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Executive Insights on Value Creation Frameworks

Episode 7 | Robert Schriesheim

In this exclusive series, FTI Consulting experts interview industry executives to explore how innovative leaders are adopting new strategies to drive value creation.

Featured Guest: Robert "Rob" Schriesheim, Chairman at Truax Partners LLC.
FTI Panel: Sazz Ariyanayagam

Question: Over the course of your career, how have you seen the definition of "value creation" evolve? What does the uncertainty of the last two years mean for the future of value creation?

Rob: Organizations now take a more holistic approach to value creation. Often, in the past value creation was code for a playbook focused on cost reduction. Sustainable, long-term growth and prosperity come from taking a broader perspective to creating stakeholder value.

As things have evolved, boards and CEOs now explicitly recognize that they need to employ a consistent framework focused on two critical issues which both fall under the category of resource optimization – specifically the allocation of financial capital and human capital.

Organizations are finding that consistent focus on measuring, monitoring and incentivizing behaviors that underlie value creation go a long way to driving the right outcomes. Successful companies prioritize these areas; in summary, activity is nice, but outcomes are what count.

Regarding the future of value creation, the last few years were difficult for many companies. However, any crisis tends to bring more focus and realization that financial capital and human resources are not infinite.

With a once-in-a-lifetime crisis like the pandemic, leaders of all types of enterprises are forced to make difficult decisions. In addition, institutional investors have now incorporated measures of environmental, sustainability and governance (ESG) – including diversity - into the value creation framework.

ROBERT SCHRIESHEIM
Chairman at Truax Partners LLC.
Taking a holistic approach to value creation while partnering with institutional investors, Rob has led large enterprises through complex transformations serving in various executive leadership and board roles. Recently, he led the successful restructuring and transformation of Frontier Communications, earning M&A Advisor's Annual Turnaround Award for Telecommunications Services Deal of the Year. He has served on 11 public boards including as chairman and as CFO of public companies with revenues ranging from under $1 billion to $40 billion. He is currently a board member of publicly traded Houlihan Lokey, Inc. and Skyworks Solutions Inc. He graduated from Princeton University and received his MBA from The University of Chicago Booth School of Business.

All of this is part of their assessment of performance, as it should be. ESG, organizational values and value creation are connected, are here to stay and will pay off in tangible results.

Question: The need to balance immediate and longer-term sustainable value is hardly a new concept. What strategies have you seen and used to navigate this balance, especially in the wake of increasing stakeholder activism?

Rob: Focus on the concept of "sustainable value creation" and then follow through with measurement and execution. Based on my experience, the best approach is to first define a strategy, or range of strategies, steer the organization in the right direction, and then push the business to execute – and hold the organization accountable to deliver against the plan. Of course, these things are never static, and there is always a need to recalibrate and adjust.

Differences in perspective with investors and other stakeholders with diverse priorities often develop over the near vs longer term. Leadership needs to proactively address these situations because they typically do not simply fade away.

Successful leadership teams actively seek out and partner with the investors who are willing to march in sync with a longer-term vision and strategy as long as they can see a clearly articulated value creation pathway with measurable milestones and potential for attractive returns.

Once the leadership team identifies these "anchor" investors, it is important to articulate the business strategy and demonstrate a track record of operational execution. Getting them bought-in to these areas and sharing the performance metrics you are presenting to the market is a good way to build trust and bring investors along for the journey.

Overall, companies should welcome the dialogue that often comes from considering the differing views and priorities of a firm's shareholders.

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As an example of the shift, years ago many activists developed a reputation for being focused on delivering short-term stock price gains. But it is too easy and convenient to paint the activist investment community with a broad brush. My experience with activists has been positive in that they focus on true structural change to generate sustainable business improvement and value creation.

The framework for corporate governance is much evolved over the years. CEOs and boards have an increased focus on sustainable value creation and disciplined allocation of resources – and the need to articulate their approach to the investment community. This shift was in part the result of the broader community seeing the positive tangible results from productive partnerships that various activist stakeholder groups formed with public companies.

These partnerships influence everything from capital allocation to talent development.

Question: To that point, how has the pandemic influenced the tools and methods for addressing these areas? Can you talk to your experience leading the transformation of Frontier Communications which had over $7 billion in revenue and $17.5 billion in debt?

Rob: The pandemic may have put more pressure on the system, but the basic tools and approaches to capital allocation and talent development, work in nearly all circumstances. When companies focus on these two areas and lay the groundwork for accountability, they position themselves for success with growth and other transformation efforts.

At Frontier Communications, we brought the company through a pre-arranged Chapter 11 that emerged in April 2021. During that process, from bankruptcy to emergence, the value realized by the bondholders was about $5 billion. It was different in that the process included not only a balance sheet restructuring – but also bringing in a new CEO during the roughly 18-month Chapter 11 process, implementing an operational turn-around and developing and initiating a new strategy for growth.

We enabled this through a consistent focus on putting the right people in the right roles and holding them accountable. We were clear about the activities that needed to happen and how we defined and measured success – and were always mindful to solicit the input of the debt investors as the future owners of the company.

Our success at Frontier Communications was clearly linked to these areas and priorities.

The other point that was relevant pre-pandemic, but is just as true now, is the importance of assessing, presenting and working with the facts. Judgment is equally as important but different. We can debate the approach, but the facts need to be objectively reviewed. Outlining the facts is one of the most critical actions that should be taken to define and refine an approach and help leadership prioritize their efforts. Answering the question "what's the size of the prize" when evaluating alternative courses of action is very helpful in setting priorities.

Question: We see how critical it is to align the strategies for value creation and business transformation. How have you approached this throughout your career?

Rob: First, we all need to be lifelong learners. You take away something from every experience – and not every situation will work out according to the initial premise. It really is critical to align and adjust your value creation framework with new learning as it becomes available.

Too often transformations are viewed as cost-takeout exercises — but while it's an arrow in your quiver, it's nearly impossible to cut your way to sustainable growth or value creation.

One way to approach transformation through the lens of value creation is to first disaggregate the business between areas where acceptable returns are generated and those which are yielding low or even negative returns. Clearly you have to factor in the fact that new areas designated for growth investments may require a longer measurement time period. By taking complexity out of the business ecosystem – it makes it easier to run the business.

In my experience, this leads to several workstreams where leadership needs to simultaneously transform the business model while making strategic changes to the business portfolio, restructuring the balance sheet, divesting or managing down businesses with poor returns that are not viewed as core to the longer-term strategy – and focusing on those segments where you can profitably grow the business, earning returns in excess of your cost of capital.

Separating these efforts into their respective focus areas — with distinct teams of people — is critical to their success.

These workstreams should be united with a single view from the top but ultimately operate separately, given they require distinct skillsets, definitions for success, timelines and people.

We already spoke about the successful outcome at Frontier Communications in which we made sure we had a clear strategy with distinct workstreams and the right people in the right positions.

Earlier, upon joining Hewitt Associates as CFO, the CEO leadership team had already done an excellent job of identifying the problematic loss-making parts of the business and then turning around a very complex global business services enterprise. This was executed to a large degree by ensuring the right people were in the right places focusing on the issues specific to their respective lines of business. The business was then in a condition to pursue a growth agenda – but value had been recognized and, in that case, realized when we were acquired by Aon.

Prior to joining the board and then serving as CFO at Lawson Software in the late 2000s, it was underperforming and undermanaged.

Partnering with private equity Firm Symphony Technology group, we took the approach of internally disaggregating the business into segments each having a P&L Head. We refocused investments on a more vertically focused sales and marketing strategy within our customer base while also making decisions about which segments to manage for growth. The result was operating margin improvement which tripled while growing software revenue at a mature provider at an attractive rate during the financial crisis which was also realized in value creation when we were acquired by Infor/Golden Gate Capital.

> *"We enabled this through a consistent focus on putting the right people in the right roles and holding them accountable. We were clear about the activities that needed to happen and how we as an organization, but also at other levels, were defining and measuring success."*

I learned the same thing years earlier working with an investor who acquired control of Western Union. We developed and executed a strategy of transforming the company from an asset intensive provider of telecommunications services into a value added provider of consumer financial services. We separated the company into a CoreCo and NonCoreCo to clarify the focus on the go forward financial services segment. That experience demonstrated to me the value in taking a complex problem and breaking it down into its core pieces — it's much more manageable and clarifies the process of making tough and complicated decisions while allowing the team to focus on those areas with attractive prospects for profitable growth.

Question: In summary, how would you describe the most important considerations other leaders and executives need to take and add to their "value creation" playbooks?

Rob: It comes down to objectively assessing the business, defining the strategy and options, putting in place the right people, identifying and rigorously measuring the right metrics for success, and partnering with stakeholders to drive execution. So much of this comes down to a willingness to make decisions and business judgment.

Doing all of these things with a constant focus on hiring the right people and holding the organization accountable is a strong recipe for success — both in the short-term and to generating longer-term sustainable value that we know is critical to business health and stakeholder value.

SAZZ ARIYANAYAGAM
Managing Director
+1.312.252.4018
sazz.ariyanayagam@fticonsulting.com

LAUREN HEPBURN
Senior Consultant
+1.262.751.7540
lauren.hepburn@fticonsulting.com

DANNY LOOMANS
Director
+1.920.979.2326
danny.loomans@fticonsulting.com

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