Marvin's Shoes

A Tale of Two Firms

By Jack Sweeney

Body Double: McKinsey managing director Rajat Gupta continues to preach the values of a nonhierarchical decentralized firm, but has arguably become the firm's most powerful managing director to date.

Pierre Dufor

It was the best of times, it was the worst of times,

it was the age of dot-com wisdom, it was the age of irrational exuberance, it was the season of plentiful stock options, it was the season of sparse MBAs, it was e-consulting' s spring of hope, it was management consulting' s winter of despair, they were partners marching behind an influential leader, they were entrepreneurs with no leader at all, they were **one firm** *for all, they were every consultant for him- or herself.*

As the 94-year-old approached the podium, the less guarded members of the gathering yielded to what can only be deemed a subservient impulse and rose to their feet. Within moments, the rest of the members would follow — their actions arguably prodded as much by curiosity as by subjugation.

After all, the spring 1998 gathering could very likely be the last opportunity for most of those gathered to lay eyes on the man credited with laying this firm' s cultural cornerstone — a last chance to view the living icon who had coined the firm's esteemed principles.

But Marvin Bower had not come seeking praise. Instead, McKinsey & Company's retired chief had come to express his appreciation to all those who had toiled to bring forth within the firm an expanded consensus-building approach — one that earlier in the day had appeared to enjoy no small amount of success when the partnership had cast its votes and once more validated the firm's participative governance model. This was now a model, though, newly enhanced in a variety of ways, not the least of which deriving from an affirmation by the partners of sharing the risk as the firm expanded into an array of new markets and ventures.

Later, basking in the glow of Bower' s praise, McKinsey managing director Rajat Gupta offered the gathering a broader context within which to view the firm's ever-growing organizational initiatives. While displaying a visual of a banyan tree — a tree that offshoots roots from its many branches — Gupta explained how the firm's expanding number of geographies, functional areas, and industry-specific practices in many ways resembled the banyan, which as it matures no longer relies on any one root. In fact, the banyan tree can live on even when severed from its trunk, a point that couldn't help but resonate symbolically with some of those who sat in Bower' s presence. Or even Gupta's for that matter.

Five other managing directors had served since Bower' s tenure, but arguably none had accrued the influence Gupta had. This was an influence spanning more widely and deeply than that wielded by any other managing director before him — with the notable exception of Bower — and as such heightened the ability of the firm' s MD to maneuver the levers of consensus-building and the delicate machinery that controlled the firm's bottom-up approach to management.

The Florida gathering closed the final chapter of a strategy review process that had begun more than two years earlier, partners say. It was a chapter in which the firm had debated the possibility of adopting a more corporate model, complete with business units and regional hubs. According to partners in attendance the election' s outcome had largely been predetermined by aggressive grass roots consensus-building, an effort spearheaded by none other than the firm's MD. In the words of one McKinsey partner, "It was Gupta's master coup."

That Was Then, This Is Now

Sometime early next year, McKinsey's 275 senior partners will cast their ballots for a new managing director. And 54-year-old Gupta will be tasked with nurturing a smooth transfer of power having already served three terms — the maximum number an MD is permitted to serve under the firm's bylaws.

Back in 1994, when then–Managing Director Fred Gluck found himself barred from standing for reelection because the firm enforced mandatory retirement at age 60, Rajat Gupta had emerged on the short list of potential MD candidates. As the first foreign-born consultant to lead the firm, Gupta' s style was remarkably less direct than that of his Brooklyn-raised predecessor, whose bluntness sometimes rankled his partner peers.

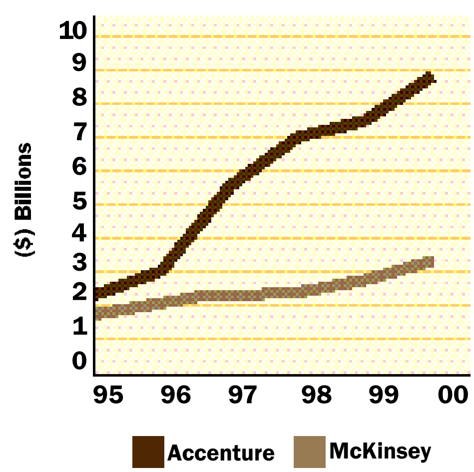
However, the two men were of one mind when it came to the firm's continued expansion. Only by opening new offices around the globe would the firm be able to offer their clients the superior service they expected, and at the same time create the career opportunities needed to continue to attract the best people. Or so the reasoning went.

Besides doubling the firm's revenue to $1.5 billion, Gluck is also often credited with using his two terms to further instill the firm' s appreciation of knowledge — an appreciation its next MD would share as he stepped up knowledge development investment throughout the firm.

Ever since Marvin Bower had made the "noble gesture" of selling his shares in the firm back to his partners at fair market value, every managing director has made a commitment to leave the firm stronger than when he found it. Gupta has been no exception. When he was elected as MD in 1994, the firm' s consulting workforce hovered near 3,300 consultants; today, the number of McKinsey consultants has climbed to 7,200, and the firm' s annual revenues are estimated at more than $3.5 billion.

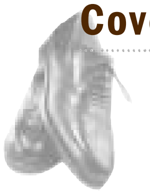
However, the firm' s MD has often stated that McKinsey has never grown just for the sake of growth, and that while other firms have grown by 25 to 30 percent annually, McKinsey has been content to see its consultant head count grow by only 10 to 15 percent annually for the last 25 years.

The Beat of a Different Drummer



While other firms have grown by 25 to 30 percent annually, McKinsey has been content to grow by 15 percent or less.

Source: Kennedy Information Research Group



The number of geographies that McKinsey consultants operate within has grown far more rapidly, however. During his tenure, Gupta has overseen the opening of 47 additional offices in 21 countries. It was such expansion that propelled McKinsey to the forefront of the war for talent.

For Gupta, it was a war worth fighting, and one he needed to win if his hefty expansion goals were to be realized. However, unknown to him, the firm's appetite for expansion would soon be seen as putting the firm's fortunes in peril. A severe slowdown inside the strategy consulting sector, combined with shrinking workforce attrition numbers and a surge in job acceptance rates, has for the last 12 months left McKinsey's coffers wanting and its talent bench crowded. The utilization rates for McKinsey consultants have reportedly dropped at times to as low as 40 percent over the last year, and the start-up costs and currency risks associated with the firm's emerging-market offices continue to lambaste earnings.

Is Gupta to blame? Few McKinsey consultants appear willing to point the finger at the firm's keenly adaptive MD — after all, decisions at McKinsey are made by consensus, and the firm's MD is deemed to be a mere "first among equals." Besides, McKinsey is not alone. Strategy market rivals such as Boston Consulting Group and Booz Allen Hamilton have already made visible their own difficulties in adapting to the contracting strategy marketplace, each having laid off close to 10 percent of their consultants over the course of the last year.

"The only way we're going to be able to help our clients is by first helping ourselves, and by having the most efficient structure within which to conduct our business," says Booz Allen Hamilton chairman and CEO Ralph Shrader. "It used to be that we'd hear, 'I'm a partner,' or I'm an individual entrepreneur, I work with clients and somebody else collects the fees behind me. Someone else worries about costs. That's not my job. Management has to worry about that.' Well, there's a changed dynamic here, and the partners exist now in a much more sensitized environment."

Top Producers/ *Revenues per Professional*

Year	Number of Professionals	Firm	Revenue Per Profit
2000	2,892	A.T. Kearney	$481,674
1999	2,560	A.T. Kearney	$519,531
1998	5,184	McKinsey	$482,253
1997	4,267	McKinsey	$475,470
1996	3,994	McKinsey	$532,454
1995	3,650	McKinsey	$493,151

Source: Kennedy Information Research Group

Is Strategy the Future?

While McKinsey partners may now be handicapping which of seven or eight potential managing directors will ultimately lead the 76-year-old firm, the bigger question that looms large over the consultancy seems to be whether its new size and scope currently outsizes the market for strategy services — or at least its perceived share of that market.

"If the strategy market does not significantly improve before year-end, the question that will need to be addressed by McKinsey's new leader is, 'What do we do?' — meaning 'Do we right-size the firm?' 'Do we build some greater technology capability in addition to strategy consulting?' Because some people are arguing that strategic consulting has lost its allure," says Harvard Business School professor Ashish Nanda, who believes that the firm now needs to consider the profit margins required to grow the base of the firm annually at a rate still capable of satisfying the career demands of its people.

Still, the firm's new size and scope pose another more daunting challenge, perhaps, and this one cannot be remedied by an uptick in demand for strategy services. It's a challenge tied directly to the partnership's culture and its ability to foster a participatory governance.

"It's an open question as to what extent such large, complex, multicountry institutions will be able to retain their partnership principles and operate efficiently," says Thomas Tierney, the former CEO of Bain & Company who headed the Boston-based consultancy from 1992 to 1999, during which time it expanded from 12 to 26 locations worldwide.

At McKinsey, partners have historically been of one mind when it came to the firm's governance. Theirs was a consultancy ruled by a "one-firm" self-governing concept, wherein the consultancy had no one leader but was in fact a firm of leaders who wanted to have the freedom to do what they thought was right for the institution. The consultancy's one-firm mantra has been echoed more loudly by each successive managing director, even as more consultants questioned whether the galvanizing qualities of such a concept had withered as the once intimate partnership scattered its people to all parts of the world.

For most of its past, McKinsey has largely operated through committees, a seemingly endless chain that McKinsey consultants say Gupta began to supplement with several informal boards of discussion early in his first term.

As detailed in a Harvard Business School case study, shortly after his election as MD, Gupta came to the conclusion that the internal debates focusing on the firm's knowledge development were consuming energy that should have been directed toward the activity itself. "The firm did not have to make a choice," said Gupta. "We had to pursue all options." To do that, Gupta spearheaded the formation of different task forces and ad hoc committees to focus on specific issues impacting the firm's knowledge development. This was a

> **"In a sense, the MD becomes more the node** *that communicates and interacts with people, and the very fact that this person has this role will give the person the authority to centralize some power."*
>
> **— Harvard Business School' s Nanda**

strategy he would eventually expand upon and use to address numerous aspects of the firm's business.

"Whether you look at the Tiger Teams at Nike or the Workout Teams that Jack Welch made famous at GE, they were meant to supplement the existing communication structure within their company," explains Harvard' s Nanda, who describes informalized communication channels as being a vital strategy for many companies that today struggle to limit bureaucracy and better manage their size and scope. Still, partners say, the task forces allowed Gupta in some ways to circumvent certain committees that in the past had played a more central role in the firm's decision-making.

Asked to describe his leadership style, McKinsey's Gupta last year told an interviewer, "You have to make sure that there is equity in all your decisions. ... It' s very important that people think you are making fair decisions. It is vitally important in the area of appointments, because fundamentally that' s how you influence, and I have to make sure that I listen to every viewpoint."

So far, Gupta has appointed 42 office managers and has taken the unprecedented step of establishing the Office of the Managing Director, made up of nine senior partners or officers appointed by Gupta. While the Office of the MD is described largely as an administrative body conducting little or no decision-making, few doubt the weight of its influence given that its officers sit on some of the firm's most influential committees — including those for people, knowledge, and finance.

Having recently co-authored a book on managing talent within professional services firms titled *Aligning the Stars* (Harvard Business School Press, 2002), Bain' s Tierney says that leaders of partnerships don't necessarily rely on having the authority to tell people what to do, and instead depend more on a "span of influence" within their firms. Such spans of influence, he contends, are really relationships that a given leader has established with different people throughout the firm.

"You have to find people who can lead without exerting control. And that's a difficult, challenging task," says Tierney. He notes that his own span of influence within Bain extended to 50 or 60 people while he headed the firm.

The Hazy Origins of Consensus

Just how large a span of influence is required to lead McKinsey today is anyone's guess, but few doubt that Gupta' s is the largest the firm has ever known.

"In Rajat' s case he was part of a generation in which the senior partners all knew each other, but this is less the case with the upcoming generation, and the next managing partner will over time develop an incumbency advantage through which they' ll know more about what others are doing then anyone else in the firm," says Harvard' s Nanda. "In a sense, the MD becomes more the node that communicates and interacts with people, and the very fact that this person has this role will give the person the authority to centralize some power.".

Former partners describe an environment in which decision-making is often done through "informal syndication," where a new idea is introduced to ad hoc groups of partners and it becomes evident whether the firm's shareholder council will likely support or not support it. In the end, the shareholder council — the firm's highest-ranking elected body — curtails a great deal of its own decision making, by having matters dealt with by consensus.

As the firm continued to expand, not all partners have found the the firm's evolving approach to consensus building to their satisfaction.

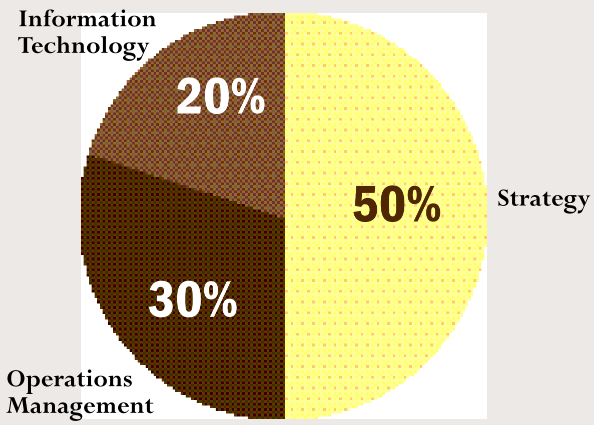
"The fact is McKinsey is a very localized firm and often a partner' s influence is very much confined to a region or particular industry and they don't have the big picture. At the same time, as we move intonew markets the MD acquires greater infleunce and by doing so has been better able to manipulate consensus across the firm," explains a former partner, who says he's uncertain whether Gupta's grass roots consensus building is capable of easing the "cultural mayhem" the firm has expereinced in the wake of its rapid expansion.

Besides as a result of appointing office managers, Gupta's influence has also grown because of the firm' s efforts to preserve its culture. While the partnership reaffirmed its participative partnership model, it did so knowing that McKinsey' s growth mandate was undermining the firm' s villagelike feel. To help that culture remain intact and ensure that the different parts of the firm receive their share of partner leadership commitment, McKinsey began breaking itself down into between 80 and 100 cells defined by geography, industry, and function, with 10 to 20 partners in each.

"It's a process of evolution," Gupta told *Consulting* at the time. "I don't think you are ever really there. I would say that the geographic cells are extremely well established and the functional cells will take a little longer because they are in some ways not natural."

Today, partners and consultants within the firm say that Gupta' s span of influence was routinely enlarged as he appointed not only the leaders of McKinsey's different cells, but also the various ad hoc task forces that became a hallmark of his leadership. Partners say that the people he had initially selected to head the new initiative task forces frequently, by default, became leaders of the new pursuits when the firm later legitimized them. Today, there appears to be little disagreement that Gupta is likely to have appointed more positions than any MD in the firm' s history — including

Revenue Breakout by Service Line
Where McKinsey' s Revenue Resides



Source: Kennedy Information Research Group

Bower, who, although holding office for 26 years, never presided over the expanse of people that now, perhaps, define Gupta' s legacy.

It' s All in the Details

Back in 1998, the partners and directors who gathered in Florida "to do what they thought was right" would discover that certain strategic items on the meeting's agenda enjoyed a kind of added buoyancy that allowed them to surface more frequently in discussions and debate. Partners say that the added buoyancy was largely due to a number of grass roots task forces that had been formed months before and headed by consultants hand-selected by Gupta. While having no official role in the firm, partners say, the task forces helped bump certain strategy initiatives forward inside the Florida meeting's pecking order.

And while certain partners may have viewed the task forces as unqualified intruders, any dissension was quickly quashed when Bower let it be known that the new "consensus-building" approach came with his stamp of approval.

As McKinsey' s chief architect had advanced in years, he had divorced himself from the firm's decision-making — both big and small. Details such as the site of the firm's annual partner meeting — a resort conveniently located only a short drive from Bower's Florida residence — were for others to decide.

Today, no one doubts that McKinsey's current three-term MD has been one man very much caught up in the details — and will himself, like Bower before him, leave some very big shoes to fill. C