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Succeeding
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07

Global Annual Review

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PRICEWATERHOUSECOOPERS 

The CEO perspective



Article by Samuel A DiPiazza Jr, CEO, PricewaterhouseCoopers International. Sam DiPiazza has served as CEO of PwC International Limited since 2002. Prior to that he led the PwC US firm as Chairman and Senior Partner. He joined PwC in 1973 and became a partner in 1979.

As CEO of PwC International, one of the most rewarding parts of my job is the opportunity to bring to our clients and the wider community the ideas and insights of my PwC colleagues around the world. Here I would like to share with you our current thinking on the global economy, the accounting profession and, of course, the state of PwC.

The global economy

The quest for new markets and new customers dominates the agenda of global company leaders. Our latest PwC Global CEO Survey showed optimism in the future to be at record levels at the end of 2006, fuelled by the opportunities presented by globalisation and renewed confidence in the kind of mergers and acquisitions which generate growth and provide access to new markets. However, that confidence has taken a dent over the last few months as the world's markets have taken

valuations on a roller coaster ride, driven by subprime credit concerns in the United States. While this has damaged confidence and the impact on continued growth is not yet apparent, it has also clearly reinforced the increasingly global nature of the world in which we live, invest and do business.

Worries about the US economy dominate markets today; however the long term trends will continue. Over the next decade we anticipate a continuing shift of capital and equity toward the developing world, with the top seven emerging economies (Brazil, China, India, Indonesia, Mexico, Russia and Turkey) having a larger collective economy than the G7 (Canada, France, Germany, Italy, Japan, UK and US) by 2050. The United States and Western Europe are hardly going to become irrelevant—but they will no longer be the dominant drivers of the global economy.

Emerging.

Over the next decade we anticipate a continuing shift of capital and equity toward the developing world, with the top seven emerging economies having a larger collective economy than the G7 by 2050.

This shift of capital will present challenges as well as opportunities and while business risks associated with new markets are not unexpected, they should not be underestimated. The emerging political risks in some of the new economies together with other recent issues, such as product quality, potentially make some of these new markets more challenging.

While the recent turmoil in world markets and its impact on credit markets may temporarily dampen the appetite for deals, CEOs are now attuned to the incessant drumbeat of globalisation. Ultimately, this will compel them to find a way of dealing with concerns regarding political instability or product quality and to pursue deals in newer markets.

As ever, when doing a deal, the challenge is to fully realise its value and CEOs tell us that cross-border implementation is a critical element in realising value. Equally important is the successful stewardship of people and knowledge and the ability to collaborate well in the post-merger environment, something our Global Advisory and Tax Leader Gene Donnelly will explore later in the Review.

Silas SS Yang, Executive Chairman, PwC China

China is the fourth largest economy in the world, the second largest exporter and the number one holder of foreign reserves. With a trade value of 980.9 billion USD and foreign direct investment of 31.9 billion USD in the first six months of 2007 there is no doubt that China is one of the world's most prominent participants in the process of globalisation. This level of investment along with annual economic growth rates of over 10 per cent present huge opportunities for China and its investors. However, there are also challenges as the country and its leaders manage such issues as energy security, gaps between urban and rural areas, healthcare, product quality and encouraging a culture of innovation that will allow economic growth to be sustained.

Demographics is a key force for change in the global economy. As the baby boomer generation retires, the members of the technology-savvy Millennial Generation are beginning to enter the labour market. Driven by different work/life priorities and a seemingly ingrained sense of social responsibility, this generation will redefine the relationship between employers and employees. In response, traditional human resources strategies will need to be replaced by more flexible approaches. Companies will also increasingly disperse their people and jobs across the world in search of greater efficiency, collaboration and innovation.

Trust.

The accounting profession has shown that it can work effectively with regulators to build public trust, maintain economic competitiveness and ensure the effectiveness of the capital markets.

Changing demographics is just one of the issues we face globally; equally challenging are such factors as resource depletion and climate change. These global issues are beyond the capacity of any individual company or government to control. However, collaboration between the public and private sectors may begin to shrink some of these issues to manageable proportions. The employees of global companies demand that business leaders show clear engagement with these issues, bringing innovation and productivity to bear when dealing with the matter of sustainable development.

The accounting profession

As accounting firms continue to evolve from a self-regulated model toward a regulated business, quality must continue to drive the profession—and that includes the quality of our people, the quality of our technical advice and the quality of service to our clients.

The profession has shown that it can work effectively with regulators to

build public trust, maintain economic competitiveness and ensure the effectiveness of capital markets. But for the global accounting networks, compliance has become complex and costly. Firms are frequently subject to conflicting or overlapping regulatory regimes which hamper their ability to deliver consistent quality services to clients on a global basis. Convergence of oversight systems—including registration, inspections and discipline—would reduce the cost of oversight without reducing the protection to investors. Convergence would also assure investors that all firms are auditing to the same rigorous standards.

One of the most important lessons learned from the corporate failures of the beginning of this decade is that complex business transactions cannot be communicated through prescriptive rules. Instead, clarity relies on adhering to sound principles applied with expert judgment. If there is to be convergence to a single set of accounting standards—or something very close to it—those standards should encourage

professional judgment rather than stifle it, an issue PwC's Global Assurance Leader Rob Ward explores on page 9.

Companies continue to invest heavily in producing detailed corporate reporting documents in order to comply with increased levels of regulation. But those documents are deemed by many to be increasingly irrelevant and out-of-date. That brings into sharp focus the importance of presenting a more expansive picture of corporate performance—both financial and nonfinancial—to a larger number of interested stakeholders. Some observers believe that today's corporate reporting model, which they consider not "fit for purpose," is incapable of embracing change and should be replaced altogether. Others prefer a more considered approach—one which embraces a broader information set, while at the same time discards some of the ill-fitting components of the existing model.

From my perspective I am confident that the current model can be reformed, but the reform must be far-reaching

Performance.

When we look at our performance—not just last year, but over the last few years—we can be very proud. This is testament to our strategy and the quality of our people and clients around the world.

and radical. It must have at its heart an understanding of the requirements of all stakeholders and an acknowledgment of the compelling need for international comparability. This is an issue that many of my colleagues around the world are working on, through our thought leadership and participation in standards setting. It is also an issue in which I am directly involved as a trustee of the International Accounting Standards Committee Foundation—the oversight body for the International Accounting Standards Board.

Liability concerns continue to cloud the future of the profession. We are encouraged by the system of proportionate liability introduced in the United Kingdom and the plans of the European Commission to consider reforming auditor liability. Additionally, the US Treasury has set up an advisory committee to examine the health of the US accounting profession including liability exposure. Across the world we need to move toward regulatory and judicial systems that clearly penalise auditors when they are at fault, but move away from systems that inappropriately put entire firms at risk.

PricewaterhouseCoopers in 2007: revenue growth

FY2007 has been a good year for PwC and its people. As detailed in the Facts and Figures section, this year the PwC network once again enjoyed solid growth, with gross revenues up 10.5 per cent at constant exchange rates. At variable rates of exchange the growth in revenues was even greater—up 14.4 per cent.

Revenues grew in all major PwC firms and regions, with many posting record double-digit growth. We registered particularly strong performances in some of our key growth markets, with revenues up 31 per cent in China, 22.4 per cent in Central and Eastern Europe, 35.8 per cent in India and 37 per cent in the Middle East. Our member firms in the more mature markets of Western Europe, North America and Australia also continue to perform strongly.

Growth was also good across all our service offerings. Global assurance revenues grew by 6.7 per cent. Our global advisory and tax service lines are both

becoming increasingly significant components of our business, with a revenue increase of 14.6 per cent from our advisory service line, while our tax business grew revenues by 15.1 per cent.

When we look at our performance—not just last year but over the past few years—we can be very proud. This is testament to our strategy and the quality of our people and clients around the world.

An employer of choice

I am pleased to report that PwC has maintained its position as the employer of choice in our profession. Independent research confirms that we are number one among accounting firms, and are among the top five employers across all industries. Last year, our member firms recruited about 30,000 people, both new graduates and experienced professionals. Interest in international experience is high, and over 2,300 PwC people began new international assignments this year. We are also piloting a new international assignment programme for staff with recently obtained professional credentials.

In addition, according to our most recent Global People Survey, 86 per cent of our employees are “proud” to work for PwC—a figure that places us among the best-performing organisations globally.

But our partners and staff also tell us that when it comes to people issues, PwC still has work to do. While our focus on diversity has yielded progress throughout the PwC network, it still falls short of expectations at the leadership level. The excuse of “this takes time” is unacceptable, and I am personally leading a gender diversity group to improve our performance.

Confidence to face challenges

In addition to enjoying strong revenue growth and working together to secure future competitive advantage, we have faced some significant challenges in the past year. As I reported in last year’s review, a new PwC audit member firm in Japan, PwC Aarata, opened formally for

business in September 2006. This firm has quickly established itself as a high-quality audit firm with a staff of 1,200 providing services for a cadre of both domestic and international clients such as Sony and Toyota. PwC Aarata sits alongside our tax and advisory firms in Japan which have been established for many years. Both are growing well and have a combined headcount of 750.

PwC’s network audit firm in Japan, Misuzu, did not fare so well. Despite a significant programme of reform the firm announced in February that it was closing for business on 31 July, allowing time for the orderly transfer of both clients and staff to other auditing firms, a process that has been completed efficiently and effectively.

Although there are significant reforms under way for the profession in Japan, the market for audit services there remains a challenging one, and I believe

that in the current environment our strategy of targeting resources on a focused, high-quality firm following the highest of international standards is the right one.

There has been considerable speculation about PwC Russia in the past six months. However, our audit license in Russia was renewed for another five years in April, and key clients such as Gazprom have reappointed PwC as their auditors. I believe our Russian firm is one of the strongest and most strategically significant firms in the PwC network, employing 2,000 people and serving 1,600 corporate clients. It is testament to the skill and strength of the management of our firm in Russia that despite the challenges it has faced the firm continues to grow revenues, to win new clients and to keep staff motivated and committed. PwC Russia is very well placed to capitalise on its strong position as the leading firm in the market.

Dennis M Nally, Chairman of the Board and CEO, PwC US

So what’s ahead for us? Undoubtedly, we can expect this year to be one of constant change, and that’s going to come at us from three sides: our anticipation of and reaction to changing economics on a global scale; the continuing scrutiny and study of the sustainability of our profession by government entities; and how we want to work as a global network of firms. We have little, if any, control over the first topic; a vigorous and vocal seat at the table for the second; and active dialogue taking place for the third. How we deal with these impending changes depends on the continuing discussions we have with everyone involved. Our mission is to create an organisation whose every interaction with every client, staff person and partner demonstrates our values and our behaviors on a consistent basis. One lever alone will not create meaningful change; it’s all of these efforts combined that will have a lasting effect on the experience we deliver to our people and our clients. We will know that we’ve been successful when these interactions and overall experience are expected when one encounters someone from PwC.

Responsibility.

We also have a duty to act as responsible global citizens and take an active role in helping to build a more sustainable world.

An organisation of the size of PwC will inevitably face challenges somewhere around the world over the course of any year. As we deal with these challenges, the more impressed I am with the people we have working in our network and the more convinced I am that it is our pursuit of the highest quality that gives us the confidence to deal with these issues successfully.

A distinctive PwC experience

The PwC brand is one of our major network assets and a source of significant competitive advantage for us around the world. The strength of our brand was this year borne out when PwC was rated as one of the top 100 global brands in an independent research study.

At the heart of our brand, and at the foundation of its success, is the quality of service we provide to our clients. As such we are continually reviewing the effectiveness of our client service, seeking ways to improve.

Over the past year we have asked our clients what they value in a professional services provider. Here's what they told us: They said they want to work with people who are willing to invest in building strong relationships and who will share and collaborate with them. They also said they want to work with people who can see issues from their perspective and who focus on building value. In short, they want to work with people who bring both their heads and their hearts to work with them.

In response to what we learned, we have taken a fresh look at the experience our clients and our people expect from their interaction with PwC. At the heart of this experience is a focus on the values we want our people to demonstrate—both to clients and to one another. Our aim is to promote behaviours that will help deliver the distinctive client service that will set PwC apart in the marketplace.

Responsible Leadership

Responsible corporate behaviour is an important aspect of the PwC culture, and across the PwC network our people give generously of their time and resources to their communities. Through our Global Communities programme, which Tony Harrington, PwC Australia's Chief Executive, explores later in this review, we bring a central, collaborative focus to the many diverse community contributions that PwC people make around the world. We are starting to see the benefit from such connections—new ideas, new programmes and joint initiatives. This year, we established the Global Communities Recognition Awards to recognise the community initiatives being undertaken across the PwC network. This programme provides us with an opportunity to acknowledge the ambitious scope and imagination of these initiatives.

At PwC, we recognise our obligation to uphold the standards of the accounting profession and ensure the integrity of the capital markets. But we also have a duty to act as responsible global

citizens and take an active role in helping build a more sustainable world. For my own part, one of my responsibilities is to serve as Vice Chairman of the World Business Council for Sustainable Development, a group whose work is key to defining the role that business will play in the future sustainability of our society and the planet. I have the honour of taking up the chairmanship of the Council in November this year.

I believe we all have a responsibility to use our talent and resources to help others. This is what we call "Responsible Leadership."



A good example of responsible leadership is a PwC development programme called Project Ulysses. Ulysses sends small executive teams out into developing countries to work with local governments and nongovernmental organisations that help build sustainable businesses and improve people's lives. Instead of a familiar modern office building, our PwC colleagues find themselves in various corners of the globe—far from their usual comfort zone—tackling challenging problems which force them to look at issues from a number of different angles.

Looking at issues from different angles is something that lies at the heart of our PwC culture. Listening to our clients and seeking imaginative solutions to their challenges. Working together to fulfil our responsibilities as global citizens. And talking with our people around the world to help them develop challenging and satisfying careers. I believe we have made significant progress on all of these issues in the past year, but they remain the focus of our energies for the year ahead and the foreseeable future.

Sincerely,

Handwritten signature of Samuel A DiPiazza Jr.

Samuel A DiPiazza Jr
Chief Executive Officer

Kieran C Poynter, Chairman, PwC UK

At PwC in the UK, corporate responsibility is not just a slogan; it underscores everything we do. We know that if we are to assume and maintain a leading and proactive role in this area, we have to practise what we preach—for example, by reducing our carbon and waste footprints. At the same time, we recognise that we have taken only the first few steps of a long journey that is certain to generate significant strategic challenges for our business, our people and our clients.

We have always prided ourselves on providing wise solutions to the issues facing our clients and stakeholders. Today there can be no greater or more wide-ranging challenges than those of sustainability and climate change. Here in the UK we have been investing in building our capabilities across the firm, so that we can advise both public- and private-sector clients on how best to manage these complex new issues—issues that will increasingly affect every aspect of business.

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