

Interview

The Work of Boards



William L. Kimsey

EDITORS' NOTE William Kimsey held the position of Chief Executive Officer of Ernst & Young Global from 1998 until his retirement from the company in 2002. Kimsey joined Ernst & Young (then known as Arthur Young) as a staff accountant in 1964 and became a partner in 1978. During his years with the firm, positions he held include Deputy Chairman and Chief Operating Officer; Vice Chairman and West Region Managing Partner; Vice Chairman and Southwest Region Managing Partner; Managing Partner of the Kansas City office; and Director of Management Consulting in the St. Louis office. Kimsey has also served as Director of Budgets & Accounting Systems for the Kansas City, Missouri, public schools and as Director of Revenue & Administration for Jackson County, Missouri. He earned a bachelor of science degree in Business Administration from the University of Missouri in 1964. He is a Certified Public Accountant and a member of the American Institute of Certified Public Accountants.

With all the regulation in the U.S. today, is entrepreneurship being stymied and is there still an opportunity to build leading companies?

There is the opportunity, but it is being slowed, particularly during the current period because of the tightness of money. Most entrepreneurs have to start their businesses with borrowed money and it is difficult now for anybody, but particularly for entrepreneurs, many of whom don't have a track record of success. Banks want somebody with a proven track record.

Also, Washington has been a negative influence on entrepreneurship and even the drive to achieve in business in general in the U.S. There is an incredible amount of legislation containing many new regulations that has been produced in the past couple of years. There is also a lot of uncertainty about the tax laws. Washington is talking about doing something about the corporate tax rate, but at this point, it has only been talk.

Likewise, the negative political rhetoric about Wall Street has not been encouraging to entrepreneurs or to business in general.

**An Interview with William L. Kimsey,
Former Chief Executive Officer, Ernst & Young Global, Ltd.**

What can be done? Is there a need to bring more business leaders into the discussion?

Yes, it would be helpful if more individuals with solid business experience had greater influence in Washington and in our state capitols. Entrepreneurs, and business in general, provide the engine that fuels our economy and jobs.

How has the role of corporate boards changed and are the board structures today more effective?

There is no question in my mind that they're more effective. There is much more of an emphasis on governance since Enron, WorldCom, and Sarbanes-Oxley, in terms of fiduciary responsibilities, how board members are selected, the diversity on boards, the contribution of individual board members, and the assessment of their own members.

Today, the work of boards and board committees is taken very seriously.

I'm also not familiar with any boards where the CEO or Chairman handpicks members who will vote along with whatever he or she wants, as happened in some cases in the past.

What is the most important characteristics you look for when the opportunity comes about to join a board?

First, it's the industry. Is it an industry you understand and have a real interest in?

Also, it is important to look at the company and how well it is managed, what their market share is, what their potential is, what their legal experience has been in terms of lawsuits, their funding, the strength of the balance sheet, and the quality of the management, particularly the CEO.

Then there are sometimes personal aspects. For example, in my case, I was interested in being on boards of global businesses as that had been my experience and great interest.

What makes for a successful CEO today and do you see a drain of leadership?

I don't see a drain of leadership; there is more focus today on leadership than there has ever been in history, and CEOs today are more focused on the leadership aspect of their responsibilities and not just the management aspects.

What I look for first in a great leader is integrity, as it's essential for the CEO to set the right tone at the top for the entire organization. The CEO must also have the right balance between humility and self-confidence – CEOs have to understand that it's not about them, as any good leader does. He or she has to be someone who has persistence, but not to the point of stubbornness. CEOs are in

positions of change management – they have to lead change. There is tremendous resistance to change, especially if you're talking about changing the whole organization and human behavior. So it takes a lot of persistence, but if that turns into stubbornness, it can work against the organization.

It is also critical to have a disciplined leader in order to have a disciplined organization.

What made the Arthur Young/Ernst & Whinney merger work so well?

That merger remains today the most singly successful merger of professional service firms of a large size in history and it was because of leadership. The leaders on both sides felt like it would be a good strategic fit and had the boldness to take the risk – they were the first of the Big Eight to do this.

The merger was challenging from the inside. There isn't a single merger that involves a lot of people that is easy. There are all kinds of personal agendas, and mergers bring out the best in some individuals and the worst in others.

In order to merge a professional services firm like E&Y, the top leaders sacrifice their career aspirations and they have to put their partners and the future of the firm ahead of themselves. The three most senior Ernst & Whinney leaders and the three most senior Arthur Young leaders took the bold step in 1989 toward a successful merger and laid the foundation for the great firm you see today.

The Big Eight is now down to four. Is that healthy?

The situation we have today is a product of some very unusual and unexpected phenomena of history from about 10 years ago. The last merger of large accounting firms reduced the number of firms from eight to five, which seemed fine at the time. The independence rules for firms at that time were different, allowing for a broader scope of services. But then Andersen was forced out of business through very aggressive treatment by the U.S. Justice Department, following the Enron failure. Then, following the failure of WorldCom, the Sarbanes-Oxley legislation was passed, which restricted the types of work that can be done for a given client by the same firm. The legislation now makes it necessary for many corporations to retain not just one, but at least two firms. So the loss of Andersen, bringing the number of firms down to four, along with the greater need now to use more than one of the large firms, does reduce the choices for businesses. We are fortunate, however, to have four highly qualified, large, global accounting firms capable of servicing the needs of large and complex global companies. ●