most important for them to understand what is going on, why it is happening and how they can help the company respond to these challenges. Also leadership must communicate positive news and praise the good work being done to keep up morale. Finally leadership needs to reiterate the company mission to remind the employees

why they do what they do and why it is so important to the company in its pursuit of its mission.

Feedback is critical because the employee needs to hear how things are going or else they will come to their own conclusion and often not the correct one. When times are challenging you can not afford to have your employees reacting based on their own assumptions. They must be informed to stay focused on what specifically they need to do in their job to help respond to the current conditions. If they make an incorrect assumption they will perform in a fashion that might not align with the company's needs or worse yet they might think they need to find a position elsewhere.

So when I try to compile all of these ideas into a single thought, transparency comes to mind. Perhaps it is because I hear it so much in the world today, or perhaps it really is the best way to describe in a single word what is required to keep employees motivated in challenging times. Either case it will certainly help your company's efforts to keep employees motivated in challenging times.

At the risk of oversimplifying, keep doing the same activities that built a great culture in the first place, just change the mix. Allocate scarce monetary resources to talent (they are the ones with options) and triple down on soft activities including: mentor stars and though-leaders, stifle water-cooler rumors with transparency, squash pettiness and connect each individual's emotional effort with the company's mission. In short, if you didn't have loyalty and fight before , it gets really expensive to buy it.

Keeping employees informed about the company whether things are good or bad makes them feel appreciated and therefore motivates the employee to work hard and succeed.

The best method to keep employees motivated, especially during our current challenging times, is multi-faceted. Three key factors are leadership methods, leadership structure and effective motivation.

Leadership Methods:

Let me share some import points from the book Leadership and the One Minute Manager by Ken Blanchard, published by Morrow & Co. Inc., written in 1985.

Every leader is unique, and unfortunately, there is no magic formula for leading in all situations. Effective leaders will use different leadership styles to fit individuals and circumstances. Dr. Blanchard notes that there is not a perfect leadership style. He categorizes four basic methods that represent effective leaders.

- *Directing*
- *Coaching*
- *Supporting*
- *Delegating*

It has been my experience, that these categories are an accurate representation of leadership styles that have been successful. There is one key element that is inherent an effective leader, and that is authenticity. The leadership style should reflect the leader's heartfelt interest and character, and their behavior should also be consistent with those values.

Dr. Blanchard states "The key to successful leadership today is influence, not authority." Part of this influence comes from the leaders supporting the operation by "walking around" and knowing the people and their challenges in meeting the visions, values and goals of the company. This highlights that the employees at all levels should understand the vision, values and goals of the company, and the interchanges with the employees should be used as a time to underscore that knowledge requirement.

Leadership Structure:

Exercising effective, supportive and authentic leadership uses precepts best described as Servant Leadership. I have found the precepts articulated in Reviewing Leadership, by Robert Banks, to be effective, challenging and critical to success in troubling times for a company. The stewardship responsibilities of a leader dictate the proper attitude to affect the best use of any resource entrusted to them.

Dr. Banks defines Servant Leadership as: "The ability to listen to others and discern the will of a group, to have empathy, to help make both others and oneself whole, to rely on persuasion rather than coercion and positional

authority, to think and act beyond day-to-day realities, to hold in trust and be a good steward of an institution, and to build community among one's colleagues and fellow workers." This effectively requires the inversion of the pyramid of leadership hierarchy. Rather than the rank and file supporting the executive ranks, the executive ranks should support the rank and file by enabling success and removing roadblocks which impedes success.

Eleven appropriate questions for executives to ask themselves relative to effective Servant Leadership:

- Do people believe that you are willing to sacrifice your own self-interest for the good of the group?
- Do people believe that you want to hear their ideas and will value them?
- Do people believe that you will understand what is happening in their lives and how it affects them?
- Do people come to you when the chips are down or when something traumatic has happened in their lives?
- Do others believe that you have a strong awareness for what is going on?
- Do others follow your requests because they want to as opposed to because they "have to"?
- Do others communicate their ideas and vision for the organization when you are around?
- Do others have confidence in your ability to anticipate the future and its consequences?
- Do others believe you are preparing the organization to make a positive difference in the world?
- Do people believe that you are committed to helping them develop and grow?
- Do people feel a strong sense of community in the organization that you lead?

Servant leadership should be relational, not hierarchical or organizational. Relationships, not the task of an organization, should bind leaders to followers. Power struggles, jealousy, and competition have no place within Servant Leadership. The proper attitude for a servant leader will acknowledge that each person has a unique, complementing and contributing role to the organization. This will foster mutual respect and interdependence which will be effective in encouraging the team and minimize the stress of challenging times. As people listen more carefully to one another and discern more clearly the value of one another's contributions, leadership begins to take place through more than one person. In this environment, leadership rotates according to whoever is pointing the best way forward at one particular time, reaping the benefit of delegation and more contributing resources.

There are Ten Characteristics of Servant Leadership:
- Listening
- Empathy
- Healing
- Awareness
- Persuasion
- Conceptualization
- Foresight
- Stewardship
- Commitment to the growth of people

Strong community is built when employees understand that Servant Leaders elicit their employee's ideas and those ideas will be valued. This will demonstrate acceptance and recognition of each individual's special and unique purpose within the organization.

This leadership environment dovetails effectively with the third facet of effective motivation which will be addressed in more detail in the following paragraphs.

Effective Motivation:

The well exercised principles of 1.) Reward what you want and 2.) Punish what you don't want; is effective for mechanical skills job positions not requiring 'mind share'. However, for elements of an organization that require cognitive skills, a very different approach is required; this motivation approach is even more needed in challenging times.

Daniel Pink provides the details of this approach in his current book Drive. Compensation is considered to be the biggest motivator for all levels of the organization and certainly is important. For jobs requiring mechanical skills, hourly compensation and incentives that track with production are very effective motivations. However, for the 'mind share' staff, which is very critical for weathering the storms of downturns and a rough economy, the leadership needs to leverage different motivational factors. The mind share group includes management, professionals, corporate support, strategy setters, customer services, sales and marketers. To fully and enduringly

engage the 'mind share' staff for success, under the extraordinary circumstances that we face today, enlightened leadership should:

- Foster maximum autonomy
- Unleash and encourage the desire to master one's skill sets
- Clarify and foster a shared purpose in vision, values and goals of the company.

It is a false assumption that for the 'mind share' staff, these employees are not more complicated than machines, more fuel = more results. Another false assumption for this group is that these individuals are blobs and if not rewarded or punished, they will sit and do nothing. This group, in reality, wants to be active and engaged and is the key to the company's ultimate success. Market competitive wage rates are required for this group as table stakes, but additional compensation will not render improved engagement and performance.

Fostering **autonomy** is changing policy and structure to provide the power and authority to accomplish their responsibilities. Leadership cannot dictate or direct this group to effective engagement and improvement. Only self-direction leads to full and enduring engagement and improvement. The greatest success of my coworkers/employees has been rendered by maximizing effective autonomy in my organizations. Specifically, autonomy over commitment schedules, team makeup, task definition and techniques used to meet the company goals in concert with the vision and values of the company.

Keying on the individuals desire to **master** his/her skills and talents is the single largest motivator for this group. The yearning to improve is an activity so consuming that the concept of time and limits is sometimes lost; at the cost of their leisure and other responsibilities. Acknowledgement of the mastery effort and its results is critical to an individual's encouragement. Additionally, feedback from the leadership team is an encourager to the continued dedication to improvement for this group. This can be accomplished by setting goals and tracking progress with individuals and/or teams, as an athletic coach might do with his team.

The last key element of motivating the mind-share staff is leveraging their sense of **purpose**. The effectiveness of shared purpose will be evident when the pronouns, "we" or "they" are used in discussions relative to activity and needs of the company. Enhancing the authentic ownership concept of employees will lead to a "we" organization and materially motivate these employees to the benefit of the whole operation.

In Conclusion, challenging times, for a company, demand excellence from of its leaders. In my estimation, the formula for success in motivating employees includes **authentic situational leadership styles** with the structural foundation of **Servant Leadership** to meet the visions, values and goals of the company. Finally leveraging the motivation factor for the 'mind-share' staff of **autonomy, mastery and purpose** will reap significant rewards as your company deals with the test of our times.