

Securing the benefits of globalisation • Part IV, Chapter 3

Conducted
by

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*Strategic
conversation
with*

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Building a global vision of collective excellence

Few sectors have reached a level of consolidation similar to the accounting and auditing industry in which four big firms dominate the worldwide market. However, would you argue that Ernst & Young and the other major accounting firms are truly *global*?

Pierre Hurstel: Ernst & Young is a worldwide organisation with 100,000 employees and partners located in 140 countries. Few corporations have such a wide presence and sizeable workforce. However, Ernst & Young, like the other *Big Four* firms, has a specific organisational structure: it is first and foremost a network of separate legal entities – partnerships – operating under one brand name. So, Ernst & Young is not a *global* company like Renault, General Motors or Sony who originated in one country and then expanded into others either through green-field investments or acquisitions. In so doing, they globalised both their value chain and brand, whereas Ernst & Young has a worldwide reach that developed from the bottom, not the top.

Why is it so important to possess a global reach?

PH: For a very simple and paramount reason: our clients want and *need* us to

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be global and to serve them in all countries where they have activities or subsidiaries.

You are in charge of Ernst & Young's human resources worldwide. Can you explain what a global human resources policy is within a company of your stature?

PH: A human resources policy consists in establishing a vision of the conditions for success that is shared by all employees and partners. Of course, it is also about reconciling two aspects that have previously tended to be perceived as contradictory: the fact that each employee can add to his / her individual capital of competences and, at the same time, increase the company's long-run human capital. Traditional managers, for instance, usually believe that any increase in individual competences generates centrifugal forces that could be detrimental to a company down the road. Last but not least, in today's world, a successful corporation creates a caring, inclusive and flexible environment that values differences and gives its workforce the possibility to grow individual competences and confidence. It is also an entity that offers every employee performance-based opportunities and that regularly reassesses its vision of collective excellence.

Your vision of a 'healing corporation' ¹ is one that provides every employee a favourable environment within which to work, and to develop both professionally and personally. Is this vision specific to the service sector, or is it applicable to others as well?

PH: What I just described is true for any company but is especially apt for a service-oriented one like ours in which success derives from individual competencies but is complicated by the fact that every employee works for many bosses simultaneously. This situation is very stressful, and the only way to make it sustainable in the long-term is to ensure that bosses and employees agree upon conditions of individual and company success, and understand how compensation works. To be frank, we are not there yet. Among the 108,000 persons within Ernst & Young, 7,000 are partners and each of them possesses a personal vision of the ideal corporate strategy! Can you imagine a company in which all its shareholders conduct projects every day and take

1. See Pierre HURSTEL, *L'entreprise réparatrice ou le nouvel épanouissement* (Paris : Maxima-Laurent du Mesnil, 2002).

part in the nomination of every single manager? A human resources strategy is one of the tools to reconcile all those visions.

At Ernst & Young, such a *global* strategy is even more necessary than anywhere else for five reasons. First, we need to compensate the absence of central management by providing tools that allow the different parts of the organisation to hold together productively. Second, because both regulators and clients now have an increasingly holistic view of the quality of our work at the global level, we must strive to provide the same level of excellence worldwide. Third, we must ensure that our employees understand that our clients are not the ones who pay for our work; they are the ones who read our reports. Thus, we have to differentiate between those who pay us (corporate management) and those who benefit from our expertise more abstractly (shareholders or other financial market participants)! In addition we know that at least one fourth of our workforce will leave the company during the coming year, and that we will need to hire about the same number people in a very competitive marketplace. The average age of our workforce is 30: those who leave may be tomorrow's clients or join organisations like the Public Company Accounting Oversight Board who has oversight on our activity; those who remain beyond that age destine themselves for partnership. Indeed, this is another reason for having a *global* human resources policy: we do not recruit key managers from the outside, but grow them from within. Last but not least, past experience has demonstrated that in our type of organisation, no local human resources policy can be conducted in absence of a global one.

Certainly, audit work differs from most business services, as the 'final client' is not the person who pays for the work done. How can you make sure that auditors fulfil their duties with this *final client* in mind rather than the management of the companies whom they audit?

PH: It comes back to our vision of individual and collective success – and to compensation! In this regard, compensation is a key tool: compensation for partners who generate the greatest amount of new auditing business can no longer be prioritised to those who deliver top-quality audits – indeed, this evokes a fundamental transition in our industry from the pre- to post-Enron era. Human resources managers know that any compensation policy directly impacts operations and changes the DNA of a company. Individual values, and corporate *value*, have to be reconciled at that level.

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Many global corporations have published value statements and see them as a way to reinforce group cohesion and to attain an ever more global culture. Does Ernst & Young share this view? Does Ernst & Young share this view?

PH: Since 2004, we no longer perceive our values mainly as a way to reinforce internal cohesion or to manage change within the company. Rather, we now acknowledge the fact that our values, as they influence individual daily behaviours, will also shape the perception of regulators and markets. As a result, it is even more important to identify the appropriate values, and to firmly establish them at the epicentre of our human resources management and, indeed, all of our internal processes and client interactions. Moreover, these values must be acknowledged at the global level: we cannot afford to have different values per country or per area. In this respect, our value system needs to be explicit enough to be understood and implemented in the same way everywhere.

When we discussed our values statement internally, we were sensitive to recent corporate scandals like Enron and Parmalat and focused on how we could explicitly contribute to restoring trust. Let me recite our statement to emphasise the most innovative part of this: *“We are people who demonstrate respect, integrity and teaming. We stand for people who demonstrate respect, integrity and teaming. We are people who demonstrate energy, enthusiasm and courage to lead. We stand for people who demonstrate energy, enthusiasm and courage to lead. We are people who build relationships based on doing the right thing. We stand for people building relationships based on doing the right thing”*. The first portion may not sound very innovative. In fact, ‘energy and enthusiasm’ may otherwise appear to be more surprising as far as audit work is concerned. However, from my perspective, ‘courage’ is the most important word in this statement because it has to guide our daily decisions and potentially even means disagreeing with our clients. This *credo* also emphasises the importance of doing the ‘right thing’. Traditional mission statements would have emphasised client satisfaction, innovation and so on, but nothing of the sort appears here. Even the word ‘client’ has disappeared, as we no longer know who our clients are: they are too difficult to clearly identify, as those who pay us for our services are not our main ‘clients’ (i.e. the people for whom we work).

These values have to guide our decisions, especially when we face complex situations, and to support our culture.

How did you identify these values as the ones that needed to be put at the centre of your organisation?

PH: Representatives of the various business areas (we have seven areas at Ernst & Young) jointly identified these values: each area reflected upon the issue, reached a consensus and a further discussion then took place between delegates of the ten firm-wide locales. This bottom-up approach is much more efficient than the top-down system that prevailed before as it acknowledges the need to account for cultural differences. Each *area* covers a unique set of countries in which people share a (relatively) common vision of the world, history, culture and geography. This 'areaisation' is a necessary step toward globalisation.

Did you translate your statement into the various local languages? How did you make sure that these values would be implemented worldwide?

PH: We do not want them to be translated. However, as these values are beliefs that have to be taken into account on a daily basis, we are now working on codes of conduct that translate these beliefs into behavioural models and envisioned relationships with clients and non-clients, within the team and between different partnerships. Each area has designated one representative to work on this. In addition, we are now developing mechanisms to encourage *whistle blowing*. This is not the translation at the global level of the Sarbanes-Oxley requisites, but rather the recognition that each individual can air constructive criticism of fellow employees (particularly their superiors) and influence strategies within the organisation as a whole.

Designing a global human resources policy and a values statement is just one side of the problem. Execution is even tougher. What approach has Ernst & Young adopted on this matter?

PH: We all recognise that our clients want top-quality auditing at the global level. Sarbanes-Oxley is only one reason for such a requisite, while the revised 8th EU Directive on auditing – perceived as the European Sarbanes-Oxley – is another. This Directive stipulates that group auditors bear full responsibility for the auditing of the consolidated accounts, and that their liability extends to the work of other audit firms in subsidiaries: the era of Deloitte at the group level, and Grant Thornton at the subsidiary level – like in the Parmalat case – is gone. As in the US, this new EU regulation has been enacted in reaction to the failure of market discipline.

On the audit side, the main difficulty lies in the fact that none of the *Big Four* companies can presently guarantee the same recruitment levels in all coun-

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tries. Therefore, internal training policy is essential to guarantee quality audit performance worldwide.

How do you reconcile global decisions and local execution?

PH: As soon as a global policy no longer results from a top-down approach, but rather from local suggestions and bottom-up consultations, the problem of execution is totally different. When global decisions derive from local consultations, their applicability has already been tested. Moreover, the readiness of employees to apply the decisions is increased by the fact that they participated in the upstream discussion, influenced the policies and agreed with the strategies set forth. In such a system, it is therefore easier to leave the means of execution to individual areas. For instance, my personal readiness to defend and apply our corporate values is increased by the simple fact that I discussed them upstream, and was able to impact their outcome: I wanted them to be different from what our corporate values were in the pre-Enron era, and argued strongly in favour of the word 'courage'.

This also means that we enter into a new era of globalisation in which the key responsibilities can no longer be uniquely in American hands. Confidence in people from other countries likewise translates into the sharing of global responsibilities.

Confidence at the global level needs to rely on the identification and recognition of the various competences required to fulfil a given assignment. What is implemented at the global level to develop and recognise competences of the various categories of employees?

PH: This is not the only challenge we face today! In reality, we not only have to train people by providing them the appropriate tools, or to recognise the competences and experiences that individuals have acquired, but we have also to implement a management that is not only based upon ranks, but upon such competences. From this angle, the size of our workforce is secondary to the quality of individuals therein; our clients have customised needs, and we must assign employees to them who truly understand their problems, not those who have a given ranking within the organisation.

We have struggled with the training challenge for many years and its direction has recently changed: as soon as you provide employees with free web-enabled training (available 24 / 7), they can connect whenever they want, and the company then takes the risk that they will spend all their time fine-tuning non-essential skills. Thus, we must regularly provide our employees with an

assessment of individual competences, and learning maps are a first step in this direction.

Of course, this challenge is hardly limited to Ernst & Young: we now exist in a knowledge-based economy in which the initial training procedures must be complemented by life-long training and experience. The recognition of new competences and the validation of experience must both be addressed at a more global level. I should note that we could already witness reverberations of this change at the European level as we are moving toward standardisation and mutual recognition of diplomas.

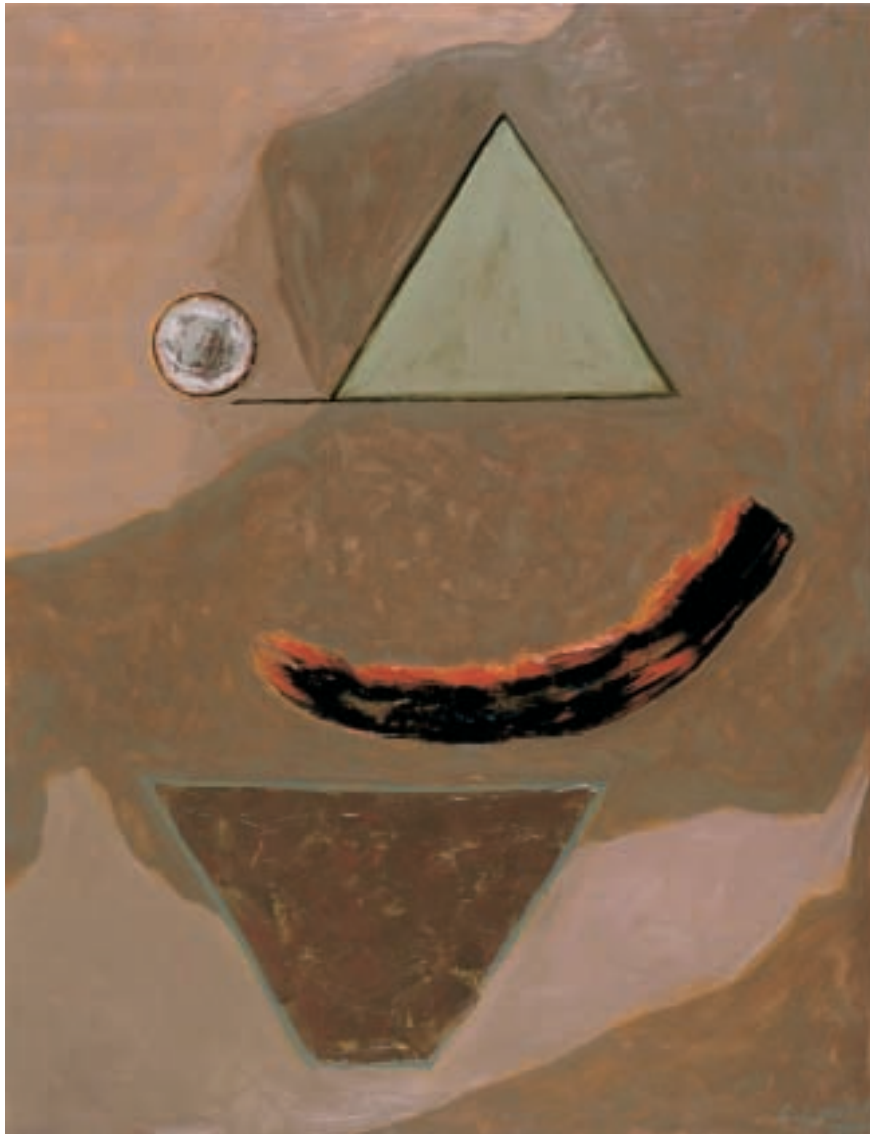
We fully agree that life-long training is now a necessity and that experience is key in most sectors as the marketplace becomes increasingly competitive. However, as new regulations are enacted, will they put pressure on big audit companies to increase the level of training of their new recruits?

PH: Yes and no. With the implementation of the Sarbanes-Oxley Act, accounting and auditing are no longer questions of compliance, but of judgments that flow from both experience and a sophisticated business / accounting expertise. Therefore, the *Big Four* partnerships are doing their best to increase the qualification levels of their new recruits, but this remains a substantial challenge due to the profession's tarnished reputation.

In November 2003, a very important conference, entitled "The Future of the Accounting Profession", was attended by the American accounting and regulation elite. Among various recommendations, it concluded as follows: "To remain a profession, auditors need to [...] restore their credibility to attract the 'best and the brightest' of university and college graduate".² A valid resolution, one should note that the delegates of this conference also voiced concern about the ability of the profession to realise this goal due to its "lack of appeal" as a result of the recent scandals, and to the perception that the public accounting industry risks becoming a quasi-arm of government agencies. Thus, if Ernst & Young truly aspires to attract the 'best and the brightest', the development and implementation of a 'global human resources policy' is absolutely central to achieving these ends.

2. Roderick HILL & Russel PALMER, "The Future of the Accounting Profession", *American Assembly Report*, 103rd American Assembly, November 13-15, 2003 (New York: The American Assembly & Columbia University, 2004), p 9.

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Lucio Loubet

9^{ème} série de la Métamorphose n° 16
(116 x 89 cm)