

Serving the Partnership

**An Interview with James S. Turley,
Chairman and Chief Executive Officer, Ernst & Young**

EDITORS' NOTE In 1977, Jim Turley began his career with Ernst & Young in the U.S. firm's Houston office. Over the years, he has held a series of leadership positions throughout Ernst & Young. He was named Metropolitan New York Area Managing Partner of Ernst & Young LLP in 1998 and was appointed Deputy Chairman in 2000. In July 2001, he became Chairman and CEO. Based in New York and London, he serves as senior advisory partner for many of Ernst & Young's largest global clients. Turley co-chairs the Russia Foreign Investment Advisory Council and is on the board of directors for Boy Scouts of America, Catalyst, the National Corporate Theatre Fund, and on the board of trustees for Rice University. He is also a member of the Business Roundtable and IBLAC (International Business Leaders' Advisory Council for the Mayor of Shanghai). In March 2009, he was appointed Chair for Catalyst and in the summer of 2010, he was appointed to the President's Export Council.



James S. Turley

COMPANY BRIEF Ernst & Young (www.ey.com) is a global leader in assurance, tax, transaction, and advisory services. Worldwide, their 152,000 people are united by their shared values and an unwavering commitment to quality. Ernst & Young refers to the global organization of member firms of Ernst & Young Global Limited, each of which is a separate legal entity.

How are the U.S. and global economies faring today and what is your outlook for economic growth?

Typically, a good barometer of the global economy is the mood and feelings you pick up on in the mountains of Davos. The mood this year was better largely because the risks of a near turn Europe collapse – meaning the breaking apart of the Euro Zone – have been substantially eliminated. One year ago, there was anxiety surrounding that threat.

When you look at economic performance, people are feeling good in the U.S.: there is modest growth; debt ceiling issues remain but the fiscal cliff is a bit further down the road, so the feeling in the U.S. is somewhat better. The emerging markets – not just the BRIC countries but the next 11 or 12 emerging markets after BRIC – have been fairly strong.

We conducted a survey, which determined that the level of global engagement of the non-BRIC rapid growth markets – Indonesia, Turkey, Vietnam, Malaysia, Mexico, Colombia, Peru, etc. – is very positive, which is important. The Middle East and Africa are also vital.

The real concern is Europe – the concern is different than it was last year when the worry was over whether it would explode. This year, the concern is whether it will grow.

This is serious and something that I don't think is being sufficiently addressed.

What can be done?

You're looking at an important part of the world that has a graying and shrinking population coupled with social, labor, and retirement systems that are not globally competitive today – this is a bad combination.

The graying population can be dealt with slowly over time, with immigration being a big part of what needs to be thought through. The lack of global competitiveness can also be dealt with through policy changes that are difficult and painful. However, there needs to be a serious discussion on this. Also, what is not present in large quantities across the Euro Zone is the spirit of entrepreneurship that routinely helps lift countries like the U.S.

For many years, E&Y has grown within the non-BRIC emerging markets. Is the understanding getting out about the opportunity in these markets?

Very much so. There is an awareness among global companies of both the opportunities and the markets in the non-BRIC rapid growth countries. But there is also a recognition that what was driving some of the competitive advantage over the years in China, Russia, and places like Korea – low-cost manufacturing among other things – has increased the middle class and the wages. Today, areas like Vietnam and Bangladesh have become more competitive on the low-cost manufacturing end. Even the BRICs are beginning to look at how they can maintain their competitive edge.

E&Y has always focused on entrepreneurs. Is enough being done in the U.S. to encourage entrepreneurship?

Entrepreneurs struggle with the lingering policy uncertainty that causes them to pull their hair out or worse, to stop innovating.

There are many things that are exceedingly positive for the development of entrepreneurship in the U.S. such as the legal systems, tax systems, financial markets, and the culture.

Sometimes, administrative barriers get in the way and that is something that has to be carefully watched. The juggling of different policy balls will never encourage entrepreneurship.

I am encouraged by the current direction on immigration that looks like it is going to receive bipartisan support moving forward. In my experience, one of the crucial elements behind creating positive innovation and entrepreneurship is bringing diverse perspectives together to solve a problem and that is stimulated not just by the cross-border movement of people at the high end – the Ph.D.s and Masters – but at all levels. This different perspective adds a lot, so immigration is vital.

How does diversity impact innovation?

Probably half of the start-ups in Silicon Valley were started by immigrants, especially men and women who have come to this country to obtain Masters and Ph.D.s in engineering and the STEM areas.

On the flip side, this past year, the Ernst & Young Entrepreneur of the Year in the U.S. grew up in Turkey and is not into high-tech but owns a great yogurt business – it's the American Dream. The immigrant moved to the U.S. and started with nothing, he saw an opportunity and got an SBA loan, and he now has a billion-dollar business.

What differentiates an entrepreneur from other people? Do you need to have it in you or can it be learned?

It's a combination and part of it is innate. However, another part of it is having the kind of mindset that doesn't focus on oneself; instead, the focus is on what is happening outside in the world. It's also not about, "Can I get rich by whatever I might be innovating," but "Can I meet a need that I have already identified in the marketplace."

Entrepreneurs have an external view; they see the needs that exist and they have a vision to create products, services, and ideas. That is where the diverse talent comes in – the more diverse perspectives you have looking at the need, the more innovative you're going to be in coming up with a creative solution to fulfill that need.

Entrepreneurs bring together diverse teams, they identify solutions, and they have courage that many of us don't have to take the kind of risks to get outside of their comfort zones. They use every dime they own to follow their dreams and they are more persistent than most of us, because they all fail the first few times out – they fall down, get up, wipe the dirt off, and go at it again.

Many large companies say that once they reach a certain size, it's tough to maintain an entrepreneurial culture and to remain innovative because of the management layers that are created. Is that a concern?

It's not an excuse, because it's the norm for big companies to lose some of their original entrepreneurial spark. Companies have to work hard at maintaining it. They have to make entrepreneurial thinking and innovation part of everyone's job each day – it can't only be what they do Friday nights when they're on the way home. It has to be a real expectation with a career path attached to it and something that is valued by the company.

This also requires a culture that is tolerant of failure because, for entrepreneurs, failure is just one more way to learn another factor that will not help to accomplish what they're trying to accomplish.

For many big companies, failure is often not a successful or happy place, because someone in their bureaucracy is going to point a finger and someone is going to take the fall for it. Figuring out how to not over-penalize the failure that will come from exercising innovation is important.

One might not readily think of E&Y as part of an industry that develops innovation or entrepreneurship. How have you made this a part of your business?

We try to make sure that we retain entrepreneurial thinking in terms of how we approach the business issues we face, how we approach the management of talent, how we approach the management of our diversity, and how we conceive of services for our clients.

At our core, we love to continue to be innovative with the core product that we are best known for, which is providing great audits. We want to make sure that we, as a firm and as a profession, continue to keep those innovation and entrepreneurial skills relevant so we are better able to serve the needs of our marketplace and of investors.

Do young people today understand the critical role your profession plays?

We're seeing a lot of talented young men and women going into the fields for which we hire, so the talent flow coming into the profession is strong. We have to make sure we remain relevant – not just in how we help them learn and develop but in the ways we provide flexibility for their lives, development for their growth, and a vision of how important the profession is in terms of providing transparency and quality in the marketplace. We serve the needs of investors and building confidence in the marketplace, so they see this as being quite important.

It is crucial that financial reporting – what the companies of this country and this world are delivering to their investors and stakeholders – remains relevant, because we're providing credibility and independence to the judgments and numbers that are being presented. Those numbers have to be relevant to stakeholders and investors, and that is something the entire profession and an array of other stakeholders are looking at.

How has the role of boards evolved? Are they more diverse today?

There are several different issues facing boards. Boards continue to evolve because, from our spot in the marketplace, boards are representatives of the investors and shareholders of the businesses. The members of the boards and audit committees are the people that the audit firms work for, so there is a very clear value chain that has to be effective. Therefore, boards have gotten more attuned to the fact that they have broader responsibilities to the stakeholders they represent and not just responsibilities to management and the company alone.

It's a tougher time to be on a board and it's a time when diverse thoughts in the boardroom help.

When you look at most of the companies based in the U.S., 70 to 75 percent of their workforce and 70 to 75 percent of their customers will not be white men; yet, 80-plus percent of the boards are white men. There is a mismatch and we have to continue as a society to make progress around gender, ethnicity, and sexual orientation. Diversity in all dimensions on boards is critical because it will help foster connectivity with the marketplace and all stakeholders.

Did real change happen as a result of the recession and have we taken the right steps to safeguard against this downturn happening again?

A real shift has occurred. There is more real change in progress – there are still hundreds of rules that are being written to implement some of the changes taking place, but it's going to continue to evolve.

Do I think all the changes will prevent bubbles from occurring? Probably not, because bubbles are a historic thing. It wasn't that long ago that we had the Internet bubble where companies went without real business models because a bunch of eyeballs on their Web site were supposedly worth enormous sums of market cap. Then that bubble collapsed; then the housing bubbles collapsed, and credit bubbles collapsed as well.

Bubbles will still happen, but there will be more attention paid to them so that devastating collapses will occur less frequently.

During your tenure at E&Y, the growth has been fast and furious. What has helped this firm become so successful?

It is all about the talent we have in the organization and the culture we have built, and what that culture has enabled us to do.

We are lucky enough to be a company that is attracting men and women of enormous talent. When people join us from universities or our competitors, they often say it is because they are coming to a place with a culture of trust, of respect across borders or genders or any differences you might perceive, and a culture of teaming that is unlike the organization they left.

This has enabled us to globally integrate Ernst & Young in ways that many businesses have not been able to do.

It's because of the trust, the respect, and the teaming that a woman from France will trust a man from Brazil; they know they're on the same team trying to serve the same account, and they realize that their differences, culturally or otherwise, are not important. What is important is that they share a common set of Ernst & Young values and a common commitment to serving the client.

So we have been able to integrate our business globally and we have a culture where those two ingredients have helped propel us toward a great deal of success.

How do you define what makes you successful in this role?

I just wanted to do what I could to serve the partnership. I have spent the majority of my time traveling for the past dozen-plus years to be there for our partners and our teams, and to help them with a client or a prospective client, or a regulatory issue or a governmental issue. It's a matter of being more external than internal, because by being external, I'm always with our people and always with our teams and clients.

E&Y has a transition coming up. As part of your external focus, your name has become synonymous with the firm. Does that make the transition tougher?

No. My successor, Mark Weinberger, is enormously skilled and I could not be more proud of him taking over the leadership of our firm, and I have no anxieties. In terms of the old adage about pulling your finger out of a bucket of water and seeing how big the hole that you leave is, I'm not going to leave much of a hole here because we have 9,500 partners. Mark is a great leader and will have a great team working with him, so I'm not troubled.

Part of the reason we announce succession plans over a year ahead of time is precisely because we have 170,000-plus people who need to develop confidence in Mark and who have done that; the same thing goes for hundreds of thousands of clients. We also have regulators around the world and it's important they get to know Mark and that Mark gets to know them.

Are there certain things you will miss?

I will miss the people on our side of the table, the people on the client side of the table, and our competitors because we work together on public policy issues. But I will find plenty of things to keep me busy.

Do you ever think about legacy?

No, because someone once said that not only do you inherit this at some level from the people preceding you, but you borrow it from the people that are going to succeed you. So you're here leading the organization, being part of it, and being a partner in it for a period of time. Therefore, I'm not troubled about a legacy – I think we have a great organization, we're blessed to have had great success, and we will have more success in the future. ●