



How Can Accounting Firms Look Good Again?

An Interview with James S. Turley,
Chairman, Ernst & Young LLP, New York



James S. Turley

EDITORS' NOTE *In a business landscape rocked by recent corporate scandals, "confidence has been lost in all the financial-market players," Chairman James Turley soberly observes. Nevertheless, over the last year, Ernst & Young (E&Y) has remained staunchly devoted to its "first priority": namely, "delivering great service to our existing clients." And most important, the company reinforced its commitment to the "continual delivery of quality and integrity." After all, "it's critical that Ernst & Young be known as a firm with a deep commitment to doing the right thing," he stresses. Further, "it's part of our history and our legacy" and ultimately, it is "the best way to do business." Turley notes that E&Y maintained a focus on "strengthening Ernst & Young's footprint in key countries around the world and on our key clients in the Americas," So, despite current industry challenges, the chairman concludes that E&Y expects "the 2003 fiscal year to be solid and strong" due to "a solid flow of business."*

After earning his bachelor's and master's degrees from Rice University, Turley joined Ernst & Young in 1977. Since that time, he has held various positions of increasing responsibility in the organization. He assumed his present post in July 2001.

COMPANY BRIEF *Headquartered in New York, Ernst & Young is one of the largest accounting firms and a global leader in professional services. With roughly 700 offices and 110,000 people in more than 130 countries, the company reported revenues of \$10.1 billion for the fiscal year ended June 30, 2002.*

You've been quite vocal about issues surrounding corporate governance. Are you optimistic that the general public will be able to trust the business community again?

The broad populace has painted every company with one brush, and confidence has been lost in all the financial-market players, including corporations, boards, audit committees, audit firms, and regulators. However, I'm optimistic that we're turning the corner and that there will be a renewed commitment to integrity, quality, and doing the right thing. There won't be a silver bullet or an immediate restoration, but the behavior of the marketplace will earn the public's trust back fairly quickly.

Have you been able to bring your employees on board with this commitment to integrity?

It's critical that Ernst & Young be known as a firm with a deep commitment to doing the right thing. Furthermore, it's part of our history and our legacy. Twenty years ago, our tag line was "Quality in Everything We Do." Tag lines change from time to time, but core promises never do. Fairly recently, we brought that tag line back because quality has been front and center in our strategy. We haven't been trumpeting that tag line in ads because, in my opinion, it's not about marketing. Instead, it's about making sure all of our 110,000 people understand that nothing is more important than their commitment to quality and integrity. So it's an internal message that we continually reinforce.

Are the working relationships among business leaders, governmental officials, and regulators effective?

The rule making for the capital markets has become highly politicized, but I'm very comfortable with the Sarbanes-

Oxley Act, which is a thoughtful, well-constructed, and balanced piece of legislation. I'm also comfortable that the SEC's recently published final rules will implement the act in a way that will strengthen corporate governance, help restore confidence in the capital markets, and positively contribute to audit quality.

The changes in the marketplace are very profound. Audit committees have strengthened and taken a lot of responsibility regarding their role in the companies they serve. The level and depth of the dialogue among committees, management, and firms have never been higher. In the financial statements, they've covered issues of complexity; the choices that companies have to make in terms of policies, estimates, and judgments; and the relative levels of conservatism and risk. We've really never seen anything like the functioning of audit committees, audit firms, and companies today, and I think that's very positive.

Despite the loss of public faith in your industry and the economic downturn, are you optimistic about short-term growth?

I am optimistic. Ernst & Young became the destination of choice for more former Andersen public clients and employees than any other firm. In some 58 countries around the globe, a total of about 27,000 people from Andersen joined the Ernst & Young organization. Many have told me that they chose us because they liked our culture and our commitment to our core business lines. In fact, we were the first firm of our kind to sell our consulting business. So that's been a very positive development. Having said that, the economy is tough. IPOs and the merger-and-acquisition business are down, but there should be a solid flow of business. I expect the 2003 fiscal year to be solid and strong.

You've realigned the firm at the international management level. Are you pleased with your progress?

We have a very tight global board representing the key geographic regions of the world. Although those regions might be modified, combined, or re-

aligned from time to time, we're very comfortable that today the board is providing leadership and oversight to all our people and clients around the world.

In many ways, yours is a people business.

Yes. We're in the business of providing and developing great careers for people, and our "people first" culture comes through loud and clear. We have been recognized as one of the top 100 places to work by Fortune and Working Mother, and we've also received a Catalyst Award for our work in supporting the women of our firm.

Are you pleased with the progress of Giuliani Partners?

Giuliani Partners is a stand-alone business with which we have an alliance. And the business is off to a great start: December 31, 2002, represented the end of its first year of operations, and it's remarkable how far it has come. The consulting side of the business, which consists of crisis-management, security, and privacy services, and works with both corporate entities and governments around the world, has far surpassed our most optimistic estimates. But after all, those services are the things for which Rudy Giuliani is best known.

Our purpose in helping Rudy set up his business was to give him a platform to companies in areas where he could provide great insights. Having said that, it is in no way Ernst & Young's desire to be part of the consulting industry, as we exited that business four years ago.

In developing client relationships, do you usually approach C-level executives?

Our relationships with client companies are important at any level, and our relationships with audit committees are also incredibly important, perhaps more important than they've ever been. Relationships at the CEO, CFO, controller, and director-of-tax levels are critically important, and CEOs are increasingly focused on their financial reporting and relationships with audit firms. That's one of the positive outgrowths of this less-than-positive period we've gone through. The Sarbanes-Oxley Act required CEOs and CFOs to certify their financial statements, and that has increased the interest and focus on the part of those people. So it's very positive for the investors and the accounting profession.

You've personally always enjoyed working with clients. As the business continues to become more complex, can you still spend time on direct client relationships?

I daresay nothing will keep me away from our clients. I realized something as 2002 wound down: There's probably not a person alive who has been in more audit committee meetings in 2002 than I have. I've dedicated myself to attending meetings for a great many of our clients, although I don't deliver the day-to-day

services as I once did. However, along with the rest of Ernst & Young's leadership group, I'm deeply connected to our clients through very meaningful senior-advisor partner relationships because we believe that's the best way to do business.

The media often characterizes companies based on the character of their CEOs. What do you make of this?

I think there has been too much focus on CEOs representing their brands' identities. During the dotcom bubble, people suspended their disbelief in too many ways. Too many CEOs forgot that one of their primary responsibilities was

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to act as the consciences of their organizations. All too often CEOs, and even some CFOs, are still more focused on being chief marketers of their companies and their stock.

Looking back to when you assumed this role and at all that's happened since, you probably couldn't have forecasted many of these issues. How much of a surprise has it been, and is it simply in your nature to roll with the punches?

I'm very relaxed and able to deal with change quite well. I'm very focused on what's most important for our firm and what's important for our people to keep in mind. Staying focused on what was important guided Ernst & Young through this time. Our first priority was delivering great service to our existing clients. In fact, I routinely said to our people, "The worst thing we can do is get too caught up in chasing new clients and disappoint or fail to serve our existing clients extremely well."

Secondly, we had to make sure that we stayed professional in our outlook after the Andersen problems surfaced. We didn't get into chasing ambulances because, as funny as it sounds a year later, at the time I thought it was in the profession's best interest for Andersen to survive. I was desperately worried if they didn't survive that a number of great people would leave the profession. When it became clear that Andersen wasn't going to survive, we stayed focused on first strengthening Ernst & Young's footprint in key countries around the world and on

our key clients in the Americas. And then, of course, we selected some great people to join us.

Consulting, a service you no longer offer, has a sexy image. Are young people still excited to enter the more traditional business segments you operate in?

When we sold the consulting arm three years ago, there was some concern because we were the first firm to back out of that business. There were some who thought we would suffer on campuses. But we didn't suffer for many of the same reasons that led Ernst & Young to sell the business in the first place. The fact is, consulting is so different from the audit and tax business that the pool of consulting talent didn't overlap much. One of the great ironies is that we're seeing more young people going into the accounting, auditing, tax, and transactions disciplines in college today than we did 18 months ago. Perhaps the old adage, "No PR is bad as long as they spell your name right," holds true. Seriously, I think the relevance of what we do has been demonstrated over the past 12 months, and it has never been more visible than it is today.

As the leader of a global firm, can you ever get away from the business and truly relax?

Sure. It's one of those skills that I'm truly blessed to have. My wife, my son, and I have enjoyed so many times away from the rat race. Our son is a freshman at Northwestern, and he's having a ball, so my wife and I are enjoying being empty nesters for the first time.

You've been in this industry for so many years. Do you ever imagine doing anything else?

It's hard for me to think about doing something different because I enjoy what I'm doing so much. Every few years during my career with Ernst & Young, I've been asked to do something different – either serve a different kind of client or fill a different kind of role. In this profession, people usually retire by the time they're 60, but I'm confident I'll continue beyond 60, although exactly what I'll be doing remains unclear.

Are there one or two leaders who have served as role models for you?

I love the political landscape, and I place a few people in very high esteem. I've been an admirer of Rudy Giuliani since I came to New York. I was also very impressed with Ronald Reagan and his leadership style. Their strengths were found in their clarity of focus and message, and they knew what they felt and what they believed in, which are very important ingredients for leadership. At Ernst & Young, my focus is making sure that people understand our firm's commitment, and I'm personally committed to the continual delivery of quality and integrity and to doing whatever it takes to restore people's confidence. ●