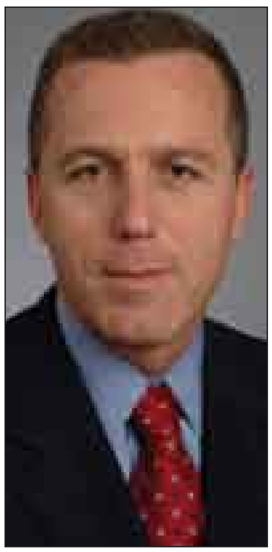
Balancing the Global Equation

An Interview with Samuel A. DiPiazza Jr., Global Chief Executive Officer, and Gene Donnelly, Global Managing Partner, Advisory and Tax, PricewaterhouseCoopers, New York

Samuel A. DiPiazza Jr.



Gene Donnelly

EDITORS' NOTE *Sam DiPiazza joined Coopers & Lybrand in 1973 and became a partner in 1979. He was named Midwest Regional Managing Partner in 1992 and head of the New York office two years later. Following the merger of Coopers & Lybrand and Price Waterhouse in 1998, DiPiazza was named the Americas Leader of Tax and Legal Services. In 2000, he was elected Chairman and Senior Partner of the U.S. firm, and assumed his current role in 2002. Among numerous professional and civic affiliations, DiPiazza is a Trustee of the International Accounting Standards Committee Foundation, Vice Chairman of the World Business Council on Sustainable Development, Chairman of the Conference Board, and a member of the Executive Committee of the International Business Council of the World Economic Forum. The coauthor of Building Public Trust: The Future of Corporate Reporting, published in 2002, DiPiazza holds a degree in accounting from the University of Alabama, and an M.S. in Tax Accounting from the University of Houston.*

Prior to assuming his current role as Global Managing Partner, Advisory and Tax, Gene Donnelly served as Vice Chairman of Operations for PricewaterhouseCoopers (PwC) in the United States, and was a member of the U.S. Firm's Management Committee. A graduate of St. Francis College, he has also served as leader of PwC's transaction services practice, where he provided transaction services to many of PwC's large multinational and private equity clients in the U.S. and in Zurich, where he was based for three years. Prior to joining Transaction Services, Gene commenced his career with PwC as an auditor, primarily serving large SEC registrants.

COMPANY BRIEF *Formed by the 1998 merger of Coopers & Lybrand and Price Waterhouse, PricewaterhouseCoopers (www.pwcglobal.com) is a global professional services firm, employing more than 140,000 people in 770 offices in 149 countries. The firm offers industry-focused assurance, tax, and advisory services.*

What is the purpose of PwC's CEO survey? Why did you feel it was an important survey to conduct?

DiPiazza: This has been a centerpiece of our thought-leadership efforts for the past 10 years. Being able to access over 1,000 CEOs in 50 countries, and having done it year after year with such interesting output, we see it as a real service to them and to the business community, to capture the trends and the key issues on people's minds. The survey has evolved over the years, but it has always kept its core focus on CEOs only – their sense of the market, their optimism, pessimism, risks, challenges, approaches, and key issues to deal with as they grow their businesses. We see real differences from year to year. So it's a living and dynamic exercise.

Donnelly: It resonates with CEOs and is frequently cited by them, as well as being reported extensively in the global media. When we launched it, the involvement of the CEOs was overwhelming. They clearly see this as a source of information to benchmark their own views against the views of their peers around the world. They look to it every year as a great source of information on current and future trends across the global marketplace, and region by region, as well.

DiPiazza: And because we survey 1,100 CEOs, we can dissect the data in a lot of different ways: how the large caps think, how the private middle-market companies feel, and how outlooks differ from region to region. You see some very interesting differences. For instance, perspectives in emerging markets like Brazil, Russia, India, and China are not all the same. So I think it helps us understand where the opportunities and risks in the marketplace are, and helps us identify them for our clients.

Is the survey a client-relationship vehicle?

DiPiazza: First and foremost, it is a provocative and useful thought-leadership initiative, which helps define our brand. Equally important, it enables us to add value for our clients by helping to identify the trends shaping their business around the world.

What sort of macro issues has the survey uncovered? What major issues are today's CEOs facing?

DiPiazza: CEOs are always worried about regulations, and this time around, the major concern was conflicting regulation. As more regulations hit the CEO's table, it becomes more complex to reconcile them, particularly in territories outside of their home region. This year, there was also the question of talent, which was as much of a concern as regulation. The concern over talent was highest in China, India, and Korea. We know the Western companies are fighting a war for talent, but now emerging companies are struggling to find and retain the right people, as well. In addition, energy security was also a concern for our respondents.

Donnelly: A common theme was that while, historically, businesses operated within four walls, now they are networked organizations. Increasingly, value is being created across an extended business network comprised of partners, suppliers, customers, regulators, and stakeholders, and success depends upon collaboration between them. This means the best business solutions must both capture opportunities and navigate risk across an extended business network.

For example, we found that many top global executives believe they gain major competitive advantage from outsourcing. They are no longer just outsourcing IT services, but functions like logistics, manufacturing, customer support and service, research and development, and human resource management. The CEOs also described the growing importance of collaboration with suppliers and service providers as a way to mitigate complexity, reduce transaction costs, and gain competitive advantages.

The other interesting shift we're seeing is that nearly half of all CEOs indicated that they are currently engaged in M&A activity. Rather than simply executing the transaction though, they cite implementing deals as a critical competency. This involves far more than delivering on financial drivers, but encompasses as well, the successful stewardship of people, knowledge, and collaboration in the post-merger environment. Successfully managing the extended business network is not just about the traditional skills of finance, operations, or IT, but is increasingly about the softer skills of people, culture, and making change stick.

DiPiazza: A few years ago, terrorism was way up on the list of CEOs macro risks; but it has consistently moved down. Now CEOs are much more worried about talent, culture, competition, pricing, and regulation than terrorism. CEOs have come to the conclusion that they have to deal with macro risks collaboratively. One out of six – a high number – said they were actively engaged in a collaborative response to macro risk. Three years ago, CEOs didn't really understand the necessity of collaboration in dealing with big issues. Another tidbit of information from the survey is that European and Asian CEOs are exponentially more concerned with global climate change than U.S. CEOs. But all in all, CEOs are thinking about things more holistically.

In terms of what the survey has revealed, which emerging markets are CEOs looking most closely at?

DiPiazza: Brazil, Russia, India, and China are at the high end of the list; but that list also includes Turkey, Mexico, Indonesia, Korea, and Vietnam. CEOs see these markets as being very important to their customers and clients, and they know they have to be there.

Did the survey reveal any trends regarding cross-border mergers and acquisitions?

Donnelly: The survey results support the analysis we've seen over the last couple of years: M&A is a significant route to growth. CEOs are looking at it as a way to access new markets, talent, and necessary components of their value chain. Geographically speaking, Western CEOs seem to prefer mergers and acquisitions of companies that are geographically proximate, Europe is experiencing a heavy wave of consolidation, and Chinese CEOs are looking to establish global brands, acquiring platforms in the Americas and in Europe.

DiPiazza: Many CEOs list Europe as their most attractive market. That's not intuitive. Many people think that market is too mature for growth via acquisition. But because of the consolidation, there is cash flow to be mined from creating efficiencies and operational improvements. So you might say that what Europe has not been able to do organically, it will do through restructuring its enterprises. This will create wealth, jobs, and activity. It will change the European business landscape for the better.

Did the CEOs indicate that bridging cultural barriers was a concern?

Donnelly: In terms of M&A, that's the number-one concern of CEOs. They realize that integrating cross-border cultures is a difficult task. And if they don't tackle it successfully, they won't achieve the real value of the combination.

Did the CEOs remark on the importance of technology to their businesses?

Donnelly: Technology is evolving quickly, and it's a key to unlocking opportunities as companies expand their networks and build their alliances. Technology allows effective communication and speed-of-light transactions. But without an effective, supportive culture, technology won't succeed in creating sustainable advantage.

DiPiazza: A couple of things jumped out at me. Oftentimes, technology has been viewed as an efficiency driver and a cost reducer. But our CEOs talked about technology in terms of driving market growth through innovation. CEOs are looking for technology that gives them access to more ideas, so open systems are particularly important here – more markets and more impact in those markets. They want to create revenue with technology, not eliminate jobs. There's a big difference. Using technology in a distinct, innovative way is a challenge on every CEO's mind.

You mentioned that outsourcing is becoming a more popular way to achieve cost and operational efficiencies.

Donnelly: Yes. CEOs are clearly looking for ways to expand their business networks through outsourcing and alliances. The lightning pace of growth in outsourcing is only matched by the transformation of the market, as traditional models are gradually being replaced by multi-sourcing, joint ventures, and "best of breed" arrangements. Managing this extended network of relationships requires more transparency, better communication, greater trust, and genuine reciprocity. Success in this environment will heavily hinge on shifting the customer-service-provider relationship, from one based on procurement to one grounded in partnership. If you're going to shift your R&D to China, you want those people to be part of your culture. Proprietary information will be going back and forth, and you need to be comfortable with that.

DiPiazza: The stakes are changing. Twenty-two percent of the companies we talked to in the emerging markets said they either had, or were planning, to outsource a significant piece of their operations to low-cost locations, such as Vietnam, Ghana, and the Philippines – countries with a large, skilled population and low wages. So China may not be the most competitive location for outsourcing in the future. China will need to be quick and agile, and operate in a networked way to maintain its competitiveness.

And what of the importance of corporate social responsibility? Do CEOs understand that need?

DiPiazza: We asked the following question: "Leadership in a more globalized world entails CEO attention on social issues, sustainability, and ethical standards. How strongly would you agree with each of these statements?" We also asked them to disclose why they were engaged in social issues. CEOs recognize the need to build a good community, because it's hard for businesses to succeed in a community that fails, and they realize that it's imperative to meet the expectations of the people. Companies can no longer recruit the best people if they can't build a strong sense of sustainable development into their strategies. Over 80 percent of CEOs said their company's development program focuses increasingly on equipping new leaders to develop sustainable businesses. Clearly, active engagement in social issues will be a key success factor in recruiting – almost 65 percent of CEOs said it would be. Now is that self-serving? Maybe. But it shows a shift in the attitudes of CEOs; they know they can't have a great company just by having a great product. They have to have great people, and an impact on their community.

How do survey results differ by company size and geography?

DiPiazza: There are some significant differences. In the mid-cap market, where growth is regional, the risks are different. And there are differences among Eastern and Western Europe and between Europe and North America.

Donnelly: We also saw some commonalities across different CEO groups. Optimism is present across the board to varying degrees, as is the reliance on M&A to produce growth, expand networks, and access new markets and capital. Overregulation and conflicting regulation are common concerns. And, again, social responsibility is a common priority. Companies can't be seen as predators in their new markets; they have to be seen as contributing members of a community.

Were you surprised by any of the survey results?

DiPiazza: We were surprised at the level of collaboration among CEOs in addressing macro risks. We were also surprised to see a dominant focus on internal cash generation, related to funding M&As, that was at a higher level than we expected. With low interest rates and easy access to capital, we anticipated that CEOs would leverage their businesses for M&A. But we didn't see that. Instead, about 80 percent of CEOs said they were funding these transactions off their balance sheets from internally generated cash flow.

Donnelly: We were also surprised by the unexpectedly high level of outsourcing being done by emerging market companies. The value of this survey is that it talks about what people think the future will hold, not just what they have thought about historically.

And how does the survey ultimately impact PwC's business? Does it define your firm as a thought leader?

Donnelly: Clearly. Clients want you to have a point of view. It's a very competitive market; they have lots of people they can talk to about their issues. If you want to be a trusted business advisor, you have to be able to provide new insights. If you don't bring a distinctive point of view to the table, you're not delivering the value clients expect.

And the unique point of view we provide needn't be lofty, pie-in-the-sky thinking. But it should be a practical implementation strategy that will help CEOs successfully execute their initiatives day in and day out.

And how do you engage PwC's people in the survey? How do they use the results to conduct business, and service your clients?

DiPiazza: We use the results to identify ways to better serve our clients. How can we enhance deal value? How can we help clients manage regulation? What are the new best practices in supply-chain management? We prepare our people so they can share the results with their clients and explore what the findings may mean for each company. We offer our clients this insight to help give them the confidence to succeed. That's what we are all about. ●