C A R I D A S   C O N S U L T I N G
I N T E R N A T I O N A L

Increased Revenues, Increased Growth, Increased Productivity

MANAGEMENT STRATEGIES
IN A GLOBAL RECESSIONARY CYCLE

HOW TO EFFECTIVELY UTILIZE HUMAN CAPITAL
TO INCREASE PROFITS IN PORTFOLIO COMPANIES

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Introduction

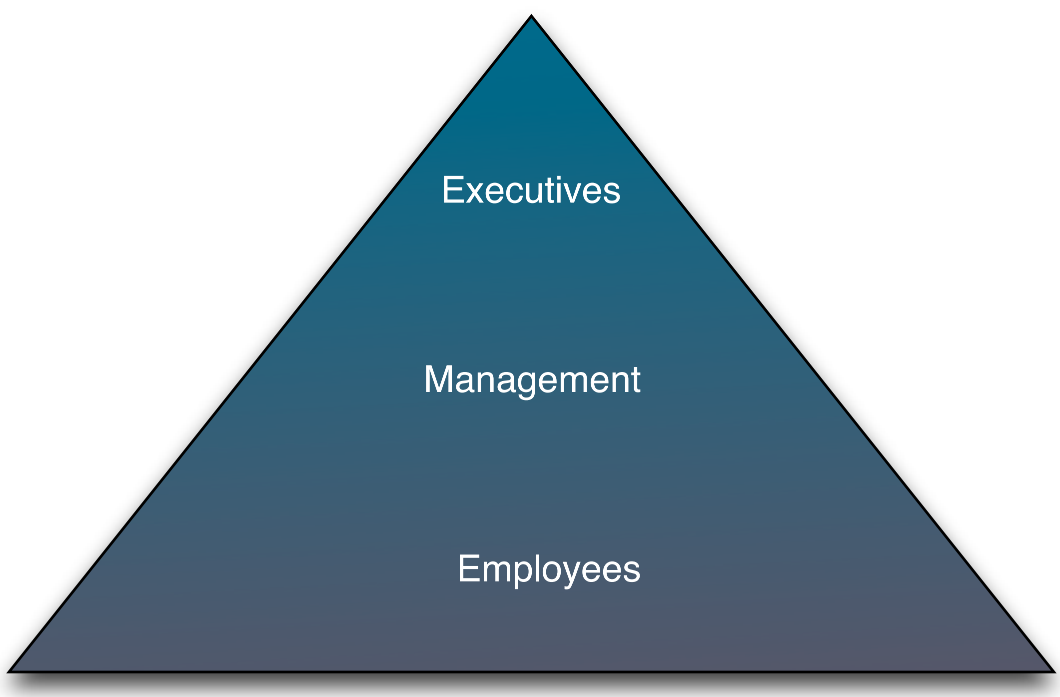
As every business is undoubtedly aware the financial landscape has changed dramatically in recent months and the same is true for private equity firms. The business of optimizing profits in your portfolio companies has never been a more pivotal part of conducting business than it is now.

With this reality and the need for better, more efficient practices, many P&E firms are looking for ways to maximize the profits in their existing portfolio companies.

Participative-based management combined with financial engineering can offer many benefits to your portfolio companies that will positively impact your firm's financial outlook.

So what is all this fuss about participative management? And how can it help improve business operations when you combine it with financial engineering?

Traditional management styles extend from the top-down.



While this form of management provides limited success, it does not allow a business to maximize one of its richest resources: the knowledge and ideas of its non-managerial employees.

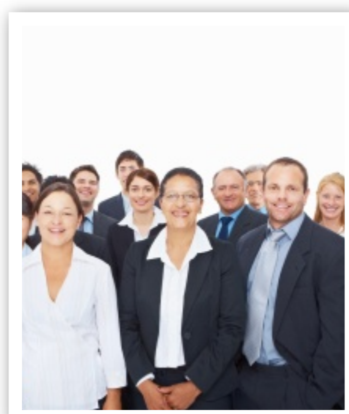
Participative-based management gives managers the ability to gain insight from workers who see first-hand where improvements to their work processes can be made.

The results are robust and include improved capacity efficiency, increased worker safety, employee efficiency, product quality, and return on capital.

If you have everyone in your organization giving 100% then please don't read this paper! In order to survive and thrive in this economy, business leaders need to leverage financials, technology and people. Most CEO's are comfortable addressing the first two.

However, the perception is that the "people factor" is difficult and convoluted, so managers avoid dealing with it. There are now over 40 years of research and field testing that prove that there are effective strategies for getting the best out of people.

This white paper will examine the improvements to businesses utilizing participative management and financial engineering as well as other leading edge methods and the increased productivity they can offer a business of any size.



Why Participative Management for Private Equity Companies?

Here are a few recent results that were achieved by utilizing participative management practices in combination with financial engineering in private equity companies:

- Telecom - Increased revenue by 33% in 7 months
- Manufacturing - Improved productivity by 62% in three months
- Aerospace – Reduced cost by 20% in 6 months
- Financial Services – Increased Sales by 20% in 3 months
- Construction – Reduced costs by 20% in 6 months
- Healthcare – Increased Patient Satisfaction (10%) & Reduced Staff Turnover (36%) in 6 months

Challenges and Trends among Private Equity Companies

Unstable Markets:

Many companies are operating conservatively and have retreated to the sidelines as a result of the economy. M&A companies, however, need to focus on revenue and earnings growth, which is virtually impossible if you are sitting on the sidelines.

From 2003 through 2007, nearly all private-equity firms were able to grow exponentially thanks to an unusually favorable financial and economic climate and, in particular, four major drivers of growth: massive amounts of cheap debt, rising profitability across all industries, escalating asset prices, and the allocation of significant assets from institutional investors to private-equity funds.

The recent financial and economic crisis has sent all these drivers racing rapidly in the opposite direction.

Many Opportunities if you have the Resources

Financing remains a major obstacle. The tight credit environment has resulted in higher qualification criteria and more restrictive covenants in loan agreements. However, if your firm has access to funding, now is an excellent time for acquisitions:

- Because access to credit has been so difficult, and because many private equity companies have failed, there is far less competition in the market for acquisitions.

- In addition, the severity of the current recession means that there are many distressed companies out there. However, many of these companies have only short-term issues and have excellent fundamental long-term potential.

- Because of the short-term distress they face, many of these companies are selling for pennies on the dollar.

- Finally, there are many motivated sellers who are willing to agree to creative deal structures, including seller financing. By offering partial funding up front, buyers can more quickly close a deal that is already in the works. However, sellers will need to have complete confidence in the buyer's management team in order to be certain that the buyer will be profitable enough to repay its debts. Buyers can make the seller's continued involvement in the business an option, and as a matter of course, buyers should consider operational improvements in the companies they have acquired.

Crisis Management

Because of the currently distressed economic environment, managers of companies are in crisis mode. How does this stress affect managers' decision making and performance? How is it perceived by the private equity firms who own them?

There is a different mentality among managers and company owners in crisis situations. In the current environment, owners feel uneasy about the future. As such, they want better forecasts from their managers, more transparency, more information about their portfolio companies, faster. In addition, the staff working in PE firms is generally overworked because the firms themselves are understaffed.

A high stress environment can lead to a lack of foresight on the part of managers. Rather than thinking long-term, managers are more likely to settle for short-term quick-fix solutions. This lack of longer-term vision and planning can lead to problems down the road.

Experts suggest that owners and managers, alike, focus on the basics in a crisis environment. They should revisit the core competencies of their organization and concentrate on improving operational efficiencies and employee competency.

Focus on Operational Improvements is the Key to Success

Especially for those companies that are hovering between survival and extinction, a focus on operational improvements is critical. Private equity firm managers are asking how they can garnish more performance and production from their existing companies.

From a manager's existing portfolio of 10 companies, 3 will survive, 2 might survive, and 5 will likely fail. PE managers must do what they can to help those companies who have a chance at survival. Private equity firms must maximize the operational potential of their portfolio companies.

The use of Participative Management tools in your portfolio companies quickly increase bottom line results.

Benefits to the Portfolio Manager include:

1) Leveraging an asset that few companies utilize effectively – human capital.

2) Dramatically increasing performance in portfolio companies.

3) Measuring and improving employee commitment, motivation, and other lead indicators which directly impact your bottom-line.

Experts Agree that Improving Business Fundamentals is the Key to Success

"Private Equity needs to create sustainable and fundamental value beyond financial engineering" - World Economic Forum 2008

Traditional financial engineering and improved technology will only get portfolio managers so far. Company owners must utilize an untapped resource in their portfolio companies -- human capital. Traditional management models will achieve average operational proficiency and may not maximize organizational resources.

As Boston Consulting Group experts Heino Meerkatt and Heinrich Liechtenstein advise, *". . . [Private-Equity firms] should prepare all their portfolio companies for a long and deep recession, focusing on operational improvements. As the top-performing private-equity firms have shown, operational value creation holds the key to success. This will be the most critical differentiator in today's recession, especially for the 50 percent of private-equity firms that are hovering between survival and extinction."*

Experts further agree that in order to achieve excellence in the workplace, creativity and innovation are critical.

"The key to survival and success does not lie in the rational quantitative approaches, but rather in a commitment to irrational, difficult to measure things like people, quality, creativity, innovation, and developing the flexibility to meet changing conditions" – Tom Peters and Bob Waterman

Peters and Waterman tell us we need to look beyond traditional metrics and harness intangible resources such as human commitment, motivation and trust. These intangibles (lead indicators) impact our tangible business results (lag indicators).

Until just recently it was considered difficult to track and measure intangibles. However, today even the National Accounting Standards Board (NASB) recommends that metrics for intangibles appear on financial reports.

"Motivation is the Catalyst in Profit Formula" – National Underwriter

John C. Bower, executive vice-president of Fidelity Union Life, noted, "a motivated workforce is the catalyst in the formula for increasing corporate profits. Highly motivated employees have a tendency to be more productive, which enhances profitability . . . Companies with the productivity edge will outpace the others."

We are moving from the Information Age to the Intellectual Age according to Richard Barrett. Wealth creation will increasingly come from the improvement in value of intangibles. Examples of intangibles are human motivation, commitment, and trust.

In the recent article, "Human Capital Formation and Foreign Direct Investment in Foreign Countries" Koji Miyamoto writes:

"One of the characteristics of rich industrial economies is the availability of a workforce with a high level of human capital. . . [L]ong time series trends in educational attainment and economic growth during the last century indicate that [Human Resource Development] and economic prosperity went hand in hand."

"Private Equity Companies need better management practices in their portfolio companies --" World Economic Forum 2008

During this recession Private Equity firms will have to hold on to their portfolio companies longer and adapt their business models to accommodate the downturn. Private Equity firms can adapt their business models by focusing on improving operational performance and internal capabilities for sustained long-term results.

Solution: Participative Management

Management in an organization that utilizes participative-based management, places coordination and control where the work is actually done – at the worker level -- not in the layers above. The people who know where improvements can be made in the business are the ones who are actually doing the work every day. Self managing teams are not autonomous. They are working with materials and equipment that belong to the larger organization. Upper management is responsible for creating strategy, pay rates, and attention to regulatory concerns.

Participative management does not mean people can do whatever they want. It does not lead to a laissez faire, or anything goes environment. Participative management means your team is responsible for its own work and cooperates with other teams to make the organization successful.

Over 40 years of research and implementation in organizations all over the world have demonstrated that this a proven method. What differentiates this practice is that it taps into the human needs for productive work and the factors that allow people to excel at work. People's skills, ideas, and creativity are unleashed to improve the company as a whole.

When financial engineering and participative management are both utilized in a change initiative, an organization achieves optimum results. (Please refer page 4 with results using participative management in manufacturing companies.)

Statistics on Participative Management

Organizations with a participative management style outperformed top-down autocratic organizations consistently over the last 5 years:

- **1.6 times growth in sales**
- **4.15 times growth in profits**
- **1.8 times growth in equity**
- **1.6 times better current-year profits**
- **1.09 times greater price earning ratios**
- **1.46 times better dividend growth**

Advantages of Participative-Based Management

Increases Capacity and Employee Efficiency

Employee efficiency is the consolidation of all employee processes to create a more complete and streamlined process. Maximized capacity and employee efficiency translate into reduced waste and increased productivity.

Participative based management gives workers a forum through which they are empowered to express their ideas for making their work more efficient. These ideas are discussed with management, and provided they are feasible in a given work environment, can be implemented to improve the business. This process not only increases capacity and employee efficiency, but also gives the workers ownership and pride in their work product.

Increases Product Quality

Businesses know that giving customers what they want helps them sell more products. Customers want quality – quality without an exorbitant price tag. Quality can be a high level of reliability, a desired functionality, or a constraint like low gas mileage.

Companies that achieve a high level of quality in their products and adapt to customers' needs will be more successful in their industries. Producing high-quality products increases customer satisfaction. This, in turn, enables the company to retain long-term customers. Retention of long-term customers keeps costs low and demand elevated.

Achieving high quality in a product line requires complete cooperation from everyone in the company. From staff workers to system designers to managers, everyone must have a common goal. Everything people do while working on the product or service must be monitored, so their process can be checked and improved if needed. High quality also requires listening to the voice of the customer and assuring that the products and services do what the customer wants.

Participative management enables the communication necessary for elevating product quality.

Long-Term Improvements

Using participative design employees use their own skills and talents to improve company productivity. People take responsibility for solving their own work process issues by identifying the issues they see and suggesting creative solutions. Because employees have an increased say in their work, they become more committed to their jobs and company success as a whole.

Participative based management is a practice that can be learned and sustained throughout the life of your companies. The fundamental value of your companies will be enhanced over the long-term. Long after the consultants have left and the workshops have concluded, you will continue to see improvements among your companies, because the improvements will have originated from your companies' greatest assets: their employees.

What to Look for in Performance Improvement Business Advisors

The 13-Point Checklist of What to Look for In Performance Improvement Business Advisors

1. Experience of experts in the field financial engineering and participative management.
2. Comprehensive survey of worker satisfaction/feelings.
3. Statistical analysis and explanation of those survey findings.
4. Identification of possible areas of improvement based on those survey findings.
5. Facilitation of work redesign sessions.
6. Help worker participants define and evaluate current work processes and make suggestions for improvement.
7. Guide discussions so that participants focus positively on aspects of the business/production that can actually be changed.
8. Creates a win-win relationship between management and workers.
9. Management and staff will be left with a simple working measurement tools.
10. Consultants facilitate follow-up sessions with participants every six months.
11. Utilization of a method that incorporates the key motivators of human performance, the reasons people excel at work.
12. Teaching of simple processes that can be used to continuously improve work, even after consultants leave.
13. A proven track record that has led to the retention of the best workers in other organizations.

For More Information on Implementing Participative Management Strategies in Your Company, or to Speak to One of Our Performance Improvement Business Advisors:

Contact Caridas Consulting International at 713-629-5692, or visit our website at: http://www.flowmanagement.net/

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Evangeline Caridas, Principal, Caridas Consulting International

Evangeline helps organizations achieve results through unleashing the creative power of their people. She has over fourteen years of management and consulting experience. She published the groundbreaking results from her study, *"Flow and Optimal Performance In the Workplace,"* in Rediscovering the Soul of Business, an anthology that included business futurist Charles Handy. Her latest contribution is to the business anthology *Futures that Work*. She also contributed to *The New Bottom Line* by Ken Blanchard and Tom Peters. She has demonstrated the effectiveness of her methodology to corporations and not-for-profit organizations alike.

Recent Projects:

- Directed evolution of a major energy company's recruitment and development area into a nationally recognized recruitment center. Used participative design to create self-managed work teams, who took responsibility for attracting and retaining top candidates.
- Led a planning conference and strategic implementation sessions for a national benefits firm, resulting in the adoption of a new technology program, enhanced communications among employees, a stronger internal work environment, improved customer service, and a 20% increase in company profits
- Conducted work process redesign and created a performance improvement plan to direct a manufacturing firm toward preferred provider status and 62.5% productivity increase. Scrap and reject reduced from 12% to .3%. Safety greatly improved.
- Used flow and the participative model to improve performance and strengthen delivery of services at a state mental health agency. Led redesign in each unit to improve efficiency, flexibility, and communication, increase retention, and meet organizational goals. Participating staff increased client face time by 40 to 60%.

Prior Experience:

- Prior to founding Caridas Consulting International, Evangeline possessed over fourteen years of management experience.

- She served as senior manager with the Performance Improvement Group of a Big Six management consulting firm, general manager for a major international consulting firm in the Midwest, and senior sales executive with the Xerox Corporation in the Southwest and Midwest.
- She is an adjunct professor at the University of Houston in the Department of Human Development & Consumer Sciences.

Credentials, Education, & Lectures:

- Evangeline holds a Bachelor's degree in Retailing, Merchandising and Consumer Sciences from the University of Houston
- Master of Arts degree in Organizational Development from Chicago's Loyola University.
- She has conducted numerous workshops and speaking engagements on management techniques such as performance improvement, motivation, strategic thinking, systemic thinking, and innovative leadership strategies.
- Venues include meetings and conferences of NEOCON (national and international), World Futures Society, Xerox regional sales, and the City of Houston, Conoco Women's Group and WBSN.

Clients Include:

Prudential, Conoco, Xerox, Exxon, QuietFlex Manufacturing, Linbeck Construction Company, The City of Houston, Austin Independent School District, MHMRA of Harris County, Aspiring Youth, Noble Affiliates, Alpha Montessori, Columbia Healthcare Systems General Electric Aero, Goodyear, Houston Cellular, Madison Benefits Group, Missouri City, Talent Tree, Tejano Center, United Behavioral Health, Legacy Development Construction Management, Child Advocates, Inc., Walker-Hale Plumbing & Hardware, University of Texas, Alliance for Community Media, Houston Media Source, Palos 118 Independent School District and Perkins & Will.

Larry D'Andrea, Performance Transformation

Larry assists organizations with successful implementation of major change projects. Through facilitation and training, he has worked with organizations to unlock the "hidden" value by integrating a new acquisition, improving shop floor operations, developing and executing strategic and operational plans, or implementing a new information system. Larry has worked with organizations in several countries including Canada, U.S., Mexico, Ireland, Italy, Czech Republic, Singapore, Japan, and China.

Recent Projects:

- Achieved a 27% improvement in productivity and a 30% reduction in material cost through the application of Lean Manufacturing techniques in a global aerospace company. This project resulted in a bottom line improvement of 16% of sales.
- Led the project team of a global computer peripherals manufacturer that resulted in a 50% reduction in cycle time and a 28% increase in productivity. The net result was a bottom line improvement in excess of $500m
- Assisted a client with integrating four separate acquisitions by facilitating a 50-person team to define the future state process, create the scripts for the software demonstrations, select the software and implement the software package. All of this occurred in less than 1 year.

Prior Experience:

Larry's prior experience includes 15 years with Ernst & Young where he held several management positions including Director of the Manufacturing Practice for Canada and Area Leader. Larry was a one of the founders of Alluence Capital Advisors, and spent five years with the boutique M&A firm that specialized in acquisition programs and post merger integration. Larry also served as the National Leader of the M&A practice for Grant Thornton Canada.

Education & Qualifications:

- Larry holds a Bachelor of Engineering and a Masters of Engineering degree from the University of Waterloo.
- He has been a member of the Professional Engineers, Ontario for the past 27 years and is also a Certified Management Consultant.
- He is one of very few external consultants certified to deliver Seagate Technology's Lean MastersTM training program. The Lean MastersTM program is delivered via four one-week active training sessions during which participants learn various key concepts of lean manufacturing. During the three to four weeks between sessions the candidates return to their home plant and/or department and immediately apply the newly acquired skills to address existing problems thereby generating payback right away.

Clients Include:

Seagate, PBB, Bombardier, MTI Global, GFI, Canadian General Tower, Carelift, dsp factory, Spartan, MEMC, Golden Windows, Mutual Life, Economical Insurance, Unitron, Island Hearing, Quantum Capital, Quilvest, Ford, Bauer Industries, Custom Trim, Ontario Drive and Gear, ComDev, Dalsa, Princeton

Gamma-Tech, Babcock & Wilcox, Courtice Steel, Jamesway Incubator, Rotoflex, Priority One Packaging, Clare Brothers, Concord Elevators, GSW Inc, Pizza Hut, Tiger Brand

George Giagtzis

George is the Managing Director and founder of The AxeaGroup. He was founder, President and CEO of Sm@rt Communications Group prior to originating the Axea organization.

Prior to Sm@rt, he held various management and executive positions in business development, marketing, financial operations, and strategic planning with Exxon, Saudi Aramco, ROLM, IBM, SPRINT INTERNATIONAL and GLOBAL ONE.

His experience with the AxeaGroup has included capital formation, business plan development, restructuring and recapitalization, and bankruptcy advisory services.

Recently, he was acting Chief Financial Officer for DataMeg Corp. (DTMG.OB), a Nasdaq traded telecom software development company, and Chief Financial Officer for AXS Bolivia S.A. – a portfolio company of the Inter-American Development Bank (IDB), and Delphos International, Washington DC.

Mr. Giagtzis has a Bachelors of Business Administration in Finance and Accounting from the University of Houston, holds a MBA in International Management from the American Graduate School of International Management (Thunderbird) and obtained a Certificate of International Business from the Georgetown University, The McCullough School of Business in Washington D.C.

He speaks fluent Spanish, Greek and basic Arabic, and has extensive work and travel experience in South America, Caribbean, Europe and the Middle East.