

# Restoring Public Trust and Investor Confidence

An Interview with James S. Turley, Global Chairman, Ernst & Young Global, and Americas Chairman and Chief Executive, Ernst & Young LLP

**EDITORS' NOTE** *Jim Turley joined Ernst & Young in Houston in 1977. He became a partner in 1987, and from 1987 to 1990 he was U.S. national director of Client Services and Business Development. After serving as area director of Entrepreneurial Services, he was named Upper Midwest managing partner in 1994. Turley was named Metropolitan New York Area managing partner in 1998, and was appointed global deputy chair on July 1, 2000. On July 1, 2001, he became global chairman, and on July 1, 2002, he assumed the additional duties of Americas CEO. Turley holds bachelor's and master's degrees from Rice University.*



James S. Turley

**COMPANY BRIEF** *Headquartered in New York, Ernst & Young (E&Y) is one of the Big Four accounting firms and a global leader in professional services. With roughly 700 offices and 105,000 people in more than 130 countries, the company reported revenues of \$13.1 billion for the fiscal year ended June 30, 2003.*

## As chairman of a Big Four accounting firm, what is your perspective on recent events that have affected the profession and Ernst & Young?

The post-9/11, post-Enron world is quite different from the one we lived in before. Among the publics we serve, the erosion of trust, level of skepticism – or whatever we choose to call it – is more challenging now than at any time since the 1930s. Then, as now, a crisis of confidence threatened our country's financial system. Now, as then, the government acted boldly with landmark new regulations stemming from Sarbanes-Oxley.

But new rules alone won't restore trust. A commitment to doing the right thing and achieving sustainable performance for the long haul – none of that can be legislated.

All participants in our capital markets, Ernst & Young included, will have to work together to get it done. For Sar-

banes-Oxley to be all it's intended to be, all public market participants will have to clarify and understand their new roles and responsibilities, and recommit themselves to operating in the public interest.

It's about doing the right things for shareholders. It's enabled by having the right quality checks and balances throughout the organization to ensure that the right things are always done. Excellence in corporate governance is the goal.

## A year after Sarbanes-Oxley's passage, do you see this re-commitment by all parties happening?

Yes, I do. Over the past year, I've had more client meetings than I can count, and I can tell you that audit committees, for example, are taking their new responsibilities under Sarbanes-Oxley very, very seriously. The oversight that audit committees are exercising as investor surrogates is extremely important. They are asking the tough questions and helping management make the right choices.

The investing public would be pleased to know how much more time audit committees and CEOs are spending with their auditor. Internal controls are being strengthened. There is more dialogue around issues. Corporate activities and actions are already being conducted more transparently, with the interest of investors taken more fully into account, and with dramatically more oversight than before Sarbanes-Oxley was put into place. I'm very encouraged by the changes, and I believe the public would be also. But we're still working to do more.

## You mentioned that all participants in the financial markets have to work together to restore trust. What is Ernst & Young doing?

The tone from our leadership can't be clearer and is reinforced every day – we're focused on doing our part. We have a renewed commitment to quality in all facets of our operation. We're committed to doing the right thing and delivering quality in everything we do. The way we

measure, reward, and evaluate people must encourage our people to follow this lead. We make sure that our words are consistent with our actions – they must be.

We've expanded training to reflect the new regulatory environment, and made key governance changes, which include adding a vice chair of Quality and Risk Management. We're engaging in extensive dialogue with outside experts and opinion leaders to better understand the issues that still need to be resolved and what E&Y's role should be in making that happen. We're committed to focusing on our core missions, in full recognition of our duty to investors. We want to make sure that when people see our signature, they'll recognize it as a mark of quality.

## Leaders across all industries have noted the challenges for growth in today's economic environment. How optimistic are you about E&Y's future growth, and where do you see that growth coming from?

I'm optimistic about Ernst & Young and its future growth. But I want to emphasize this – we won't be successful by focusing on growth for growth's sake. Our strategy, number one, is to make sure that we have the best people driving the best quality focused on client needs to market. That's the way we can achieve the growth we want and need.

As for where I see growth coming from, we expect much of it to stem from our core audit business. Both the relevance of that segment, and our ability to work with clients to restore public trust and confidence, have never been stronger.

## What will define success for Ernst & Young in the future?

We will be fully successful when "quality" in professional services is defined as "Ernst & Young." Quality has always been the foundation of our business. But now the firm is making great efforts and great strides, to ensure that quality is always in the forefront of everything we do, and that our commitment and accomplishments are apparent to all stakeholders. ●

# Closing the Expectation Gap

An Interview with Richard S. Bobrow,  
Global Chief Executive Officer, Ernst & Young Global

**EDITOR'S NOTE** Rick Bobrow joined Ernst & Young in Austin in 1976 after earning his B.S. in business administration and an M.S. in accounting, both from the University of Kansas. He was admitted to the partnership in 1984 and transferred in 1985 to U.S. National Tax. Rick was appointed U.S. national director of Tax in 1993, and was named U.S. vice chair – Tax Practice Initiatives in 1996. He was appointed senior vice chair – Assurance and Advisory Business Services, Corporate Finance, and Tax Services in 1998. Bobrow was named Americas CEO in 2000, and he was named to his current position in 2002.



Richard S. Bobrow

## What impact, if any, do U.S. events like Sarbanes-Oxley have on your organization globally?

The Sarbanes-Oxley Act is a U.S. law, but it's a U.S. law with global implications. It affects companies around the world that sell public securities in U.S. markets. It affects all accounting organizations that serve global companies. It affects all people in those organizations engaged in their audits. The changes brought about by Sarbanes-Oxley are profound and far-reaching, well beyond the borders of the United States. Similarly, the changes being contemplated by the EU and in other parts of the world will possibly impact all companies, including U.S. companies, issuing securities in these markets.

## How would you describe the state of the accounting profession today?

Challenged. Never in my experience has accounting been so vocally called into account. Never has the "expectation gap" been greater between what accounting actually does and what the public thinks it does.

This gap is particularly evident when it comes to fraud detection. In analyzing the "whys" of recent corporate scandals, deliberate fraud on the part of management seems to be a recurring theme. What's required is more of what we might

call "professional skepticism" on the part of auditors, more discussion and planning among engagement team members to identify in advance where fraud most likely could occur.

Narrowing the expectation gap, I think, is a key step in the restoration of confidence. It has to be addressed. Ernst & Young is very committed to being part of this process.

## Before becoming Ernst & Young's Global CEO, roughly 15 months ago, you were CEO of E&Y's Americas area. What has impressed you most in making that transition?

Before becoming Global CEO I knew, of course, the scope of E&Y's global operations. But I better understand now the full capabilities that E&Y possesses around the world. I'm talking about the thousands of talented, dedicated people, from every corner of the globe, who work together as a team to provide the highest quality service to our clients, wherever they may be located.

Having the ability to serve a large client with the same methodologies, and with comparably specialized professionals, in virtually any location in the world, is a tremendous asset to global clients and to Ernst & Young.

People, quality, and growth are the three pillars of our strategy, but the formula could as easily be "people + quality = growth."

## Why has Ernst & Young made such a push to become an integrated global organization?

I can answer that very simply: It's what the market demands of us.

Our large public clients and, increasingly, our emerging entrepreneurial clients, realize that their long-term success requires access to customers, vendors, and workforces outside of their home market. In addition, our clients are increasingly accessing capital markets throughout the world and they also rely on us to help them adopt International Accounting Standards. And, tax advice must consider impli-

cations in multiple jurisdictions, simultaneously, and transactions we advise on are generally cross-border.

All of these factors are often best addressed with the assistance of a global service provider. Because, to effectively serve clients in the global arena, we have to be where they are, with the right services and people who can relate to and understand local issues, and the ability to pull in resources as required from our other locations around the world.

## You have been with Ernst & Young for over 27 years. What has changed most in that time?

Other than globalization and professional challenges, two things have changed most, and each has made us better.

First is the role technology plays in our business. Technology helps us turn an enormously large world into a manageable arena, in which our teams can communicate in real time, and work effectively across borders and time zones. We also use technology to help train our people, and provide consistency to our services. Technology also provides our people with flexibility, so they can contribute their talents virtually anytime, anywhere. Technology enables us to serve clients in ways that weren't possible when I joined the firm.

Second, is the increasing diversity of our organization and profession. We believe that diversity is a necessary ingredient for the success of any world-class business, and we're no exception.

When we at Ernst & Young talk about diversity, we really mean inclusiveness. We want every one of our people to experience an environment that values and respects them for their performance and the unique talents they bring to the organization.

Ernst & Young comprises over 105,000 people from over 130 countries – talented men and women representing all races, colors and creeds, with varied interests and skills. To our clients, this diverse blend of abilities and perspectives means tremendous quality and value. I've been proud to chair E&Y's Diversity Task Force, so my commitment to it runs deep. The diversity and talent of our people are undoubtedly our biggest strength as an organization. ●

# Quality: Doing the Right Thing

An Interview with Susan Frieden,  
Americas Vice Chair – Quality and Risk Management, Ernst & Young LLP

**EDITORS' NOTE** A 30-year veteran of Ernst & Young, Sue Frieden served as practice leader of the Northeast and New York Transaction Support Group prior to assuming her current post. She is a member of the AICPA (American Institute of Certified Public Accountants), the New York State Society of CPAs, and the Accounting Advisory Board of Syracuse University's School of Management. Frieden holds a B.A. from Syracuse University and an M.B.A. from Columbia University.



Susan Frieden

## Your role as vice chair of Quality and Risk Management is a newly created position at Ernst & Young. Does that signal a change in your organization's quality efforts?

Quality has always been embedded in our culture at Ernst & Young. But now we're bringing it front and center for all our people and clients to see. Quality should never be taken for granted. That's why we're making it explicit in everything we do. My role is to help ensure that it happens.

Along with people and growth, quality is one of the three pillars of our strategy. We emphasize to each of our 105,000 people that quality begins with them. And that means taking pride in getting the right information, making the right judgments, taking the right actions – in short, always doing the right thing to build and maintain public trust.

### How do you define quality?

Quality is the result of acting on a commitment to always do our best and, equally important, to always do the right thing. Our profession has undergone important change during the past two years, as witnessed by Sarbanes-Oxley and new SEC rules. We recognize that the public's trust – in E&Y, our attestations, and in our clients – is something that's earned every day by the quality of our work. Nothing can, or ever will, take the place of our quality mandate.

### What are some of the things

## Ernst & Young does to ensure quality?

The first thing we did is put quality at the center of our strategy. We are determined to do whatever it takes to be recognized as a quality leader.

And as I said, we tell our people that quality starts with them. We pride ourselves on hiring not only the best people from a skill point of view, but those who also exhibit a degree of integrity. We support their growth with extensive training and learning.

Although we believe we currently employ strong, sound business practices, Ernst & Young has recently launched several initiatives to help us re-examine our processes and ensure that we are ready to meet the challenges of the new regulatory environment. We're looking at every process in our service delivery, our audit functions, our tax services, and our transaction services. We're looking at our risk in accepting and continuing with certain clients, and in providing certain services to clients. We're continually examining how we do things.

Our culture rewards people for growing their technical competencies and doing the right thing. Members of our audit teams are encouraged – make that, required – to voice any concerns over the way an audit is being conducted.

Most of all, we stress to our people that no single client is more important than their reputation, or the reputation of Ernst & Young.

## You mentioned that Ernst & Young has recently launched several initiatives to help E&Y re-examine its processes and ensure a readiness to meet the challenges of the new regulatory environment. Can you expand on that?

Although quality has always been implied in our work, we are now making it more explicit in everything we do. Along those lines, some of our more substantive and significant quality initiatives include a new code of conduct and an annual affirmation process, the appoint-

ment of senior client-service partner in each of our operating areas, enhanced consultative approaches and support resources for our engagement teams, and stronger client acceptance and continuance policies.

We're also increasing our investments in training, with more than 300,000 hours of training already this year on internal controls, 50,000 hours to come on fraud training, for our accounting people, and a greater focus on technical tax training. We've also made enhancements to our Audit Quality Review and Tax Quality Review processes.

## Can Ernst & Young use quality to differentiate itself from competitors?

We want Ernst & Young to be synonymous with the word "quality." We want to be recognized as an organization that best meets the expectations of its clients and the public, one that unwaveringly does the right thing. Our commitment is to having the best people providing the highest-quality service. We do that and success will come.

## Ernst & Young has offices all over the world. Is "quality" a consistent message from country to country?

Absolutely. I recently returned from a global quality and risk management meeting in London, and I can report that my role – vice chair of Quality and Risk Management in the Americas – is not only duplicated in 10 other regions worldwide where E&Y operates, but we also have a global leader who oversees quality and risk management, worldwide. So, yes, we have not only a consistent message, but a unified plan of action.

## You've spent more than 30 years with Ernst & Young. In your early days at E&Y, could you have imagined it as it is today or your current role in it?

I certainly didn't imagine our organization as large as it is now. Ernst & Young today has a global reach, and we have so many people in so many locations. That amazes me. On the other hand, Ernst & Young has always given me the opportunity to move forward and do new things, so my current role just extends my experience. ●

# Bringing Quality to Life

An Interview with Michael Boyd, Global Managing Partner –  
Quality and Risk Management, Ernst & Young Global

**EDITORS' NOTE** *Michael Boyd has held many key positions at Ernst & Young. Prior to assuming his current role in 2003, he served as E&Y's vice chair for Global Accounts. Previously, he had headed E&Y's UK Audit practice, and was a member of the UK's Executive and its Partner Council. Boyd also has worked in Transaction Advisory Services in the UK and has led E&Y's Global Energy Group.*



Michael Boyd

**Your new role is global managing partner of quality and risk management for E&Y. How would you define that role?**

It means bringing to life what we stand for and our tagline – quality in everything we do. It means helping to ensure that we're doing the right things and doing things right.

We all have to take responsibility for making quality the foundation of our business. And we know that quality can never be assumed. It has to be demonstrated. It has to be integrated into our business and not bolted on.

Therefore my priority is to ensure that, throughout our global organization, our culture reflects a focus on quality, and that our leadership demonstrates that quality is second to nothing.

**In an organization of E&Y's size, is it difficult to push the quality message through globally? Can you effectively get that message across region to region?**

It's extremely important that we set the right tone from the top. The firm leadership, from Jim Turley downwards, is committed to quality and to providing that our leadership lead by example, that they walk the talk. If quality is endemic in everything that we do, as demonstrated by our leadership, then others in the organization will recognize its importance.

We reinforce that by having common processes around the world as, for

example, our global audit methodology. We use the same global audit methodology throughout our global organization. We can reinforce what we're standing for in "Quality In Everything We Do" by underlining processes and metrics.

But fundamentally, it starts with a shared vision of what we stand for, that we want to demonstrate a quality reputation. We want to be

associated with first-rate clients. We are committed to continuous improvement. We want to be recognized as being the best, an organization with high-impact people providing world-class services.

**When individuals from other organizations are brought on board, does that make it more difficult to maintain a consistent quality culture?**

Clearly, we want to benefit from other people's cultures and processes and procedures. At the same time, we need to ensure that they meet and reach our quality standards.

As the saying goes, you are only as strong as your weakest link. So we need to make sure that we don't have any weak links. We must continually strive to instill the culture and the values that will drive us forward as a quality firm. And that's not something that you can wait for and see develop. You have to work at it from the very first day people come on board. I think we've been very successful in doing that.

**"Risk Management" is part of your title. Is it more difficult now, in a rapidly changing world, to evaluate risks?**

It is more difficult, but possible. In any situation, there are risks that can be clearly seen, and many that stand to be identified. But we endeavor to build checks and balances into the organization so that we are better prepared – through training, procedures, and the like – to anticipate and control risks as they arise, so they don't impede our progress as an organization or our com-

mitment to being a quality service provider.

**The corporate world has seemed to be painted with one brush, with questions of honesty, integrity, and quality in the work place. Are you optimistic that individual companies will be able to demonstrate their integrity and quality?**

Any negative perception of the role of our profession concerns me greatly. Therefore, it's very important that we work to ensure that we maintain a very high quality standard.

As our chairman Jim Turley says, "No client is so important to Ernst & Young that it is worth risking our individual reputations or the reputation of Ernst & Young." That's an extremely important position to be able to take, that partners feel as though they have the support of the organization if they make the decision to disassociate from a particular client. We want to be associated with first-rate clients, clients with first-rate reputations. So it's up to us to take a firm position on working with clients of only the highest ethical standing.

**You've had a number of positions within the firm. In your new role, is it still important for you to have client contact?**

It's extremely important to remain in touch with clients in the marketplace, and it's something that I strive to reconcile my particular duties with. The role I'm in now is the most challenging one that I've had with Ernst & Young. But under my watch, I'm determined to ensure that the reputation of the firm goes from strong to stronger. Remaining in contact with clients will help me in accomplishing that.

**You mentioned that this is your most challenging position yet. Can you ever turn off the business and get away from it?**

One is always endeavoring to balance one's personal life with one's business life. I think the most important thing is that I enjoy the work immensely, as I do. And that makes it fun. ●

# Putting People First

An Interview with James L. Freer,  
Americas Vice Chair – People, Ernst & Young LLP

**EDITORS' NOTE** *Jim Freer joined Ernst & Young in Seattle after earning his B.A. in business administration from Central Washington University. He became a partner in 1981 and transferred to Los Angeles, where he served as West Region director of Human Resources, and then partner in charge of Audit for Los Angeles. In 1991 Freer returned to Seattle and, in 1992, was appointed Seattle managing partner, and then area managing partner a year later. In 1994 Freer was elected to E&Y's U.S. Partners Advisory Council. In 1995 he was named area managing partner in Los Angeles for the Pacific Southwest Area. He was appointed to his current position in 2000.*



James L. Freer

**Others we have interviewed have mentioned that people, quality, and growth are the three pillars of Ernst & Young's strategy. In your view, how do people fit into this strategy?**

We encourage our people to take control of their careers and choose a path through which they'll be most satisfied and productive. We foster what we call a "People First" environment, in which we seek to improve the day-to-day experience of our people through better mentoring, counseling, and training.

By improving their career value, listening more to them, and developing lifelong relationships, while remaining competitive from a pay perspective, we'll likely end up with the best people. And those people will be more productive, efficient, loyal to the firm, and committed to doing the right thing. By putting people first, we can more easily embed quality, which, we believe, will result in growth.

**You mentioned that Ernst & Young encourages its people to take control of their own careers. Doesn't that encourage them to act less as a team and more as individuals?**

A large part of People First is providing an environment where our people can

benefit from working with and learning from each other. This sharing of knowledge and experience helps make each person better and more accomplished at what they do. It also heightens their sense of personal worth to the organization, and recognizes that their contributions are appreciated and valued. People recognize that their teamwork isn't simply moving Ernst & Young ahead, it's moving them ahead, too.

**Is People First a revolutionary change for Ernst & Young?**

In reality, People First is not a revolutionary change. We've always recognized at Ernst & Young that people are our most important asset. It's their talents and skills that make us who we are. But what's different today is the way we're articulating it. We're more focused now in letting our people know that we understand their value and support their personal and professional goals.

I've been asked, only half seriously, that if people come first, what about our clients? Our clients realize that we will continue to have an intense, fast-paced learning environment. They also understand that when we focus our attention on treating our people well and enriching their experience, that they, as clients, receive better attention, more continuity, and greater quality. So, they reap the benefits.

People First works because both the firm and our people are committed to doing the best they possibly can, to growing and developing to their fullest potential. Winning in this business is more about having the best people than anything else. And the best people provide the best service.

**Has People First made it harder or easier to keep your best people?**

The ability of an organization to offer attractive career options is a key to getting the best people in the first place. Top-notch people want to commit themselves to organizations that provide the most avenues for growth and success. The idea

of a one-employer career is foreign to many people coming out of college today.

People First helps us do a better job of publicizing the various opportunities our people can experience while still with E&Y, such as international assignments and transfers within and between service lines. We have statistics that show that a person in our organization who leaves us after two, three, or four years does not have the same career options and the ability for long-term earning as someone who stays with us six or seven years. People First helps us keep our people longer, and may encourage more to decide that this is the place they want to stay. So, it's a classic "win-win-win" all around – for Ernst & Young, our people, and, as I mentioned before, for our clients

**It would seem that your commitment to people satisfaction and development requires total leadership support. How is this people commitment supported at Ernst & Young?**

Typically, employees don't leave an organization; they leave a manager who is not giving them what they need, or is treating them improperly. At its core, employee satisfaction is a leadership issue, and it's a local issue. From top down, we're committed to ensuring that our leaders at all levels, and in all business units, emphasize career pathing, skills training, succession planning, and increasing value.

We've instituted a number of ways to measure our progress. For example, we survey our people regularly to gauge the team environment in which our people work, and to learn how well teaming is working in that localized area. We hold People Advisory Forums, in which staff can meet with upper management to get answers to questions, and come to a mutual understanding about the driving issues in their lives and career goals. Finally, there's our People Point survey, which provides our leaders feedback, from the people they lead, on how well they're doing in fostering a positive work environment. At Ernst & Young, People First is a total, top-down, across-the-board commitment. ●

# Changing for a New Environment

An Interview with John F. Ferraro,  
Americas Vice Chair – Markets, Ernst & Young LLP

**EDITOR'S NOTE** *John Ferraro joined Ernst & Young in Milwaukee in 1977, after graduating with a B.S.B.A. degree in accounting from Marquette University. He became a partner in 1988, and later served as U.S. national director of Sales and Marketing, U.S. vice chair – AABS Implementation, global vice chair – Assurance and Advisory Business Services, and Global Managing Partner-Markets. He was appointed to his current position in 2001.*



John F. Ferraro

**Ernst & Young is well known for its industry expertise. Have there been any changes in the ways you serve various industry segments?**

Sure, we're constantly adjusting our services to the industry sectors based on changing client needs and changes in the industries themselves. One somewhat consistent trend we are seeing is that companies in all industries are looking increasingly for more specialization in the particular sub-sector in which they operate. In financial services, for example, our teams may focus on banking, insurance, asset management, or capital markets, rather than on the industry generally. Technology clients may want specific assistance in the software, PC, or semiconductor areas. So today, there's a greater need for specialization within industries, and we're meeting that demand.

**How is the firm's industry experience deployed in client engagements?**

We take an integrated approach. That is, we bring to an engagement team the people who have the right industry experience and functional skill sets and experiences in accounting, audit, tax, and other specialty areas needed to best serve that client. Industry knowledge is clearly a very important factor that is diffused throughout the entire team. Relatively early in their careers, many of our people choose the industries that they wish to focus on serving – and through ongoing education, our firm's knowledge networks, and selected engagements, they

continue to build their industry knowledge. As a result, many become leaders in identifying and interpreting emerging issues. That dramatically increases their value to our clients and our firm.

Understanding each industry sector is fundamental to the quality of all of our audit, tax, and transaction-related work. We apply our full depth of industry knowledge – understanding how the business

operates so that we are best able to help each client operate at an optimal level while not compromising the interest of the public.

**The public's perception of professional-services providers has deteriorated somewhat in recent years. Are you concerned that today's young people will be less excited about the accounting industry?**

There's no question that our profession has been in the spotlight for the past couple of years. And there's no denying that changes needed to be made in our industry and in the whole capital-markets system. These changes are having, and will continue to have, a positive impact on the profession, stakeholders, clients, and the investing public.

One thing is for sure. With all the attention focused on the profession, more young people now know what accountants do, and they've come to realize how important the job is to the health of our financial system. Rather than being turned off by what's happened, we're optimistic that bright young people now coming out of school see the profession as a place where they can make a difference, where they can play a key role in the capital markets.

**Your firm has always placed a major focus on its people, but isn't new technology playing an increasingly important role in the way you deliver services?**

Technology is a great enabler; it's a tool that helps our people to be more productive and efficient in the ways they contribute their talents. This is, and

always will be, a people business. People are who we are, what we have to offer, a key pillar of our strategy.

We focus on hiring the best people, then giving them the best tools possible to help them succeed. Technology is simply one of those tools. It's an increasingly important one, for sure, but its importance is based on great people using it creatively to expand their skills and provide high-value, high-quality service.

**What is your view on developing effective client relationships?**

Clearly, on the audit side, since the enactment of new laws and regulations in the United States, we're spending a lot more time with our principal client, the audit committee. This increased involvement with and by the audit committee is a good thing, but it hasn't diminished our need to develop and maintain effective relationships with the people we audit at all levels of the organization. This is also true for our non-audit clients.

**As a global organization, how does Ernst & Young deliver services worldwide?**

We're organized into 11 practices, the Americas being one of them, and we use a similar approach to the market in all 11. What we do revolves around five key service themes – risk, transactions, tax minimization or tax planning, tax operations, and human capital. Those five service themes are consistent throughout the world.

**How important is it for you to still have some direct client contact?**

I spend a lot of time with clients for different reasons. Sometimes, with some of our largest clients, I fill a senior advisory role, supporting our engagement team and ensuring that we're supplying the very best we have to offer. At other times, I work with new clients, or clients with certain specific challenges. Occasionally, a client will ask to have me involved in a particular issue. So, hardly a week goes by that I don't have some direct contact with clients, and that's great. Jim Turley, our chairman, sets this tone, and it extends to all of our board members. I believe it helps make us all better in our leadership roles. ●

# A Tailored Approach to the Market

An Interview with James C. Cook, Global Director – Retail and Consumer Products, Ernst & Young Global and Americas Director – Industries, Ernst & Young LLP

**EDITORS' NOTE** *The recipient of a B.S. in accounting from the University of Illinois, Jim Cook has served Ernst & Young for 32 years in a variety of capacities, notably as the current coordinating partner for two consumer-products global accounts and previously as the East/Great Lakes regional director of Assurance and Advisory Business Services. Cook is a member of the executive committee of the University of Illinois College of Business Dean's Council, a member of the American Institute of Certified Public Accountants, and a member of the Illinois CPA Society.*



James C. Cook

## How has the legislation that followed the recent high-profile corporate-governance scandals affected the way Ernst & Young operates?

The legislation, new SEC rules, and the appropriate way in which audit committees are viewing their roles have had a profound impact on the way we operate. While we are still focused on our clients' needs, our people, and doing quality work, we have increased our emphasis on quality in everything we do and industry sector-specific training. We are bringing more industry or sector insight to our audit quality-review process, our client continuance/reacceptance processes, and our audit procedures. Also, because of the new requirements, the expectations of our clients and the investing public have evolved. And one key way we are working hard to meet the marketplace's changing expectations is by developing and applying deeper industry insights so that our people better understand the client's organization and the environment they are operating in. Finally, because there are nuances in the legislation and new rules that affect some industries more than others, we are working hard to help our clients identify and deal with these.

Our industry sector focus allows us to leverage industry knowledge in many ways that enhance the quality of our services. For example, it helps us identify the busi-

ness issues and risks associated with our existing and prospective clients, and helps us avoid seeking or retaining inappropriate relationships. In the software sector, for instance, revenue recognition is a hot topic. For companies in the retail and consumer-products industry, we consider issues such as the increasing influence of mega-retailers. Our sector approach also encourages us to drill deeper into the special financial-reporting challenges clients in a particular sector may be facing.

## Please describe the structures of the various industry groups within Ernst & Young?

We have very experienced leaders at a global level for the major industries we serve – such as financial services, health sciences, technology and communications, retail and consumer products, and real estate. Then, within the Americas we have leaders for these industries too, who are aligned with the global structure. Because the Americas practice is so large and diverse, we subdivide the Americas market into about 30 sectors, and each one has its own experienced leader. For instance, within the financial services industry we identify four sectors: asset management, banking, capital markets, and insurance.

## How close is the coordination between the industry groups within Ernst & Young?

We're very dedicated to specialization within the sectors. But just as all the sectors of the economy interact, we recognize that our sectors can't operate independently as silos. One of my responsibilities as the overall director for industries within the Americas is bringing the various industry leaders together to talk about client needs and issues that cut broadly across all sectors.

## What are some of those issues that affect all industries?

The types of general, overarching issues that confront companies include the impact of regulation, globalization, the challenges in today's capital markets,

technology, managing product life cycles, and geopolitics. We help clients understand the ramifications of these sorts of issues and consider ways that they can capitalize on change.

## Looking at the market as a whole, which industries exhibit the most growth potential?

We expect great growth in the financial services, technology, communications, and entertainment sectors, and these are the ones we particularly focus on. That said, there are other areas, like health sciences – and within that industry, biotech and pharmaceuticals – where we expect significant growth to continue.

## Operating in such a competitive market, how do you show what makes Ernst & Young unique?

At the end of the day, the difference is in the execution of services. And to make sure that we are the best at execution, we've increased the resources that we devote to certain areas of our operations, including our quality initiatives, knowledge bases, and industry-specific training. We put a great deal of emphasis on research into the emerging issues of an industry, which we call "thought leadership." Each year, for example, E&Y issues many reports, ranging from our global biotechnology industry report, which we've conducted for 17 years now, to reports focused on the impact of specific issues, such as our new retail and consumer products global-supply-chain study.

Ernst & Young audits 279 – or 28 percent – of *Fortune's* 1,000 largest U.S. corporations. Our industry focus clearly gives us a competitive advantage in the marketplace. For example, among those 1,000 largest companies, we audit at least one-third of corporations in the aerospace and defense, banking, communications, construction, media and entertainment, and provider-care sectors. Also among those same 1,000 companies, we audit half of the companies in the airlines sector, over half of the REITs, and about two-thirds of the real estate companies and mining companies. We also audit more of the largest retailers and wholesalers, and insurance companies, than any other firm. ●

# Fluent in the Language of Industry

An Interview with Wolf Jansen, Global Director – Industrial Products and Automotive, Ernst & Young Global

**EDITORS' NOTE** *Wolf Jansen began his association with Ernst & Young in 1975, when he joined Ernst & Whinney GmbH. He has since risen through the ranks, assuming key roles in E&Y's German and European operations, including national partner of Human Resources and managing partner of Audit and Accounting Services for Ernst & Young AG. He has also served as the regional managing partner of the Central Region in Germany and as the area managing partner for Markets for the Central European Area. Jansen, who earned an M.B.A. in taxation, accounting, corporate management and organization from Frankfurt University, was named global vice chairman of Global Accounts, Industries, and Sales on September 1, 2003.*



Wolf Jansen

meet our clients' needs and the investing public's expectations.

One of the ways we implement that quality mandate and differentiate Ernst & Young is by making sure that the services and products we offer talk the language of the industries for which they are designed, and meet their needs. We address the issues facing our clients and we do so in such a way that our clients know that we understand their

business and industry. As an example, we have developed a number of products to help automotive OEMs [original equipment manufacturers] evaluate their suppliers. A lack of liquidity is a major problem in the automotive industry, and suppliers are often unable to survive in the market. Our products enable OEMs to assess on a timely basis just how solid their suppliers are.

**Ernst & Young established a Global Automotive Center in Troy, Michigan, in 2002. What was the rationale behind that move?**

We established the center to better serve the unique needs of our automotive clients. The facility has drawn together about 80 professionals – including audit, tax, and transaction advisory people – who are dedicated to serving clients in that industry. They focus on automotive clients' issues, and that benefits not only the American practice and its client base, but also Ernst & Young's entire global network. Our business is the application of knowledge. So we are also establishing global knowledge networks that make Ernst & Young's wealth of knowledge available to all of our people who can take it out to our clients.

**Obviously, your firm's business grows where and when your clients' business grows. Which regions offer the greatest growth opportunities for the industries you serve?**

North America appears to be recovering from the recent recession and should offer increased opportunities in almost all industries. Most of Europe, on

the other hand, is going through difficult times, so that region does not present the same opportunities for us right now.

In the automotive sector, Germany is an exception, as some of the leading international carmakers are still doing quite well. Additionally, Japan has enormous potential in the IT and automotive space. I was there during the summer and met the Ernst & Young engagement teams of some of our Japanese clients, among them Honda, Mitsubishi, and Isuzu. At Honda, we met with their global CFO and discussed automotive matters with him. We are working hard to grow our business in that market.

Moreover, China has become the manufacturing hub of the world, and other types of businesses – such as financial-services companies – are actively trying to penetrate the vast and growing Chinese market. That country presents huge opportunities for a wide range of businesses. China also offers huge risks for those who fail to understand her cultural and political nuances. Ernst & Young has invested heavily in building up our local presence in China. We have also created our China Advisory Group to help clients avoid the potential pitfalls of doing business in China.

**What are some of the critical issues related to globalization that are facing your clients?**

Globalization raises a host of issues that we help clients address: from financial reporting, technology, and information security to human resources. For instance, global tax planning is essential. Transfer pricing is another global issue that impacts our clients throughout their organizations.

We help clients meet their transfer pricing challenges by providing a broad range of services including comprehensive supply-chain restructuring, transfer pricing planning, controversy management, and supporting compliance with documentation requirements. Supply chains require a global perspective, in areas ranging from sourcing overseas suppliers to transportation logistics. ●

**Why are global accounts of keen interest to Ernst & Young?**

They are of great interest to us because of their size, the revenue derived from them, and because they offer our people a variety of interesting opportunities for personal growth. Global accounts offer unique challenges because we must not only understand the culture of the company, we must also understand the cultures around the world in which the company operates. This is a significant challenge. And this is why we have invested so heavily in building a strong global infrastructure for Ernst & Young. We must be able to efficiently serve our global clients no matter where they have operations, and do so in a high-quality manner that also meets the expectations of the financial markets.

**In your capacity as a global leader, how do you differentiate Ernst & Young in such a competitive market?**

Quality – in our people and in every aspect of our work. We strongly believe that employing quality people and having them do quality work is the best way to



# Focusing on Industry Issues

An Interview with Stephen E. Almassy, Global Vice Chair – Technology, Communications, and Entertainment, Ernst & Young Global

**EDITORS' NOTE** *During his 26 years at Ernst & Young, Steve Almassy has been involved in a variety of technology-related client issues, including auditing and consulting on business strategy and financial matters, public offerings, mergers and acquisitions, and strategic alliances. He is a graduate of Santa Clara University and is a CPA.*



Stephen E. Almassy

## How optimistic are you about growth for the Technology, Communications, and Entertainment [TCE] industries?

All things considered, I'm optimistic that we'll see growth in all the TCE segments over the next year. But, I feel better about breaking it down for you. We put these three industry segments – technology, communications, and media and entertainment – together, but there are sectors within each. Take technology, for example. Here, we look at semiconductors, software, computers, and communications equipment, and each of those is going to recover in different stages at different times. For instance, communications equipment is probably going to be the last to recover because it's very much reliant on what happens in the communications services industry, which is pretty beaten up right now. However, we're starting to see signs of increased spending in the other technology sectors, and that's what really fuels growth: the corporate IT sector, as well as increased spending in the consumer sector.

Moreover, CEOs are more optimistic than you might expect. In our fourth annual study of industry leaders in The Leadership Connection series, CEOs tell us that they've learned some tough lessons about how to survive and thrive in the current industry retrenchment period.

### What types of lessons?

For starters, simply making across-the-board spending cuts and layoffs won't work if you don't also fundamentally

change your business. Companies that fail to meet productivity challenges will fall by the wayside. One CEO told us that companies need to achieve 2 to 3 percent, and in some cases as high as 5 percent, productivity improvements each year if they want to stay in business. Also, many companies need to clarify their business models and reestablish financial stability and trust through debt reduction and

improved corporate governance.

### Will industry growth be global?

Oh, absolutely. It's interesting that the emerging markets have the ability to leapfrog the more mature markets, like the United States and some of the European countries, because they don't have any boat-anchor infrastructure weighing them down. They can actually go out and buy state-of-the-art technology. For instance, in the communications industry, instead of putting in big wire-line networks, as in the United States, emerging markets put in state-of-the-art wireless networks.

### On the surface, products and services sound very similar from company to company. How do you distinguish E&Y when you discuss potential business with clients?

The way we do that is by delivering quality, and that begins and ends with our people. Let's face it, we're not a manufacturing company. Our assets walk in and out the door every day. And the firm that has the best assets – that is, the best-quality people, with deep knowledge of their specialties – is the firm that wins. When we're in a competitive bidding situation, we win because we have the best people, with deep knowledge of our business and whatever industry we're dealing with, whether it's the TCE industry or any other sector. That's what differentiates us: the people side of the business.

We've won a tremendous amount of business over the last couple of years, and I truly believe that the reason we win that business is because we have the best

people with the right skills and insights at the right time to really focus on clients' needs. These people have deep, deep industry knowledge and content in their specialty areas that they bring to our clients' situations. That's what our clients buy.

### As far as whom you sell to within companies, has that changed recently?

Deep C-level relationships are important, but you also have to build deep relationships with the people in the organization who actually do the work. So, many times with large global organizations, we find the buyers of our services to be the people out in the divisions.

It's interesting too: Since the Sarbanes-Oxley Act went into effect, we're starting to see companies look to multiple providers because auditors can't do some of the work they used to do. And some audit committees are becoming wary of engaging an auditor to do things that, from the public's perspective, might look like a conflict of interest. This has opened up a tremendous opportunity for firms wanting to become the second provider to these major companies.

### Ever since some of the recent business failures, it seems as though the public has painted the corporate world with one brush. As a senior executive, how much does this concern you?

I believe that restoring credibility in the capital markets and corporate world is paramount. We're one of the integral cogs in the capital markets, and it's one of our highest priorities to do just that. We have a responsibility as a firm to help restore credibility in the capital markets, in corporate America, in global corporations, and in our own industry. That's extremely important to all of us.

At E&Y we have a tag line: "Quality In Everything We Do." We live and breathe this mandate. We truly believe that by doing this we're at the forefront in terms of reestablishing credibility for the corporate marketplace and the capital markets. To do this, we make sure that we have quality people and quality clients. After all, people and clients are our business. ●

# Bringing Skill Sets Together

An Interview with Robert W. Stein, Chairman,  
Global Financial Services, Ernst & Young Global

**EDITORS' NOTE** A graduate of Drake University, Bob Stein has more than 30 years' experience advising the financial-services industry, working with insurers, banks, capital-markets firms, and asset-management companies. A certified public accountant and a Fellow of the Society of Actuaries, he is a quarterly columnist for Best's Review and also writes frequent articles on industry issues for other leading external publications, as well as for CrossCurrents, the flagship publication of Ernst & Young's Americas financial-services practice. A former vice president of the Society of Actuaries, he is also a member of the American Academy of Actuaries and chaired the General Committee of the Actuarial Standards Board from 1996 through 1999.



Robert W. Stein

## How do you balance your clients' needs with investors' need for transparency and conservatism in financial reporting?

There should be no conflict between the needs of those two constituencies – both are very important. We understand that credibility with investors is particularly important right now for the financial-services and insurance sectors. And we're mindful that acting in the spirit, not just the letter, of the law is particularly critical to our clients' credibility – and ours.

We help clients gain and retain this credibility by assisting them with the complex corporate-governance issues that have arisen in recent months. We're very mindful that financial reporting is a public interest and that our clients and our firm will lose credibility if we and they fall short.

## Which regions of the world offer the greatest growth opportunities in financial services?

In the near term, growth in North America might exceed that in Europe and Asia as we come out of some of the

economic malaise a little more quickly. However, I also think that we'll see substantial growth in Europe in fiscal 2004 and 2005. A lot of regulatory and reporting changes are coming to Europe in the form of international accounting standards, and other reporting and internal-control requirements.

We like the longer-term prospects for Asia. China continues to be a real growth market for banks and insurance companies, and despite the economic issues in Japan, our practices there are doing well.

## Financial services and the way they're offered often sound similar. Is it difficult to differentiate and demonstrate what makes one firm unique?

Differentiation between professional-services firms is indeed difficult, but there are a number of ways we demonstrate the value of our services. We approach each client situation individually and pull together a team that has experience applicable to that client's needs.

We have strong practices in all sectors of financial services. So, if we're looking at a retail financial-services situation, for example, we might bring together people with bank, insurance, and asset management backgrounds. The process involves assembling a multidisciplinary team made up of creative thinkers from different but related industry segments, and having them work in a smooth and integrated fashion.

We excel in many technical areas, but much of our competitive strength comes from bringing together many skill sets – whether they're financial, tax, risk management, or technology skills – in a cohesive team so that we can help clients address all facets of an issue and make sure that we take a comprehensive approach. It's really in the development of the team and the approach to a problem that firms can clearly differentiate themselves.

## What are the major issues facing financial-services companies, and how does Ernst & Young help them address these issues?

In addition to the more common challenges related to managing large international organizations at the highest level, financial institutions face the need to understand and manage the risks they take, deploy capital to fund those risks, and assure that the returns on such capital are creating value on a risk-adjusted basis.

Ernst & Young has broad experience in helping financial institutions understand what their risks are, measuring capital committed to fund risk, measuring where value is generated, and evaluating a company's controls and processes to help achieve expected performance.

## What does quality mean to you in the context of the financial services industry, and how do you deliver it?

All the stakeholders of our business, and especially clients, are expecting – in fact, demanding – the highest-quality service from us. Delivering the highest-quality service requires a few things: We must understand each client's specific issues. Our team's knowledge, skill sets, and experience must reflect these needs. And, most important, we must behave with the highest integrity, which means having the courage to make the right decisions about difficult problems and the strength to sustain those decisions in the face of possible criticism from affected shareholders.

## In addition to all of your management and administrative responsibilities, how important is it for you to still make time for client contact?

It's the highest priority. I spend over half of my time in the marketplace with clients and potential clients. That's the only way that you can really understand the market, its dynamics, the challenges the companies are facing, and the potential means of helping to address their emerging issues. ●

# Serving the Entire Health-Sciences Value Chain

An Interview with Donn Szaro, Global Director – Health Science Industry Services, Ernst & Young Global, and Americas Director – Health Science Industry Services, Ernst & Young LLP

**EDITORS' NOTE** *The recipient of a B.S. from Florida State University, Donn Szaro joined Ernst & Young in 1972 and has since held positions of increasing responsibility throughout the organization. In addition to his current directorial post, which he assumed in 1995, he serves as chairman of Ernst & Young Global's Health Sciences Steering Committee and is the managing partner of E&Y's Miami office. Szaro, a CPA, is also a member of the Florida Research Consortium's board of directors, the Miami City Club's board of governors, the United Way of Miami-Dade County's executive committee, and the Greater Miami Chamber of Commerce's executive committee.*



Donn Szaro

health-science marketplace, as well as bioethical and other legal constraints, the next, great, blockbuster discovery could happen in a distant, developing country. So we have to keep an eye on these geographies also to help our current and future clients embrace that breakthrough.

## What is driving the growth in the health-sciences industry?

There are some interesting dynamics going on within the industry that is changing the traditional power base. Large pharma research and development is realizing less results, causing more dependency on smaller, even start-up, biotech innovation. However, pharma still has unsurpassed sales and distribution channels. Merger and deal activity remains strong, even in this economy. We're seeing many pharmaceutical and large biotech companies searching the globe for partnerships, R&D alliances, and outsourcing arrangements to help bring products to market more efficiently. While North America remains a powerhouse in biotech, for example, the next great product breakthrough might come from researchers in India or China. So there's no room for provincial thinking in this industry.

## How do you keep up with the constant changes in the health-sciences industry?

We constantly evaluate our clients' needs and the products and services we deliver to help meet these needs. We do focus on the firm's anchor service lines – enterprise risk, transactions, human capital, tax, and of course, audits. Then, depending on clients' needs and new legislation, we regularly develop an array of products in those areas. For example, when HIPAA [Health Insurance Portability and Accountability Act] was passed in 1996, we began developing strong capabilities in that new regulatory area. The process evolved with the implementing regulations and it took six or seven years, but we developed a whole service line around HIPAA and prepared our clients for new privacy and security issues.

Recently, this suite of products earned Ernst & Young recognition from the American Hospital Association as their strategic advisor and endorsed partner for HIPAA security services. So, as new legislation comes about, we'll adjust our products within the framework of our anchor service lines.

Our Center for Industry Change has expanded its charge to stay ahead of emerging issues and enhance the quality of our work. This think tank is devoted entirely to researching health-sciences issues, ranging from trends in the marketplace and health policy initiatives to new technologies. All of these issues can create new opportunities for our clients. We deliver the knowledge gained through this research via means such as our annual global biotechnology and pharmaceutical industry reports, hospital board reports, other regional and country reports, newsletters, and meetings with our clients.

## Has E&Y been able to attract talented professionals to its health-services practice?

We have. The opportunity to work with international clients is very exciting to the younger people at E&Y, as is the opportunity to work with entrepreneurial, fast-growing, multibillion-dollar service providers. Those client-service opportunities serve as human-resources magnets; after all, not many employers can offer people the opportunity to work with successful, multibillion-dollar clients.

And, in return, the experience and quality of our people really offers something special to the industry. For example, we have more health sciences partners than any other Big Four firm. More than 3,000 of our people have worked in or for the industry – whether it be as molecular geneticists or regulatory administrators or doctors and nurses. They have real-world experience under their belts, and they understand the full spectrum of business issues specific to biotech, pharmaceutical, and health-care provider organizations. This industry focus has led Ernst & Young to a leading audit market share of more than 50 percent of all major health-care provider organizations, and more than 40 percent of major biotech, pharma, and medical device companies. ●

## What's your outlook for growth in the health-services sector?

I'm absolutely bullish on the industry. I think the biotech sector of health services will be the first gold rush of the 21st century. We're on the cutting edge of a tremendous explosion in new biologics, space-age medicine, and quality-of-life-enhancing devices that will reinvent the way health care is delivered across the globe.

## How does E&Y differentiate itself in the marketplace?

Ernst & Young is differentiated in the health sciences industry by our strategy and our commitment to quality. We serve the whole health-science value chain – from discovery to delivery – and we're the only firm in our industry with such a broad focus. We are better able to understand the challenges facing not only our clients, but also their customers, partners, suppliers, and competitors.

## From which specific geographic markets do you expect to see the greatest growth in health sciences?

I predict that growth will be global. Clearly, the Americas and Europe are home to strong health-sciences providers, delivering well over 70 percent of all health-care services consumed, and we're focused on those geographic areas. However, due to the connectivity in a global