

## A Culture of Shared Values

Ernst & Young's people pursue their passions and build a unique culture at work, in their communities and at play.

Creating a global organization of shared values takes hard work – and it also takes great people. Ernst & Young's employees around the world – even former employees – exemplify values that have a positive impact on work with clients and communities, and within the organization itself.

With 135,000 men and women focused on a range of auditing, advisory, tax, and accounting services to clients in every corner of the globe, Ernst & Young places a lot of emphasis on those shared values that allow its people to speak the same language and build teams based on respect and doing the right thing.

At the same time, however, Ernst & Young is keenly aware that the diversity and individuality of its workforce are critical – and that they make the organization particularly well-adapted to the challenges of the global economy. Each employee brings unique strengths to his or her clients, communities and own career development.

Here are just a few examples:

### Teaming ▶ *Richard Ireland, China*



Richard Ireland is not the type to rest on his laurels. One of the U.K.'s most experienced telecommunications partners, he'd been recruited to Ernst & Young in 1999 from an industry CFO position and then spent eight years enjoying success after success as Ernst & Young became a leading player in telecommunications worldwide. Ireland attributes this success to "something so simple, but critical": twice-yearly meetings that bring together Ernst & Young's telecommunications professionals from Ernst & Young member firms around the world and encourage them to think of themselves as a far-flung team. "We were a bit ahead of our time in leveraging our international experience," Ireland explains. As a result, Ernst & Young was soon serving 19 of the world's 20 largest telecommunications companies.

Despite this market leadership, Richard was bothered by Ernst & Young's lack of presence in the Far East, where the local telecommunications companies were rapidly climbing the ladder in terms of size. When Ernst & Young's global management asked him in 2006 to consider opening a telecommunications practice in Hong Kong, Ireland said he'd go, but only to the grittier city of Beijing, where the really explosive growth is.

Recently one of China's giant telecoms, with a subscriber base bigger than the entire population of the U.S., chose Richard's team over its own auditor to help it with its first overseas acquisition in Pakistan. In Islamabad, Andy Wong and Shariq Al-Zaidi, leaders from Ernst & Young member firms in Beijing and Pakistan, quickly assembled a superb team.

"The new Chinese managers in Pakistan could see how easily we joined up and began working together," Ireland says. "We got a lot of credit for that with a client that will certainly be making more acquisitions outside China."

Ireland adds, "Ernst & Young truly has a

global mindset. So it's more effective than most organizations at moving people around to where their skills are most valuable."

### Courage to Lead ▶ *Kaoru Kashima, Japan*

Kaoru Kashima has so enjoyed her experience working for Ernst & Young in Tokyo that she has built a 27-year career there, rising to an Assurance & Advisory Services partner for major Japanese audit clients. But there was one thing about



her office that she really disliked: the fact that so many of its most talented female CPAs gave up their careers as soon as they had children.

"We still have a certain myth in Japan that women shouldn't go to work after they have children," she explains. As the mother of a ten year-old boy, Kashima understands the struggles of working mothers. But she also knows that Ernst & Young in Japan could help some women rethink a premature end to their careers by easing the challenges of raising a family while remaining in the workforce.

Not only did she help Ernst & Young put in place flexible work arrangements and a substantial child care subsidy for all its working parents, she also created an unofficial working mother's network to encourage women to take advantage of the official system. "Some women," she explains, "are very hesitant to use flexible arrangements because they worry about forcing their colleagues to take on more work."

Fortunately, she has had the full backing of her leadership in overcoming such skepticism. "Even though he is very busy," Kashima says, "our new chairman Yoshitaka Kato goes to offices all over Japan to explain our child care support system." And much to Kashima's satisfaction, there are now increasing numbers of Japanese women effectively balancing family life and brilliant careers at Ernst & Young.

### **Energy** ▶ *Bill Farrell, Australia*

When Bill Farrell talks about Ernst & Young, he brings a certain perspective to his judgments. Before joining Ernst & Young Australia in 2006 to help establish its People Advisory Services business, he spent his childhood in Ireland, his



college years in the U.S., and his career as a global human resources consultant in London, Singapore and several Australian cities.

"A lot of organizations have nice values statements," Farrell says. "Yet, for an organization to actually encourage you to live those values in work and outside is extraordinary. When Ernst & Young says that its people have to show the courage to lead, they really mean it."

As a result, Ernst & Young has encouraged Farrell every year as he's trained for a grueling race through the Australian bush called Max Adventure. Farrell is part of a four-person team that includes Ernst & Young Australia Managing Partner Doug Simpson. The race takes place over 24 sleepless hours on foot, mountain bike, and kayak and requires orienteering in the pitch black. The rules demand that each member of a team stay within 200 meters of the others, so no one – not even a "fast-paced" person like Farrell – is any faster than his slowest team member.

Ernst & Young's support has earned dividends in return. "The race has taught me to think about teamwork in a different way," Farrell explains, "to be competitive, but not at the risk of my teammates not achieving their personal goals. I've become a much more facilitative manager at work, willing to check myself, slow down and coach now."

### **Integrity** ▶ *Magdalena Soucek, Czech Republic*

Magdalena Soucek, head of Advisory Services for the Czech Republic and Slovakia, is not the kind of person who considers her job finished simply because she's served her clients well. She has also worked hard to improve the mar-



ket in which they do business. "The laws in the Czech Republic can be an obstacle," she explains. "They are constantly changing. It's not the same as in a fully developed country, where you work on precedent."

By serving on the board of the American Chamber of Commerce in the Czech Republic and leading it for three years as president, she has helped to create a more rational legal and regulatory environment. A Czech native, Soucek emigrated to the U.S. at age 18 while the country was still under Communist rule. Ten years later, after the Velvet Revolution, she returned in order to set up an audit and advisory practice for Arthur Andersen, and later joined Ernst & Young.

The projects the Chamber has taken on included a redraft of the bankruptcy law and the training of judges on its interpretation, as well as amendments to the tax code that made improvements such as capping social security costs. "Legislators don't always realize that if you tweak one thing here and there, something else gets out of balance. In a constantly evolving environment, we want to make sure things are evolving in the correct way."

Soucek says that leading this drive for a better business environment has been extremely enjoyable. "It's been good for me, good for Ernst & Young, and hopefully, good for everyone in the country."

### **Relationships** ▶ *Cees Visser, The Netherlands*

It's not every risk management professional who can tell you why the blue and white stripes in a tube of toothpaste stay separate or what the experience of descending into a coal mine is



like, but Cees Visser, a Business Risk Services partner based in the Netherlands, tends to begin every client relationship with an unusual question: "Will you show me around?"

He makes a point of touring offices and factories and asking how things work, he explains, "Because I'm a curious person. As Walt Disney said, 'When you're curious, you find lots of interesting things to do.'"

Occasionally, a factory tour will give Visser a new appreciation for the risks a client faces. In the case of his visit to the coal face, he emerged exhausted by the heat and noise, and astonished that professional miners were able to head cheerily off after work to play a football match.

More often, however, the experience gives him insight into how to communicate with the client, so the client can make the right decisions. "For all the technical instruments we use," Visser says, "there is a lot of psychology involved. A statistical appreciation of risk is very different from people's emotional appreciation."

Visser is constantly seeking out new information in his work, unfamiliar experiences and contrarian ideas. "It's important to look for things that don't agree with what you already know," he says. "Otherwise, you can only bring yesterday's knowledge to your clients."

Not surprisingly, Visser, who joined Ernst & Young in 2002, says that one of the things he enjoys most is its appreciation for diverse points of view. He also cites the degree to which Ernst & Young gives its people, in a highly regulated business, the autonomy to innovate, as well as the sheer quantity and quality of knowledge available to him.

"If a client asks about a subject I don't know well, within two or three phone calls, I can always find the right person on that issue at Ernst & Young, somewhere in the world."



## Making a Difference

► *Marlyn Oberiano, Guam*

"You could fit almost the entire population of Guam into a stadium," Marlyn Oberiano offers. This helps to explain how her work as an



Ernst & Young tax practitioner on the island flows so seamlessly into her volunteer work. "I'll leave the office, go out and do some community activity – and see the same people there, too."

Oberiano is not only the President of the Guam Society of CPAs, she is also Treasurer of a public radio station. "There is a significant need for assistance with accounting issues in

the nonprofit sector here," she explains. And she is about to launch a financial literacy project that will serve both low-income families and college-bound high school students.

There is also not much of a bright line between the community-mindedness she displays outside of the office and the community-mindedness she displays in it. "I'm able to do very creative things at Ernst & Young," she says, including serving as its link to the University of Guam. "I enjoy talking to kids about to graduate and telling them that being a CPA is a great career." She also directs the professional education of Ernst & Young's staff.

"Do I ever get to do client work?" she laughs. "Sometimes, it's a challenge. But in a small, social place like Guam, my being out there in the community is good for Ernst & Young. It shows that we're here to help in any way we can."

## Enthusiasm ► *Michael P. Cangemi, U.S.*

Ernst & Young alumnus Michael Cangemi hasn't quite done it all, but he's come close: he started his career at Ernst & Young, but then left and moved through a series of positions in finance, technology, publishing, and manufacturing women's shoes, culminating in his becoming President & CEO of a consumer products company and then President of Financial Executives International. "That path is not for everyone – but it's been a challenging and exciting track for me."

Cangemi, now president and CEO of Cangemi Company LLC, credits his career path's diversity to the flexibility and risk-taking he learned at Ernst & Young.

"Auditing was in my blood, but I knew I didn't want to audit for the rest of my life," he says.



Halfway into his 10-year stint at Ernst & Young, Cangemi acted on his longtime ambition to run a business and asked to be a part of running the firm. Cangemi was one of five managers tapped to lead what became a 45-person information technology audit group. "Management recognized my desire and took a calculated gamble. They selected me for the job because I didn't come from a technology background and I'd be able to communicate without the techno-jargon."

"No question, Ernst & Young provided me with the platform to take risks and reach for opportunities," he says. "My career has been like stepping stones across a pond and I credit Ernst & Young for enabling me to take that first step." ■



When *BusinessWeek* hit U.S. newsstands in September with a cover featuring Ernst & Young as "The Right Stuff" and extolling the organization as the best place to start a career, it validated what the organization's people leaders have been working on for years.

*BusinessWeek* said top accounting students come not only because of "extensive training and mentoring programs, performance bonuses, and the promise of face time with top executives—including an annual trip to Walt Disney World for all U.S.-based interns," but also because of "near-certain advancement to a supervisor-level position in just two years."

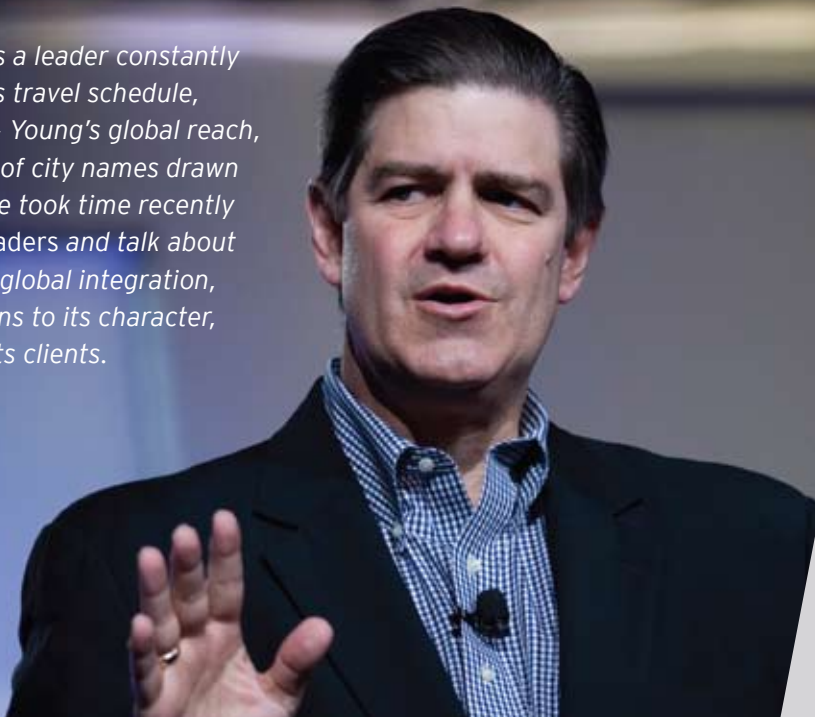
What's more, the recognition comes on the heels of May's Universum study that rated Ernst & Young the most "ideal place" to work among U.S. business majors. In February, Ernst & Young was named one of six inaugural members to be inducted into *Training* magazine's exclusive Hall of Fame, which recognizes outstanding achievement in the field of workforce training and development. Ernst & Young qualified for the honor by being in

the Top 10 of *Training's* Top 125 companies for five consecutive years.

Other major awards for Ernst & Young's people-related programs:

- *FORTUNE* magazine's "100 Best Companies to Work For" (2008)
- Top Ten Employer, South Africa, Corporate Research Foundation (August 2008)
- Employer of Choice for Women, Australia's Equal Opportunity for Women in the Workplace Agency (March 2008)
- *Working Mother* magazine's 10 Best Companies (September 2007)
- *Sunday Times* 20 Best Big Companies to Work For, U.K. (March 2007)
- The *DiversityInc* Top 50 Companies for Diversity, U.S. (March 2007)

*Jim Turley is a leader constantly on the move. His travel schedule, owing to Ernst & Young's global reach, is often a series of city names drawn from an atlas. He took time recently to meet with Leaders and talk about Ernst & Young's global integration, and what it means to its character, its people, and its clients.*



## A Leader with a Global Agenda

Jim Turley casts a wide net for talent as Ernst & Young prepares to meet the global needs of business

Turley focuses on human capital as a central business imperative for Ernst & Young. He recognizes that in making the organization as responsive as possible to the needs of the global economy, he needs to recruit, train, and motivate today's youngest workers, who are globally minded.

**You spend a lot of time recruiting – 35,000 people this year, globally. How is the global integration effort at Ernst & Young related to the goal of staffing a global organization?**

The people that are coming out of universities today absolutely do not want to be restricted by any artificial boundaries or even country boundaries. They want careers that will take them as far as their own skills and capabilities will go, and of course they want us to help build those skills and capabilities. People are also looking for a common culture, common values, things that really bring us together. One person might be Indian and one person might be Russian and I might carry a U.S. passport, but there are values that unite us, values like integrity, respect, leadership and teaming.

**How do you drive that culture of leadership and integrity?**

We have to put the values in front of them continually, because if people don't embrace our values, frankly, they shouldn't be here. I'm sometimes asked what is really important advice for our younger people. And I think having that bedrock of integrity is vital. All the successful people I know are widely respected by those around them. But that respect only comes when they themselves respect people who are different. You can't have one-way respect. Probably the quickest way not to succeed in the long term at Ernst & Young is to try to do it all yourself. You won't get the most out of your team. You'll make technical mistakes. You'll be viewed as a fool.

**How do you do this yourself?**

I was with a group of interns, a few weeks ago, and asked them to think proactively about what they would do if they were in my shoes. What would they do to make Ernst & Young better? That's step one –

having everybody in the organization thinking about what they would do to make it better. Step two is having a culture that encourages them to raise their hands and speak up, without being worried about whether their ideas will work or not.

**“We need our people to succeed in their whole life, not just in their work life.”**

**What's the difference between achieving diversity and achieving inclusiveness?**

Diversity is really all about the mix of people you have, the numbers, women and men, people of different ethnicity, people of different sexual orientation. And we have to try to enhance diversity, because historically this profession has not attracted and developed diverse talent. Inclusiveness is the culture that makes diversity really work. Inclusiveness is about making the mix work. Inclusiveness is about respecting differences, understanding differences, acknowledging that people of different backgrounds may have different points of view. It's also about better outcomes. If you have a complicated problem, you need a team of diverse skills and experiences developing strategies and approaches. Diversity gets you those people in the room, but inclusiveness is what gets you the strategies and approaches.

**Let's talk about generational diversity.**

**What sets today's college students apart?**

There are some common myths about these Gen Yers. The most common myth is that they don't want to work hard. That's not true at all. They want to work very

hard – they just want to work on their own schedules as opposed to being told, you're punching the clock at 7:30 a.m. and you're leaving at 6:00 p.m. The issue of flexibility is incredibly important to them. There's another myth that you hear, that it's all about them, that it's sort of a Me Generation. I don't find that at all. This is a group that is incredibly socially responsible. They care about whether we're doing the right things from a corporate responsibility perspective. So it's not about them at all. They're sometimes viewed as being a generation that is wildly technologically enabled. That's no myth. It's true. They have more skills than I will ever have, and those things that are second nature to them, hopefully will become second nature for us.

**What are some of the challenges in recruiting mid-career, senior-level people, especially in the emerging markets?**

We do well there, and get an enormous number of talented people joining us, as mid-level career and direct-entry partners and principals. They make us better every time they join us. But they've grown up in a different environment. They are not used to globally integrated services. When they see an ability to work across borders without being restricted, it's eye-opening. I have had direct-entry partner candidates tell me that the key reason they were looking to come to us was because of what we are doing in our globalization efforts. One of them said: “We could never do what you are doing where I am. We don't trust each other enough. We don't respect each other enough.” That trust and respect that we have here is a major point of difference for us. It's a point of pride and an advantage when we recruit.



**"If you have a problem, you need a team of diverse skills and experiences. Diversity gets you those people in the room, but inclusiveness is what gets you the strategies and approaches."**

**How big a challenge is it to staff up in China and India?**

Oh gosh. It's remarkable. The practice in China, for example, is pushing close to 10,000 people and we need to be hiring four- to five thousand-plus people a year. There simply aren't enough graduates who can be qualified accounting and financial and tax people in that country. So we are very aggressive, both in China and in bringing on board highly educated Mandarin speakers. India is slightly different. India is actually educating a higher number of financial professionals than China. In fact, there is so much talent in India that we may be able to use our presence to provide services to the world. With our number one position in India and a strong number two position in China, we are well-positioned to meet our needs in both markets.

**How much of the global integration effort is ultimately about economics – the rise of emerging markets?**

It's a broader story. Yes, there are growing companies in emerging markets. There are demographic shifts – the developing markets are younger and from a numbers point of view, getting stronger, while the developed world is getting older and smaller. And there's an amazing shift of capital from the traditionally developed markets to the developing markets. So understanding those capital flows and understanding the demographic issues is really driving the future of not just Ernst & Young but all business.

**Do clients see these trends?**

Absolutely. But sometimes, they don't have the experience we do in emerging markets. Some of them are just developing or enhancing a China strategy, an India strategy, a Russia strategy, a Brazil or South America strategy, or a Middle East strategy. We have leading practices on the ground in those places, and so we have a deeper understanding of what's taking place. But everybody is seeing the demographic shifts I've spoken about. Everyone is seeing the capital shifts.

**So clients understand Ernst & Young's transformation?**

We constantly talk to our clients, both before we made these bold moves and after. They see quite clearly that they will get a more consistent, high-quality level of service from Ernst & Young around the globe. I wouldn't have asked our partners all around the world to get out of their comfort zones if it wouldn't help us win in the marketplace. It is helping us win. And it's not just the clients who are winning. Our people see enormous

benefit to their careers. Even the regulatory community around the world sees a value in terms of having a stronger ability to work with us consistently all around the globe. And so it's quite positive.

**What are some of the features of success, globally? What will ensure success over the next 5, 10, or 25 years?**

Obviously globally agreed values, globally shared, globally lived – those are essential. We have to be attentive to demographic issues and deliver an inclusive culture that respects differences. Another key is adopting an entrepreneurial culture, because the world continues to change. Nobody can predict the next 25 years. So having an entrepreneurial ability to react to change is important.

**"Nobody can predict the next 25 years. So having an entrepreneurial ability to react to change is important."**

**Entrepreneurship is a critical part of Ernst & Young's culture and heritage. How will this entrepreneurial culture survive in a more globally integrated network?**

The global integration is driven, in a sense, by entrepreneurial thinking. We looked at things outside of these four walls. We looked at the potential out there – in people, in clients, in communities – and considered our role in helping them achieve their potential. In looking at the world that way, we started to see the demographic shifts taking place, we recognized capital flows moving in a new direction, and realized the need for greater inclusiveness and the need as well for common values. And we hope this process spurs innovation: innovation in the services we provide and innovation in how to best deal with people. Having a great deal of mobility of talent and having teams that don't all look alike and think alike definitely spurs more diverse thinking. Having a real global footprint, having a global mindset and moving resources back and forth does spur innovation. And by the way, today's newest hires expect this. Enormous numbers of college students I speak to expect to spend some part of their careers overseas.

They are global in their worldview – they actually know people all over the world, thanks to the technologies they use every day. So I really think we are raising a level of young people whose expectations and career ambitions are quite different than those that I had.

**How do you deliver against those expectations?**

In the old days if you had some great people working for you, you held them tight; you never wanted to share them. And so if someone good came to you and said they wanted to go somewhere new and different, you'd try to talk them out of it. That simply won't work anymore. If someone has the enthusiasm to take a fresh opportunity, they're going to do it with us or without us. So we've got to enable this kind of mobility, and that's a real culture change. We have to trust that someone matters as much whether they're in Moscow or Frankfurt or Los Angeles. It takes a new way of defining flexibility, and making sure we are very good at it. Now, if someone wants to run across the Outback, or care for aging parents, or pursue some other passion, we want to have a flexible culture that enables them to do that, too. We need our people to succeed in their whole life, not just in their work life.

**Let's focus on public policy and regulation. How is Ernst & Young playing a role not just in helping clients but helping to shape conversations about financial regulation and the movement of capital?**

We are active and work with the other Big Four firms, because getting convergence of standards is great for investors. Investment capital moves around the world at the speed of a computer click. And so people want to see the same standards. You're seeing these developing markets embracing global standards of governance and transparency and financial reporting in a much more robust way.

**Do you see a role for Ernst & Young in issues related to sustainability and climate change?**

Yes, that is an area where we are extremely focused not just as a business opportunity but in terms of our own footprint and the impact we have on the world. You hear a lot about cap-and-trade systems and other ways to address climate change. To get these systems, we will need a level of standards against which they can be delivered, and companies will need to report in a common way. It's something that we're working very hard on. In many ways, it touches on what Ernst & Young and the others in our profession are fundamentally about: providing objective and independent opinions on the reliability of information. Historically, that has been directed at audited financial statements. Already that role has extended to the review of controls. It may well go to objectivity and independent judgments of issues around global environmental footprints.

# Turley speaks: The rise of transparency, controls and convergence

*Ernst & Young's Jim Turley is chairman of the Center for Audit Quality, which was established to foster confidence in the audit process and to aid investors and the capital markets, and therefore takes a leading role in speaking out on behalf of the entire profession. Last spring, he gave a major address on capital markets at the U.S. Chamber of Commerce. Below are excerpts of his remarks:*

## ***On global shifts in capital***

"...The remarkable expansion [of economic growth] throughout the world is being driven by a number of things, including deeper pools of capital, and the success of a number of countries in developing the financial and regulatory infrastructure that supports the development of their financial markets. While this means heightened competition for some established economies like the U.S., the development of market-based economies and a bigger global economic pie translates into heightened demand for a wide range of goods and services, and means more economic opportunity for individuals the world over. We shouldn't forget that this has been the objective of Western policymakers for decades..."

## ***On transparency***

"People need information about the companies in which they are thinking of investing, and about the transactions in which those companies are engaging... Much of the information in the marketplace reminds me of when my fellow Missourian Mark Twain wrote to a friend, saying, 'I apologize for such a long letter, I didn't have time to write a short one.' The length and complexity of some of the disclosures today hinders communication in many ways, instead of enhancing it. Transparency is the very foundation of investor confidence, but I think much needs to be done to ensure the users of the information are getting what they need."

## ***On controls***

"Around the world, there is a pressing need for better identification of and management of risk. An organization has to be cognizant of its own risks, mitigation plans, and triggering events that could cause harm. This is a broad charge and is a real challenge to many boards – and it will require them to continue to devote more attention and resources to it – if they are to fully comprehend the risks in the businesses they serve. Around the world an increased appreciation for the importance of internal controls is emerging, and many countries are adopting their own corporate governance laws that emphasize internal controls. But we are still a long way from global consensus. In my view, we need to elevate the discussion about internal controls to one that is worldwide and involves a range of stakeholders: investors, regulators, auditors, financial institutions, and preparers... Some may accuse me of trying to export Section 404 to the rest of the world, but that is not the point. The point is that there is real value to investors, companies, and markets from a strong organizational focus on internal controls and risk."

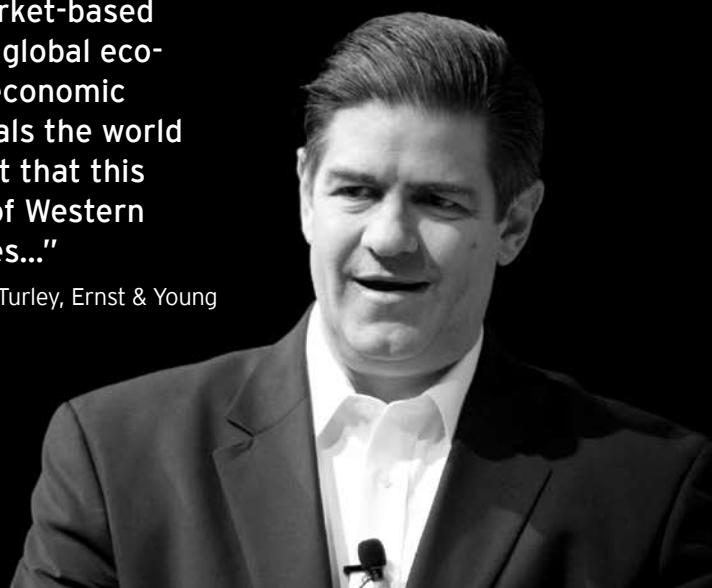
## ***On convergence***

"While regulatory and policy decisions in all countries must, of course, fit within national legal frameworks, when these decisions affect global business, global investment, and global markets, policymakers must increasingly look to the prospect of international collaboration rather than stand-alone national approaches. ... [On adopting International Financial Reporting Standards, or IFRS], the U.S. cannot afford to be an outlier."

"The way I see it, convergence and harmonization of a variety of standards and regulatory approaches is a process that is necessary and inevitable as globalization occurs and we learn from one another."

**"The development of market-based economies and a bigger global economic pie means more economic opportunity for individuals the world over. We shouldn't forget that this has been the objective of Western policymakers for decades..."**

**- Jim Turley, Ernst & Young**



# Serving the Global Economy

Ernst & Young uses a global platform to meet the worldwide challenges of its clients and people

Ernst & Young has identified major trends facing global companies, and has built a range of services and strategies to meet each challenge.

With 135,000 people in 140 countries, Ernst & Young is a global organization devoted to providing accounting, tax, auditing, and advisory services – but like many companies of its size and reach, for years it often worked on a country basis. That has changed. Ernst & Young's leadership has created a more integrated and global approach to help its clients achieve their potential.

In this major move, Ernst & Young has focused around five major areas. Most recently, it created a single unit called EMEIA, which combines under a single management team and integrated financial structure operations in 87 countries from Europe, the Middle East, India and Africa. In Asia, 15 national practice groups are doing the same under a single Far East Area. And Ernst & Young is midway through an aggressive investment plan in key markets to meet the needs of their clients.

"We want to deliver a tightly integrated global level of service, so we must offer speed, resources, and seamlessness. That's the bottom line for clients," said John Ferraro, the global Ernst & Young organization's Chief Operating Officer. "We have made a bold move to truly integrate our management structure, so our clients and people can have a single, consistent, high-quality experience worldwide. To do this right, we can't afford to have 140 different decision-making processes."

Ernst & Young's approach comes as its partners report the concerns clients have in meeting both the challenges and opportunities of globalization. For example, Wendy Fenwick, of Ernst & Young's Global Oil & Gas Center, says the oil industry is a truly global marketplace and most companies have already evolved or are moving to global business operating models. "Historically, companies have operated on a country basis with duplicate management processes and systems. Such companies are realizing that the costs to maintain such structures, not to mention competition from national oil companies with vast reserves, require a much more global approach."



Left: John Ferraro  
Chief Operating Officer

Right: Wendy Fenwick  
Global Oil & Gas Center

## A Top Ten List of Risks

Ernst & Young regularly surveys the world's top business analysts to identify major risks for business. In a recent report, it highlighted the following ten challenges to global companies:

1. Regulatory and compliance risk
2. Global financial shocks
3. Aging workers and consumers
4. The rise of emerging markets
5. Industry consolidation
6. Energy price & supply shocks
7. Execution on strategic transactions
8. Accelerating inflation
9. Climate change/sustainability
10. Consumer demand shifts

"These companies have to standardize everything, from back office infrastructure to R&D," said Fenwick. "While reducing costs has been a major driver for this, the outcome is going to be truly global companies, operating with a common strategy, common systems, and a common awareness of the market. And those are major takeaways far bigger than cost savings."

## Developing a Global Perspective

Ernst & Young, even with its structure as a global organization, has always been a leader in setting quality and integrity standards across boundaries. To meet client demand for an even more global approach to service, Ernst & Young has already launched a \$1 billion, four-year expansion effort in key markets, and is providing even greater mobility opportunities to its people.

"Our people want and need international experiences, and it is one of the reasons why they join us," said Ferraro. "We are pushing to give our people global experiences to help shape their perspectives and enable their personal and professional growth. This is one of our global priorities – this means global assignments and working on cross-cultural teams."

To Ernst & Young Chairman Jim Turley and the organization's other leaders, this move towards a global platform also reflects some of the major shifts in the global economy.

As the world economy has decentralized, cross-border capital flows have grown significantly, and nationality is increasingly irrelevant. Private capital sources such as petrodollar investors, sovereign wealth funds, hedge funds and private equity firms are reshaping modern finance.

Given these trends, Ernst & Young's move to run its business in a more global way is a



natural step, Turley said. "Even our smallest clients are multinational, and it's vital to them that they get the same level of service," he said.

Ernst & Young, working closely with clients, industry experts, and its own practice leaders, regularly assesses key trends in the global marketplace. In recent months, it identified five major issues facing global companies and has built a range of strategies and services around each:

## **Global Shift in Economic Power**

Global economic growth is now driven primarily by emerging markets. China, now fourth-largest in GDP, is expected to replace the U.S. as the world's biggest economy by 2041; India, now number 12, is expected to become number 2 shortly thereafter.

In 2006, an investment attractiveness survey ranked Western Europe and U.S./Canada first and third, respectively.

In 2008, China and Central/Eastern Europe were the most preferred locations, while Western Europe slipped to third out of six and the U.S. tied for sixth.

"We have a heritage of working in emerging markets, and we are helping these countries become even more attractive destinations for foreign direct investment," said Rajiv Memani, Managing Partner for India. "This includes promoting stable tax and banking systems and administrative reform."

Emerging markets have surged in importance as developed countries face economic slowdown; emerging market GDP will expand by twice the expected growth-rate of developed markets in the 2004 to 2008 period.

"You have this environment of cross-border acquisitions, consolidation and capital flows, so you need an organization that is truly globally integrated," said Mark Otty, who heads Ernst & Young's EMEA region. "For many corporates who have typically focused on domestic markets only, there is a recognition that they need to make sure they are tapping into global markets."

Companies from emerging markets are competing successfully with world-class companies based in developed markets. The 2008 Fortune Global 500 includes 78 emerging market companies, up from 47 companies in 2005. "Traditionally, we have seen the world through a lens that moves from West to East," said Francis Small, a U.K.-based Transaction Advisory Services partner. "This is likely to shift substantially, with multidirectional flows of funds."

Those flows are shaped by new markets for IPOs, sovereign wealth funds, hedge funds, and private equity firms. In many cases, emerging market countries are becoming net capital exporters, financing investment in developed markets.

"Companies are paying a lot of attention to adapting to Western financial markets standards for transparency, tax reporting, and governance rules," said Eric Chia, Managing Partner for Far East Area Business Risk Services. "We are seeing increased need for our understanding and experience."

## **Emerging Risks**

For several years, companies entering emerging markets have sought to capture market share and new growth, not to mention cost savings from production, labor or other operations. Such business goals, while reasonable, often overlook potential risks associated with operating in those markets.

According to Ernst & Young, a majority of North American and European companies lack formal risk management strategies for their operations and investments in emerging markets.

Far East companies fare only slightly better, with just under half lacking formal risk management strategies.

The implications for failing to account for such risks are significant; it may be difficult to repatriate earnings from such emerging market investments or to record losses in early years of operations. Certain investments may be restricted due to regulatory and political pressure.

"This is changing so fast," said Chia. "There is increased accountability at the board level of leading companies. There is less tolerance for risk." Some complications are difficult to foresee; Tom Spitsnaugle, a partner focusing on technology companies in Ernst & Young's Americas Area, says companies need to focus on better planning and more robust risk management strategies, including antifraud and anticorruption codes of conduct.

Other risks come in the form of supply chain dynamics. Global pharmaceutical and biotechnological companies, for example, have sought to enter emerging markets not only to achieve greater efficiencies in research and production, but also for untapped markets. But intellectual property, product quality, and pricing issues present significant risks to both industries, and those risks must be measured and managed in advance.

## **Regulatory Convergence**

The push for common standards is gathering pace amid growing global competition. Investors want to compare classes of investments with a click of a mouse, and increasingly they can. Ernst & Young's Turley has taken a leading role in supporting common reporting standards to meet this demand. Of course, that puts pressure on individual companies operating across borders to find common ways to report and govern, even as they cope with a patchwork of regulations across many jurisdictions. More than 100 countries have adopted International Financial Reporting Standards (IFRS), a significant development towards a standard form of financial reporting.

"Clients love to know leading practices, and they also want to have insights that relate to their specific situations," said Ferraro. "Fact is, we've seen good governance in all parts of the world, and bad governance in all parts of the world. It happens irrespective of regulatory regimes."

The trend of convergence affects accounting and financial reporting standards in particular. In Korea, for example, the 1999 to 2000 financial crisis jump-started efforts to bring Korean accounting standards into alignment with inter-



**Left: Mark Otty**  
Area Managing Partner,  
EMEA Region

**Center: Mark Weinberger**  
Global Vice Chair, Tax

**Right: Rajiv Memani**  
Managing Partner, India



national standards, and now Korea is expected to adopt IFRS by 2011. “But it goes further than that,” said Moses Awe, a Korea-based senior partner. “It involves a full-blown conversion of the underlying information technology systems.”

Meeting the challenge of compliance risk that comes with escalating regulatory burdens not only affects the reporting arena; increasingly, Ernst & Young tax professionals report that tax authorities are sharing information across borders and cross-checking the practices of global companies.

“Much like global companies, tax authorities have to work hard to keep up with the pace of change in this incredibly complex new business environment. They are cooperating in unprecedented ways – sharing information formally and informally, signing treaties and collaborating at the policy-making level, and getting together to discuss leading practices and common concerns,” said Mark Weinberger, Ernst & Young’s Global Tax leader.

“Clients love to know best practices, and they also want to have insights that relate to their specific situations, ... Fact is, we’ve seen good governance and bad governance in all parts of the world. It happens irrespective of regulatory regimes.”

- John Ferraro

In addition, with their greater activity in cross-border transactions, many emerging market companies are experiencing for the first time some of the corporate governance reforms that have taken root in the U.S. and Europe in the last decade. “For these emerging market companies, there is a different governance paradigm that they have to respond to,” said Paul Flynn, an Ernst & Young Australia partner.

## Economic Downturn

The recent financial crises and economic growth slowdown, combined with increased commodity prices, have spurred companies across developed markets to adopt multiple strategies related to maintaining profit margins, controlling costs and accessing capital.

### Key features of the economic downturn:

- ▶ Slowing revenue growth
- ▶ Commodity and energy inflation
- ▶ Falling consumer confidence
- ▶ Lower growth in developed markets
- ▶ Pressure on capital

Many of the assumptions that supported investment and expansion plans just a few years ago no longer apply. Clients tell Ernst & Young they are increasingly focused on finding new sources of growth and savings, even as access to capital and resources has tightened considerably.

### Left: Beth Brooke

Global Vice Chair, Public Policy, Sustainability and Stakeholder Engagement

### Right: Jan Babiak

Global Climate Change & Sustainability



The pressure is all-encompassing; Ernst & Young’s tax partners, for example, say that tax planning – often employed to help achieve long-range goals – are now being used to maximize more immediate access to cash.

Companies are looking to sell noncore assets; those with excess cash in turn see greater opportunities to expand. “Some companies are moving to find some pricing power by broadening their network of suppliers and, where possible, passing on higher materials costs to consumers,” said Francis Small of the U.K. “For those with still-strong demand, that strategy can work.”

Ernst & Young reports that most sectors have been hit hard – construction, automotive and retail are all struggling through the downturn. With pressure on revenue and costs, it is increasingly difficult for companies to sustain innovation, a critical component of future growth. Moreover, investment in developed markets is harder to justify, as growth rates in those markets lag far behind those of emerging markets.

## Climate Change and Sustainability

There is an increasing acknowledgement of the impact of human activity on the environment. Businesses are being held to a higher level of accountability regarding resource depletion and pollution.

“Increasingly, companies from Fortune 100 to venture-capital-backed startups are looking at climate change from a business strategy, efficiency management and competitiveness mindset. It’s not just about corporate responsibility,” said Beth Brooke, the Global Vice Chair overseeing the effort.

Ernst & Young’s clients, whether in emerging or developed markets, are looking not only for technological solutions and operations strategies, but also for ways to measure their own efforts, reduce costs and climate change-related risk across supply chains, and meet rising governmental regulations for sustainability activities.

“Clients are investing heavily in climate change issues and they are calling it a priority,” said Jan Babiak, Ernst & Young’s Global Climate Change and Sustainability Services leader. “Their motivation comes down to four issues – cost reductions because of resource constraints,

revenue generation because of new market opportunities, regulatory pressure, and importantly, the expectations of the public and their customers, employees and investors.”

Pressure is building, particularly at the board level. Ernst & Young reports that global CEOs cited environmental issues as the challenge most likely to attract public and political scrutiny over the next five years, with 80 percent expecting climate change regulation over the same period.

Ernst & Young is positioned to meet the greater demand for reporting services in coming years. It is now helping companies establish reporting standards for social responsibility policies and efforts. It is analyzing supply chains to make sure clients can meet new low-carbon regulations and avoid overexposure to volatility in energy prices. And it is urging companies to modify existing products and services to include a sustainability focus, which would extend market lifecycles and even provide a competitive advantage.

Sustainability is big business: The Kyoto Protocol created a mechanism that attracted \$13 billion to renewable energy efficient projects in 2007, up from \$6 billion in 2006. Also, global carbon markets are expected to be worth more than \$3 trillion by 2020.

Behind much of the emerging area of climate change and sustainability is the onset of international regulations – and the likelihood of more to come. Regional and subregional partnerships to reduce carbon emissions have placed new requirements on firms to measure their carbon footprints. Ernst & Young, which has built strong practice areas around reporting and cross-border regulation, is positioning itself to meet this demand.

“Businesses are struggling to model how these new regulations will impact them,” said Paul Flynn, of Australia. “Businesses are grappling with the consequences of carbon pricing on asset values. What kinds of businesses do they want to be in, considering the added costs? What does that mean to the value of certain assets? How do you communicate these risks to stakeholders and maintain investor support as you transition to business lines and assets that have less exposure? These are the kinds of questions we are dealing with, more and more.” ■

# Making a Difference by Building Lasting Relationships

With a focus on entrepreneurship, education and the environment, Ernst & Young builds a responsibility program around its close work with nonprofits.



**Tony Anderson**, a partner based in Chicago, was mentored as a child, and now serves as a mentor to others.

Corporate responsibility, a feature of all major global companies, takes on special purpose at Ernst & Young. Instead of serving a broad range of needs, it focuses on education, entrepreneurship, and the environment. Another distinctive feature: working closely with nonprofit partners and getting its people involved.

While there are many businesses all over the world that support good causes, Ernst & Young's approach to corporate responsibility is particularly dynamic.

"Ernst & Young is unusual in that it's so committed to the idea of getting its people involved," says Steve Mancini of the KIPP Foundation, which has spawned 66 successful college-preparatory charter schools that serve low-income children across the U.S. "That's consistent with KIPP's values, too. Making a commitment to excellence is a powerful thing."

In fact, talk with the people at any of the nonprofits that Ernst & Young works with, and they generally express a certain amazement at a culture of volunteerism and the energy its people bring to their endeavors.

Maria Pena, a senior project manager for corporate responsibility at Ernst & Young, explains

that a few years ago, it realized that a professional services organization could and should do much more than simply write checks: "We want the money to follow the time and talents of our people." So in the three areas it has identified as most crucial – education, entrepreneurship, and the environment – Ernst & Young set about creating opportunities for its people to make a difference.

As a result, Ernst & Young's people, such as Tony Anderson, a Chicago-based partner who benefitted from mentoring as a child, are building powerful relationships with the communities they serve, relationships that often prove transformative for both sides. Ernst & Young's partnership with Perspectives Charter Schools on the south side of Chicago is just one example where the relationship goes far beyond a financial contribution. Volunteers from Ernst &

Young's Chicago office help the school through sponsorships, internships, mentoring and after-school and summer programs. "We believe in the school's 'college for certain' environment and focus on higher achievement," said Anderson. "For us, success is seeing these students get into college, graduate and go on to achieve their potential."

"As we recruit more globally and across cultures, it's important that people see opportunities here to give back – across the globe," said John Ferraro, the global Ernst & Young organization's Chief Operating Officer. "We spend a lot of time training, mentoring, and providing growth opportunities for our people. We find those skills channel back not only to our clients, but to those most in need. That's not just because of the skills we help our people develop. It's also because of the entrepreneurial approach they have in deploying those skills."

For some Ernst & Young employees, efforts to promote prosperity in developing markets strike a chord close to home. Many of the organization's employees – including Pena, who comes originally from the Philippines – were born in such markets. In fact, quite a few (almost one-third, in the Americas region) are the first in their families to have graduated from



## For many Ernst & Young employees, giving back is not just corporate responsibility – it reflects their won values.

college and entered the global workforce. For them, going back home and giving back is not just a reflection of Ernst & Young's agenda – it reflects their own values.

### Education: The Potential of Every Child

Ernst & Young's signature educational program in the Americas is its sponsorship of the PBS program *Cyberchase*, a children's television show that teaches math and problem-solving skills in entertaining ways and draws over 4 million viewers a week. Uninterested in merely being a passive sponsor, Ernst & Young made an unusual offer to PBS: to help it create a program based on *Cyberchase* that Ernst & Young volunteers could bring into their local schools.

One of those schools was KIPP Shine Prep in Houston, where 25 Ernst & Young volunteers taught second-graders last spring. "It was unbelievable, the energy they brought," says Chris Gonzalez, KIPP Houston's Development Director. "They came in these brightly colored shirts and really got the kids pumped up around math."

Nayel Fawzi of Ernst & Young's Houston office was one of those volunteers, and he credits the quality of the *Cyberchase* program and the interest of the second-graders. "It was overwhelming to see how those kids took to the program. They were really eager to learn."

As is typical with Ernst & Young's community relations efforts, what began as a single program with KIPP Houston has now grown into a full-fledged partnership, with the Houston office developing a battery of creative programs to tutor kids and help them earn college scholarships. "Ernst & Young's people are really strategic about who they are, so they do things around math," says Chris Gonzalez. "But unlike a lot of organizations, they also really try to understand our needs."

This same pattern – a growing relationship with a school characterized by both commitment and flexibility – is repeated around the globe.

Martin Talbot, who manages Ernst & Young LLP UK's education partnership, explains: "Rather than parachuting our people into lots of schools, our national program is centered around developing strong relationships with schools near our offices and concentrating resources on them. We want our people to be able to look the head teacher in the eye, and say, 'If you could have our help with anything, what would it be?'" Principal Martyn Coles of the City of London Academy explains what this kind of intense partnership means: "Ernst & Young does not do things as a one-off. It's in it for the long haul, making commitments for years to come, which is particularly important for a brand new

school like ours." The City of London Academy, a government school for 11- to 19 year-olds with a business concentration, was founded in 2003 to offer a better educational alternative in a low-income London neighborhood.

Coles also praises Ernst & Young's willingness to embrace new opportunities. Since both the school and Ernst & Young have programs for its young employees who have demonstrated particular leadership potential, they are pairing up these peers, just to share insights. "Our teachers are very excited about it. To my knowledge, nothing like this has happened in England before."

### Entrepreneurship: The Potential of Every Community

While Ernst & Young works hard all over the world to improve the educational opportunities of low-income children, it has joined many others in recognizing that entrepreneurs are the best possible source of economic growth in emerging markets.

One of Ernst & Young's most dynamic programs for entrepreneurs – and its own people – is the Corporate Responsibility Fellows program. Chosen from among top performers by managers and other leaders, Ernst & Young's fellows are given three-month assignments in Central and South America to work with entrepreneurs who rarely have an opportunity to work with a global audit and advisory organization.

SanDee Priser, a Fraud Investigation & Dispute Services partner, was one of the fellows who pioneered the program in 2005. She arrived in El Salvador at Vivero Xochicali, a family-owned nursery, with extremely limited Spanish at her command and no previous experience in Central America. She quickly discovered that the company had a more fundamental problem: it lacked any way to measure the profitability of its lines of business or the costs associated with the thousands of presentations of plants that it sold.

In the process of solving that problem, she had what she describes as "one of the best experiences of my life." It gave her a new confidence in her ability to handle the most challenging sit-

uations. She has also had the reward of seeing that the system she set up has been effective in the long-term. Remarkably enough, she now returns to El Salvador every year on vacation and visits Vivero Xochicali. "Owner Willy Menjivar's family is my family," she says simply.

Since 2006, Ernst & Young has collaborated on the Fellows program with Endeavor, a not-for-profit working to transform the economies of emerging markets by supporting high-impact entrepreneurs. "The matches we make between Ernst & Young fellows and the entrepreneurs are very specific," says Endeavor's Elmira Bayrasli. "We want to make sure that the Ernst & Young employee is gaining something valuable as well as the entrepreneur. It's the relationship that makes it rewarding." As a result, every fellow returns home having had the kind of intense emerging market experience that can add new momentum to a career at a globally minded organization like Ernst & Young.

"When it comes to entrepreneurs, Endeavor really finds the best of the best," says Maria Pena, who manages the Fellows program for Ernst & Young's Americas area. Because Endeavor concentrates on truly innovative companies with strong potential for growth, its entrepreneurs have created nearly 40,000 jobs that pay on average ten times the minimum wage in their market.

However, Ernst & Young's support for entrepreneurship in developing countries runs deep enough to include an organization at the very opposite end of the spectrum from Endeavor. The entrepreneurs served by Kiva are not those with the potential to be global leaders, but those with the potential to lift a single family out of poverty. Founded in 2005, Kiva is the world's first person-to-person micro-lending Web site. It uses the Internet for a new kind of philanthropic relationship, one between an ordinary person loaning as little as \$25 and a small-scale entrepreneur in a developing country who benefits directly – using

**For Take Our Daughters and Sons to Work Day, Ernst & Young's Washington, D.C. office participated in *Cyberchase* activities in local schools. Alan Noznesky, husband of Ernst & Young partner Denise Dombay, was helping get kids excited about math.**



**This past summer, the Houston office asked its tax and audit interns to find ways to recycle professional clothes. They managed to collect 500 gently-used suits, an overwhelming number.**

the money, for example, to expand a business by buying a sewing machine or a rowboat.

"Kiva is an amazing social experiment," says Kiva President Premal Shah. "But beautiful ideas like ours can be hard to execute." Kiva works with more than 100 micro-finance organizations that choose entrepreneurs for the website. The challenge for Kiva was ensuring that lenders could trust the information they received.

Shah explains: "When I ran into Ernst & Young's [Vice Chair] Beth Brooke last year at the Clinton Global Initiative conference, I said, 'Help! We're working in 45 developing countries, with just a handful of staffers in San Francisco!' Now we have the Ernst & Young global network verifying our data."

Data verification is not as cold and impersonal a task as it sounds. It often requires Ernst & Young people to hop on the back of a motorbike to visit an entrepreneur in a dusty village and confirm that, yes, a sewing machine was bought. Shah says simply, "We are really lucky to have their support."

As part of its efforts, Ernst & Young has broadened its definition of what it means to be an entrepreneur. It now works with the World Economic Forum to present a Social Entrepreneur Of The Year award in several countries. One recent winner, Anton Sudjarwo, of Indone-

sia, founded Yayasan Dian Desa (the "light of the village" foundation).

Sudjarwo's community work began in 1968 when, as a civil engineering student, he was asked by a Swiss priest to solve a water shortage problem in a village near Mount Merapi, Central Java. He immediately recognized the potential for innovation in the region, and convened a small and informal group of technical students to focus on rural development, especially clean water supply and sanitation issues.

Today, Yayasan Dian Desa has a staff of more than 300, focused on everything from improving the quality of the products produced by the region's small industries, to promoting better farming and fishing practices, to looking at a broad range of development issues. It boosts the economies of impoverished communities by helping them access better technologies, and Ernst & Young is delighted to be able to spotlight this organization's work.

## **The Environment: An Expanding Commitment**

While corporate responsibility at Ernst & Young often means looking for ways to engage its people, sometimes it works the opposite way: Ernst & Young people find a way to engage the organization.

This certainly happened with EcoCare, Ernst & Young's environmental sustainability initiative. Tom Tobben, the director of administration for the U.S. Tax Practice, has always been interested in environmental issues. At the local level, he worked hard for years to minimize the environmental impact of operating a paper-intensive professional services business. Then, as he moved into a national role within the organization, working with Tax Partner Nancy Ngou, he was able to help develop and implement a strategy for a nationwide volunteer initiative that launched on Earth Day in 2002. He has served as the volunteer leader of the EcoCare network ever since.

This grassroots initiative has focused on paper conservation, recycling, use of recycled content office supply products, and reducing waste in the office, as well as community activities outside. For example, this summer, Ernst & Young's Houston office asked its tax and audit interns to find ways to recycle professional clothes. "The interns were really innovative in the ways that they solicited the clothes," says Rebecca Roland, creative services director for the Southwest Sub-Area, "and managed to collect 500 gently-used suits, an overwhelming number." One of the beneficiaries of this campaign was Dress for Success Houston, which helps struggling women land good jobs by providing them with an interview suit and career development tools.

Roland adds, "It was a great way to introduce the interns to the culture of the organization, and I think it was so much fun for them."

"EcoCare has really resonated with our people," Tobben points out. "Over the last year alone, we've gone from 500 volunteers to 850." In 2008, Ernst & Young took EcoCare to the next level, making it a full-fledged, organization-wide initiative and creating an internal leadership position focused on environmental sustainability.

This is going to allow the organization to take advantage of what Tobben calls the "big opportunities": green building, environmentally friendly processes, and new technologies that can be used across all boundaries and areas. "EcoCare aligns perfectly with our values of making a difference and doing the right thing," he says. "It supports operational excellence, too, challenging the status quo and often reducing the cost and time of doing business."

In this, EcoCare differs little from Ernst & Young's education and entrepreneurship initiatives. For all it's given to good causes, Ernst & Young has gained at least as much in organizational knowledge and the increasing skills of its people. They often come away from their community experience enriched both personally and professionally – and deeply grateful to Ernst & Young simply for giving them the chance to grow in new ways. ■



Corporate Responsibility Fellow Anthony Coghlan, shown with kitchen workers from Mundo Marino, a small, family-owned company that makes gourmet frozen meals using local Chilean seafood.