Responsible Leadership

An Interview with Samuel A. DiPiazza Jr., Chief Executive Officer, PricewaterhouseCoopers, New York

Samuel A. DiPiazza Jr.

EDITORS' NOTE *Sam DiPiazza joined Coopers & Lybrand in 1973 and became a Partner in 1979. He headed the Birmingham, Alabama, and Chicago offices before being named Midwest Regional Managing Partner in 1992 and head of the New York office two years later. Following the merger of Coopers & Lybrand and Price Waterhouse in 1998, DiPiazza was named the Americas Leader of Tax and Legal Services. In 2000, he was elected Chairman and Senior Partner of the U.S. firm, and assumed his current role in 2002.*

Among numerous professional and civic affiliations, DiPiazza is a Trustee of the International Accounting Standards Committee Foundation, Vice Chairman of the World Business Council on Sustainable Development, Chairman of The Conference Board, and a member of the Executive Committee of the International Business Council of the World Economic Forum. He has served as the Global Chairman of Junior Achievement Worldwide since 2003. He serves on the Executive Council of the Inner City Scholarship Fund and the board of directors of the New York City Ballet. The coauthor of Building Public Trust: The Future of Corporate Reporting, *published in 2002, DiPiazza holds a degree in accounting from the University of Alabama and an M.S. in Tax Accounting from the University of Houston.*

COMPANY BRIEF *Formed by the 1998 merger of Coopers & Lybrand and Price Waterhouse, PricewaterhouseCoopers (www.pwcglobal.com) is a global professional services firm, employing more than 140,000 people in 148 countries. Offering industry-focused assurance, tax, and advisory services to build public trust and enhance value for clients and their stakeholders, PricewaterhouseCoopers uses "connected thinking" to develop fresh perspectives and practical advice. The organization reported global revenues of $19 billion in 2005.*

Are you predicting growth across all your service lines, and where do you expect that growth to come from?

We're very optimistic about growth across the board, and for a number of reasons. First and foremost, the world economy is strong. Emerging economies are driving high demand and we have great businesses in those markets. In fact, we are very competitive in just about every important capital market, so that gives us a great opportunity to grow. Our assurance business is being driven by new regulations, by higher demands for transparency, and by changes in corporate reporting. That business has been growing at double-digit rates, and we see that continuing for a while.

Our advisory businesses have all been very robust in the last several years, and we see that continuing as the economy and the markets remain strong. Our position as a global organization that can serve clients in a seamless way in markets all over the world gives us a competitive advantage. We have to use that advantage to get better growth, and so far I think it's working pretty well.

Do some markets have more potential than others?

Our markets are very segmented. We operate in regulated markets and in nonregulated businesses, in developed countries and in emerging markets. They're not all developing at the same pace. Our most robust businesses are in Eastern Europe and in China. Our business in India is poised for significant growth. We're also seeing growth in Korea and in Southern Africa. In developed countries, we are experiencing strong growth in the U.S. and the U.K., and we see that continuing as well.

What are your reasons for optimism for the market in China?

We are deeply committed to that marketplace. We have more than 7,000 people in our China practice, which is three or four times the number of people who were working there at the beginning of the decade. It is a market that combines several things. It is an active capital market, in which people are searching for investment capital. It has attracted inbound manufacturing, because of its natural competitive advantages. And, perhaps most important, there is a strong domestic marketplace, which has developed over the last several years. All these elements involve the kinds of services we offer. Our assurance business supports the capital markets, while our tax businesses support structuring and transactions. Our risk business supports all the enterprise risk-management structures, and that plays right into what is happening in China. Our performance-improvement businesses are developing at a very rapid pace as well.

I'm an optimist, but I'm also a realist. I have enormous respect for the leaders of China, because they have managed an extraordinarily complex environment to produce decades of sustained growth. Of course, they will continue to face various issues, but I believe they will be able to manage those. So we foresee growth in China for a good while to come.

Many business leaders group China and India in terms of strategy. What is your outlook for India?

Our outlook for India, like China, is also very positive, but it is a very different market. China is an open market that has had a 15- or 20-year head start on India. That's significant. India has the strength of a democracy, but being a democracy, it tends to operate at a different pace and at different levels of policy making. At times, that can be a disadvantage, but over the long term, it's probably a serious advantage for India. Equally, India has a highly educated, English-speaking population, and that will offer a competitive advantage over the next decade. From a population perspective, China has the momentum today, but in 20, 30, or 40 years, India will take the advantage as China's population slows and India's grows. The government of India must remain focused on being an open economy, creating opportunities that are balanced for inbound investments and multinational companies. It has not been very consistent in this regard over the last 15 years, but I think it is on the right path today, and we're very supportive of that. So the markets in India and China are different. They each have different competitive advantages, but I think there's a growing place for both of them in the global economy.

What is your outlook for Latin America?

Latin America offers us very significant opportunities for growth. We're the largest firm in South America, and have been for a number of years. Our integrated business, across the entire continent, has been growing at more than 20 percent for the last several years. Brazil, particularly, has grown very nicely over that timeframe. It delivers a few political surprises every now and then, but its economic performance has been good. Meanwhile, Argentina is rebounding and Mexico has improved a fair amount too. Mexico, of course, continues to be dependent on its northern neighbor, but, nevertheless, it's an economy that offers great opportunity. Overall, the natural resources of South America give it extraordinary opportunities to prosper in the global economy.

Some industry leaders are questioning the ability of the United States to maintain its competitiveness, as countries like China and India grow. Does that concern you at all?

I am very bullish on the U.S. market. I think the U.S. has its challenges, just like Europe and other developed markets. But the U.S. has an extraordinary history of innovation. It is by far the most flexible economy in the world. It has the ability to move resources in a very efficient and effective way. Sometimes it may feel harsh, but that's why the U.S. economy has outperformed the world in sustained growth for years, and still attracts the most capital in the world. Of course, the U.S. has issues to deal with. For instance, we have to deal with our low savings rates and our deficits. But when you're growing at the rate that this economy is growing, and when you have a strong, independent, innovative workforce, I think there are plenty of reasons to be optimistic..

You have clients across all industries. Do you tend to focus on certain sectors, or is your approach more broad-based?

PricewaterhouseCoopers [PwC]is an organization of 140,000 people. That gives us the scale to focus on multiple sectors. That said, we are very focused on sectors where we know we can add significant value. The financial services sector, for example, is clearly one of our most critical areas of focus. We have a significant presence all over the world in banking, insurance, investment, and asset management. We have a major focus on the technology industry and on communications and media. We dominate those markets in many places. The largest of our sectors is manufacturing, including automotive, pharmaceuticals, and consumer and industrial products. And of course, we have the largest presence in the energy industry. In today's world, that is where a lot of capital is flowing. So we play in most of the critical sectors of the world, and we play with a considerable depth.

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You have a few very large competitors, which offer similar products and services around the world. How can you show what makes your firm unique?

Most of the players in most sectors sound very similar. What distinguishes the automobile companies from one another? What distinguishes pharmaceutical companies? What distinguishes banks? They offer the same products. They deliver the same services. In order to really distinguish yourself in the marketplace, you need to provide more than just a different service; you need to provide a distinctive offering to all the stakeholders. You need to provide something that creates distinctive advantages for clients. For us, it is about quality, but we don't define quality just as giving good advice. Of course, the quality of our work is defined by our advice, which must be innovative and technically correct. But it's also defined by the quality of our people. Intellectual businesses are driven by the exceptional quality of their people. We also define quality by the clients with whom we choose to do business, and by the quality of our interactions with our clients and stakeholders. I think you have to be distinctive in all those areas in order to be successful.

Do you only work with the world's largest companies, or do you also target smaller players?

Actually, smaller companies constitute one of our key market segments. As I mentioned earlier, we are very focused on segmenting our markets around the world – by geography, by industry, by service offering, and also by the nature of the clients. I would suggest that as much as half of our business is driven by middle-market private companies. Yes, our brand is defined, in many ways, by the Unilevers, the IBMs, the ExxonMobils, and the Toyotas, but our business is built in 148 countries by our deep engagement with middle-market, mid-cap, private companies. I grew up on that side of the business. I began my career as a tax partner serving family held businesses.

What is your view of the new U.S. legislation on corporate governance? Many leaders say that the pendulum has swung too far in the direction of regulation.

If you think back to where we were five or six years ago, the state of the capital markets was not so good. There was a lack of transparency, a lack of a sense of accountability, and confusion about who was responsible for what. What was the role of the board of directors? Was the board there for advice or oversight? Was our business built as an advocacy vehicle for management, or did we have a higher responsibility to the investor and other stakeholders? There needed to be change. In that sense, the new regulations are welcome. Has all the change been perfect? No, I wouldn't say that. But much of it has been very good.

Today, we operate in a world where we have independent audit committees in almost all the major markets in the world. We operate in a world where a board understands its oversight responsibility – not only its loyalty to management, but its responsibility to investors – and where CEOs and CFOs have to certify their view of the reports they issue. Now, these developments have changed the culture of business, and I think that's very good – good for companies, good for us, and certainly good for the investor

With regard to my own profession, legislation in many countries around the world has made us a regulated business. I think that has made us better, because it has increased our focus on our responsibilities. It has put a spotlight on quality issues, and it has made us respond quickly to make necessary changes in how things are done.

Of course, it has not been perfect. We're the first to say that many of the concerns about the increased regulation and the renewed focus on compliance may have distracted boards away from strategy. Moreover, the increased liability of boards could be a very negative factor, if qualified people quit serving on boards. The implementation of some of the reform, particularly that around internal controls has not been easy, and it clearly could have been more efficiently delivered. But have there been improvements? Absolutely. I'm confident that what we're really seeing is a correction of many years of deferred maintenance of controls. People lost sight of the value of a strongly controlled structure and culture, and I think we have gotten a lot of that back. So it has not been perfect, but we've made significant progress.

Has the negative publicity associated with lapses in corporate governance affected your industry's ability to attract top-quality employees?

It has been interesting. We weren't sure how the people market would react after those high-profile scandals. As it turned out, the focus on the responsibilities of people in the assurance business, and the major firms' responsibility in the capital markets, actually increased the level of attention and interest we receive. Our recruiting has been very, very positive. We're currently the number-one employer on campuses in the U.S., the U.K., in Switzerland and other places – and that's among all companies, not just accounting firms. The real question is this: In the long term, is this profession attractive? That is our most strategic challenge. How can we create a world where the intellectual and financial rewards offset the risk? I think that question will take some time to answer.

PwC recently finalized its ninth annual global CEO survey. You regularly produce surveys and white papers on various relevant topics. How important is this thought-leadership activity for the firm?

It has been a key part of our culture for a long time, and it is very important to us. It helps us to gage what the market is thinking, so we can understand the risks in the marketplace and what challenges clients are facing. It also helps us understand which markets create opportunity and which markets create risk.

For the recently published global CEO survey, we surveyed more than 1,400 CEOs in 45 countries. They crossed the spectrum in terms of size – there were big companies, midsize companies, and small companies, private and public. It was clear to us that globalization was taking a new direction, and we wanted to see what was really happening.

It must have been difficult to persuade all those CEOs to focus on this survey, when they were busy running their own companies.

It was a challenge, and they needed to understand that by participating, they would gain knowledge and insights about emerging business trends and issues. Remember, too, that we have been conducting this survey annually for nearly a decade, and so many CEOs have formed the habit of regular participation. In conducting our surveys, we work hard to be sure that we touch the right kind of companies, and that's why we pay so much attention to the profile of the respondents.

As you mentioned earlier, PwC has extraordinary scale around the world. How do you manage your internal communication?

As in all large organizations, internal communication is a challenge. Nevertheless, we communicate regularly. We are very careful to choose just a handful of messages that we are willing to send through the whole organization. Any organization has a limited tolerance for the messages it can receive. So we pick very specific themes and very specific subjects and we push them from the center, from right here in my office. We also work hard to be sure that those same messages are delivered and reinforced by our leaders in Luxemburg, New Zealand, Zurich, and everywhere else in the world where we have a presence.

The organization has undergone a dramatic cultural change since our big merger eight years ago. We've created a PwC culture, distinct from the cultures of our legacy firms. In fact, it is remarkable to consider that the majority of our current staff never worked for either of our legacy firms. The creation of that distinctive PwC culture is a result of very clear communication and the behavior of the leaders of the firm around the world.

Increasingly, businesses are focusing on corporate citizenship. To what extent is social responsibility reflected in the culture of PwC?

We think of this concept as "responsible leadership," and we consider it to be very important. First, we are a privileged group of people. We're 140,000 people in very different markets who are at the high end of intellectual experience, and who have developed an economic success that's above average for our marketplaces. We have a responsibility to lead that goes beyond being great technicians. Yes, responsible leadership is about being good auditors, and it's about providing responsible tax advice, and being objective and independent. But if we stopped there, we would not have realized our potential.

We have a very young workforce that wants to participate; they want to give to their community. So we create opportunities, which are not defined by my office, but in the countries in which they work, For instance, in China, we have a partner who for years has taken groups of doctors deep into China to provide cataract surgery for people who thought they would be blind for their entire lives. We are also one of the largest providers of volunteers for Junior Achievement/Young Enterprise around the world. Our Ulysses program sends teams of young partners into countries struggling with enormous challenges – in health care, infrastructure, education – to work with local agencies and NGOs in resolving those issues. Whether it's in Africa, the Middle East, the U.S., or the U.K., we help young people understand that entrepreneurship can create opportunity.

Your time is pulled in many directions on any given day. Do you still find time for client interaction?

Yes – and I consider it to be imperative. I think any CEO who loses touch with his customers is on a short-term contract. You have to stay very close to your markets, and I touch clients every single day. I do that by being in places where I can meet with clients face-to-face and also by being accessible to clients who want to discuss issues with me. Recently, a client called me from a relatively small part of our business. He was concerned because a service issue with our team was causing his business major problems. He called my office hoping to find someone to talk to, and I answered the phone. He was a bit surprised to find himself talking to me. We then discussed the problem with the client service team exploring how we could help. Now we probably have that client for life, because we were able to turn a tough situation into a positive situation.

When you look back to the beginning of your career, could you have imagined that you would spend so much of your working life in this industry?

Well, I knew this was a place to learn. I say this to our young people all the time. I don't think anyone who joins PwC, or any of our great competitors, joins with the vision that they're going to be there for 33 years. They come to learn. The question is: How do we give them a chance to learn? How do we create an environment that is so stimulating that they can't leave? I think it's a tribute to PwC, and, frankly, to the profession, that we have created environments where people want to spend their whole lives learning. Did I think 33 years ago that I would be spending my entire life at PwC? No. I thought it was a good place to start. But I have never found anything that would be more interesting, or that would enable me to learn more. ●