

pressure. Thompson explained the situation in Europe in 1999:

One thing became clear very quickly: It was a lot easier to sell cases of Ariel [detergent] or Pampers [diapers] than cases of cosmetics, so guess where the sales force effort went? At the same time, the new-product pipeline was resulting in almost a "launch of the month," and with the introduction of new products like Swiffer and Febreze, it was hard for the MDOs to manage all of these corporate priorities... Finally, because cosmetics sales required more time and effort from local sales forces, more local costs were assigned to that business, and that has added to profit pressures.

Framing the Proposal It was in this context that de Cesare was framing his proposal based on the global potential of SK-II as a brand and his plans to exploit the opportunities he saw. But he knew Lafley's long ties and positive feelings towards SK-II would not be sufficient to convince him. The GBU head was committed to focusing beauty care on the core brands that could be developed as a global franchise, and his questions would likely zero in on whether de Cesare could build SK-II into such a brand.

Case 5-3 McKinsey & Company: Managing Knowledge and Learning

Christopher A. Bartlett

In April 1996, halfway through his first three-year term as managing director of McKinsey & Company, Rajat Gupta was feeling quite proud as he flew out of Bermuda, site of the firm's second annual Practice Olympics. He had just listened to twenty teams outlining innovative new ideas they had developed out of recent project work, and, like his fellow senior partner judges, Gupta had come away impressed by the intelligence and creativity of the firm's next generation of consultants.

But there was another thought that kept coming back to the 47 year old leader of this highly successful \$1.8 billion consulting firm (See **Exhibit 1** for

a twenty year growth history). If this represented the tip of McKinsey's knowledge and expertise iceberg, how well was the firm doing in developing, capturing, and leveraging this asset in service of its clients worldwide? Although the Practice Olympics was only one of several initiatives he had championed, Gupta wondered if it was enough, particularly in light of his often stated belief that "knowledge is the lifeblood of McKinsey."

§ The Founders' Legacy¹

Founded in 1926 by University of Chicago professor, James ("Mac") McKinsey, the firm of "accounting and engineering advisors" that bore his name grew rapidly. Soon Mac began recruiting experienced executives, and training them in the integrated approach he called his General Survey outline. In Saturday morning sessions he would lead consultants through an "undeviating sequence" of

¹ Professor Christopher A. Bartlett prepared this case as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

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¹ "The Founders' Legacy" section draws on Amar V. Bhide, "Building the Professional Firm: McKinsey & Co., 1939-1968," HBS Working Paper 95-010.

Exhibit 1 McKinsey & Company: 20 Year Growth Indicators

| Year | # Office Locations | # Active Engagements | Number of CSS ^a | Number of MGMs ^b |
|------|--------------------|----------------------|----------------------------|-----------------------------|
| 1975 | 24 | 661 | 529 | NA |
| 1980 | 31 | 771 | 744 | NA |
| 1985 | 36 | 1823 | 1248 | NA |
| 1990 | 47 | 2789 | 2465 | 348 |
| 1991 | 51 | 2875 | 2653 | 395 |
| 1992 | 55 | 2917 | 2875 | 399 |
| 1993 | 60 | 3142 | 3122 | 422 |
| 1994 | 64 | 3398 | 3334 | 440 |
| 1995 | 69 | 3559 | 3817 | 472 |

^aCSS = Client Service Staff (All professional consulting staff).

^bMGM = Management Group Members (Partners and directors).

Source: Internal McKinsey & Company documents.

analysis—goals, strategy, policies, organization, facilities, procedures, and personnel—while still encouraging them to synthesize data and think for themselves.

In 1932, Mac recruited Marvin Bower, a bright young lawyer with a Harvard MBA, and within two years asked him to become manager of the recently opened New York office. Convinced that he had to upgrade the firm's image in an industry typically regarded as "efficiency experts" or "business doctors," Bower undertook to imbue in his associates the sense of professionalism he had experienced in his time in a law partnership. In a 1937 memo, he outlined his vision for the firm as one focused on issues of importance to top-level management, adhering to the highest standards of integrity, professional ethics, and technical excellence, able to attract and develop young men of outstanding qualifications, and committed to continually raising its stature and influence. Above all, it was to be a firm dedicated to the mission of serving its clients superbly well.

Over the next decade, Bower worked tirelessly to influence his partners and associates to share his vision. As new offices opened, he became a strong advocate of the One Firm policy that required all consultants to be recruited and advanced

on a firm-wide basis, clients to be treated as McKinsey & Company responsibilities, and profits to be shared from a firm pool, not an office pool. And through dinner seminars, he began upgrading the size and quality of McKinsey's clients. In the 1945 New Engagement Guide, he articulated a policy that every assignment should bring the firm something more than revenue—experience or prestige, for example.

Elected Managing Partner in 1950, Bower led his ten partners and 74 associates to initiate a series of major changes that turned McKinsey into an elite consulting firm unable to meet the demand for its services. Each client's problems were seen as unique, but Bower and his colleagues firmly believed that well trained, highly intelligent generalists could quickly grasp the issue, and through disciplined analysis find its solution. The firm's extraordinary domestic growth through the 1950s provided a basis for international expansion that accelerated the rate of growth in the 1960s. Following the opening of the London Office in 1959, offices in Geneva, Amsterdam, Düsseldorf, and Paris followed quickly. By the time Bower stepped down as Managing Director in 1967, McKinsey was a well-established and highly respected presence in Europe and North America.

A Decade of Doubt

Although leadership succession was well planned and executed, within a few years, McKinsey's growth engine seemed to stall. The economic turmoil of the oil crisis, the slowing of the divisionalization process that had fueled the European expansion, the growing sophistication of client management, and the appearance of new focused competitors like Boston Consulting Group (BCG) all contributed to the problem. Almost overnight, McKinsey's enormous reservoir of internal self-confidence and even self-satisfaction began to turn to self-doubt and self-criticism.

Commission on Firm Aims and Goals Concerned that the slowing growth in Europe and the U.S. was more than just a cyclical market downturn, the firm's partners assigned a committee of their most respected peers to study the problem and make recommendations. In April 1971, the Commission on Firm Aims and Goals concluded that the firm has been growing too fast. The authors bluntly reported, "Our preoccupation with the geographic expansion and new practice possibilities has caused us to neglect the development of our technical and professional skills." The report concluded that McKinsey had been too willing to accept routine assignments from marginal clients, that the quality of work done was uneven, and that while its consultants were excellent generalist problem solvers, they often lacked the deep industry knowledge or the substantive specialized expertise that clients were demanding.

One of the Commission's central proposals was that the firm had to recommit itself to the continuous development of its members. This meant that growth would have to be slowed and that the associate to MGM ratio be reduced from 7 to 1 back to 5 or 6 to 1. It further proposed that emphasis be placed on the development of what it termed "T-Shaped" consultants—those who supplemented a broad generalist perspective with an in-depth industry or functional specialty.

Practice Development Initiative When Ron Daniel was elected Managing Director (MD) in

1976—the fourth to hold the position since Bower had stepped down nine years earlier—McKinsey was still struggling to meet the challenges laid out in the Commission's report. As the head of the New York office since 1970, Daniel had experienced firsthand the rising expectations of increasingly sophisticated clients and the aggressive challenges of new competitors like BCG. In contrast to McKinsey's local office-based model of "client relationship" consulting, BCG began competing on the basis of "thought leadership" from a highly concentrated resource base in Boston. Using some simple but powerful tools, such as the experience curve and the growth-share matrix, BCG began to make strong inroads into the strategy consulting market. As McKinsey began losing both clients and recruits to BCG, Daniel became convinced that his firm could no longer succeed pursuing its generalist model.

One of his first moves was to appoint one of the firm's most respected and productive senior partners as McKinsey's first full-time director of training. As an expanded commitment to developing consultants' skills and expertise became the norm, the executive committee began debating the need to formally updating the firm's long-standing mission to reflect the firm's core commitment not only to serving its clients but also to developing its consultants. (*Exhibit 2.*)

But Daniel also believed some structural changes were necessary. Building on an initiative he and his colleagues had already implemented in the New York office, he created industry-based Clientele Sectors in consumer products, banking, industrial goods, insurance, and so on, cutting across the geographic offices that remained the primary organizational entity. He also encouraged more formal development of the firm's functional expertise in areas like strategy, organization and operations where knowledge and experience were widely diffused and minimally codified. However, many—including Marvin Bower—expressed concern that any move towards a product driven approach could damage McKinsey's distinctive advantage of its local office presence which gave partners strong connections with the business community, allowed

Exhibit 2 McKinsey's Mission and Guiding Principles (1996)**McKinsey Mission**

To help our clients make positive, lasting, and substantial improvements in their performance and to build a great Firm that is able to attract, develop, excite, and retain exceptional people.

Guiding Principles*Serving Clients*

Adhere to professional standards
Follow the top management approach
Assist the client in implementation and capability building
Perform consulting in a cost effective manner

Building the Firm

Operate as one Firm
Maintain a meritocracy
Show a genuine concern for our people
Foster an open and nonhierarchical working atmosphere
Manage the Firm's resources responsibly

Being a Member of the Professional Staff

Demonstrate commitment to client service
Strive continuously for superior quality
Advance the state of the art management
Contribute a spirit of partnership through teamwork and collaboration
Profit from the freedom and assume the responsibility associated with self-governance
Uphold the obligation to dissent

teams to work on site with clients and facilitated implementation. It was an approach that they felt contrasted sharply with the "fly in, fly out" model of expert-based consulting that BCG ran from its Boston hub.

Nonetheless, Daniel pressed ahead. Having established industry sectors, the MD next turned his attention to leveraging the firm's functional

expertise. He assembled working groups to develop knowledge in two areas that were at the heart of McKinsey's practice—strategy and organization. To head up the first group, he named Fred Gluck, a director in the New York office who had been outspoken in urging the firm to modify its traditional generalist approach. In June 1977, Gluck invited a "Super Group" of younger partners with strategy expertise to a three day meeting to share ideas and develop an agenda for the strategy practice. One described the meeting:

We had three days of unmitigated chaos. Someone from New York would stand up and present a four-box matrix. A partner from London would present a nine-box matrix. A German would present a 47 box matrix. It was chaos... but at the end of the third day some strands of thought were coming together.

At the same time, Daniel asked Bob Waterman who had been working on a Siemens-sponsored study of "excellent companies" and Jim Bennett, a respected senior partner to assemble a group that could articulate the firm's existing knowledge in the organization arena. One of their first recruits was an innovative young Ph.D. in organizational theory named Tom Peters.

Revival and Renewal

By the early 1980s, with growth resuming, a cautious optimism returned to McKinsey for the first time in almost a decade.

Centers of Competence Recognizing that the activities of the two practice development projects could not just be a one-time effort, in 1980 Daniel asked Gluck to join the central small group that comprised the Firm Office and focus on the knowledge building agenda that had become his passion. Ever since his arrival at the firm from Bell Labs in 1967, Gluck had wanted to bring an equally stimulating intellectual environment to McKinsey. Against some strong internal resistance, he set out to convert his partners to his strongly held beliefs—that knowledge

development had to be a core, not a peripheral firm activity; that it needed to be ongoing and institutionalized, not temporary and project based; and that it had to be the responsibility of everyone, not just a few.

To complement the growing number of Clientele Industry Sectors, he created 15 Centers of Competence (virtual centers, not locations) built around existing areas of management expertise like strategy, organization, marketing, change management, and systems. In a 1982 memo to all partners, he described the role of these centers as two-fold: to help develop consultants and to ensure the continued renewal of the firm's intellectual resources. For each Center, Gluck identified one or two highly motivated, recognized experts in the particular field and named them practice leaders. The expectation was that these leaders would assemble from around the firm, a core group of partners who were active in the practice area and interested in contributing to its development. (See **Exhibit 3** for the 15 Centers and 11 Sectors in 1983.)

To help build a shared body of knowledge, the leadership of each of the 15 Centers of Competence began to initiate activities primarily involving the core group and, less frequently, the members of the practice network. A partner commented on Gluck's commitment to the centers:

Unlike industry sectors, the centers of competence did not have a natural, stable client base, and Fred had to work hard to get them going.... He basically told the practice leaders, "Spend whatever you can—the cost is almost irrelevant compared to the pay-off." There was no attempt to filter or manage the process, and the effect was "to let a thousand flowers bloom."

Gluck also spent a huge amount of time trying to change an internal status hierarchy based largely on the size and importance of one's client base. Arguing that practice development ("snowball making" as it became known internally) was not less "macho" than client development

Exhibit 3 McKinsey's Emerging Practice Areas: Centers of Competence and Industry Sectors, 1983

| Centers of Competence | Clientele Sectors |
|-------------------------------|--------------------------------|
| Building Institutional Skills | Automotive |
| Business Management Unit | Banking |
| Change Management | Chemicals |
| Corporate Leadership | Communications and Information |
| Corporate Finance | Consumer Products |
| Diagnostic Scan | Electronics |
| International Management | Energy |
| Integrated Logistics | Health Care |
| Manufacturing | Industrial Goods |
| Marketing | Insurance |
| Microeconomics | Steel |
| Sourcing | |
| Strategic Management | |
| Systems | |
| Technology | |

("snowball throwing"), he tried to convince his colleagues that everyone had to become snowball makers *and* snowball throwers. In endless discussions, he would provoke his colleagues with barbed pronouncements and personal challenges: "Knowing what you're talking about is not necessarily a client service handicap" or "Would you want your brain surgery done by a general practitioner?"

Building a Knowledge Infrastructure As the firm's new emphasis on individual consultant training took hold and the Clientele Sectors and Centers of Competence began to generate new insights, many began to feel the need to capture and leverage the learning. Although big ideas had occasionally been written up as articles for publication in newspapers, magazines or journals like *Harvard Business Review*, there was still a deep-seated suspicion of anything that smacked of packaging ideas or creating proprietary concepts or standard solutions.

Such reluctance to document concepts had long constrained the internal transfer of ideas and the vast majority of internally developed knowledge was never captured.

This began to change with the launching of the McKinsey Staff Paper series in 1978, and by the early 1980s the firm was actively encouraging its consultants to publish their key findings. The initiative got a major boost with the publication in 1982 of two major bestsellers, Peters and Waterman's *In Search of Excellence* and Kenichi Ohmae's *The Mind of the Strategist*. But books, articles, and staff papers required major time investments, and only a small minority of consultants made the effort to write them. Believing that the firm had to lower the barrier to internal knowledge communication, Gluck introduced the idea of Practice Bulletins, two page summaries of important new ideas that identified the experts who could provide more detail. A partner elaborated:

The Bulletins were essentially internal advertisements for ideas and the people who had developed them. We tried to convince people that they would help build their personal networks and internal reputations. . . . Fred was not at all concerned that the quality was mixed, and had a strong philosophy of letting the internal market sort out what were the really big ideas.

Believing that the firm's organizational infrastructure needed major overhaul, in 1987 Gluck launched a Knowledge Management Project. After five months of study, the team made three recommendations. First, the firm had to make a major commitment to build a common database of knowledge accumulated from client work and developed in the practice areas. Second, to ensure that the data bases were maintained and used, they proposed that each practice area (Clientele Sector and Competence Center) hire a full time practice coordinator who could act as an "intelligent switch" responsible for monitoring the quality of the data and for helping consultants access the relevant information. And finally, they suggested that the firm expand its hiring practices and promotion

policies to create a career path for deep functional specialists whose narrow expertise would make them more I-shaped than the normal profile of a T-shaped consultant.

The task of implementing these recommendations fell to a team led by Bill Matassoni, the firm's director of communications and Brook Manville, a newly recruited Yale Ph.D. with experience with electronic publishing. Focusing first on the Firm Practice Information System (FPIS), a computerized data base of client engagements, they installed new systems and procedures to make the data more complete, accurate, and timely so that it could be accessed as a reliable information resource, not just an archival record. More difficult was the task of capturing the knowledge that had accumulated in the practice areas since much of it had not been formalized and none of it had been prioritized or integrated. To create a computer based Practice Development Network (PDNet), Matassoni and Manville put huge energy into begging, cajoling and challenging each practice to develop and submit documents that represented their core knowledge. After months of work, they had collected the 2,000 documents that they believed provided the critical mass to launch PDNet.

At the last minute, Matassoni and his team also developed another information resource that had not been part of the study team's recommendations. They assembled a listing of all firm experts and key document titles by practice area and published it in a small book, compact enough to fit in any consultant's briefcase. The Knowledge Resource Directory (KRD) became the McKinsey Yellow Pages and found immediate and widespread use firm-wide. Although the computerized data bases were slow to be widely adopted, the KRD found almost immediate enthusiastic acceptance.

Making the new practice coordinator's position effective proved more challenging. Initially, these roles were seen as little more than glorified librarians. It took several years before the new roles were filled by individuals (often ex-consultants) who were sufficiently respected that they could not

only act as consultants to those seeking information about their area of expertise, but also were able to impose the discipline necessary to maintain and build the practice's data bases.

Perhaps the most difficult task was to legitimize the role of a new class of I-shaped consultants—the specialist. The basic concept was that a professional could make a career in McKinsey by emphasizing specialized knowledge development rather than the broad based problem solving skills and client development orientation that were deeply embedded in the firm's value system. While several consultants with deep technical expertise in specialties like market research, finance or steel making were recruited, most found it hard to assimilate into the mainstream. The firm seemed uncomfortable about how to evaluate, compensate or promote these individuals, and many either became isolated or disaffected. Nonetheless, the partnership continued to support the notion of a specialist promotion track and continued to struggle with how to make it work.

Matassoni reflected on the changes:

The objective of the infrastructure changes was not so much to create a new McKinsey as to keep the old "one firm" concept functioning as we grew... Despite all the talk of computerized data bases, the knowledge management process still relied heavily on personal networks, old practices like cross-office transfers, and strong "One Firm" norms like helping other consultants when they called. And at promotion time, nobody reviewed your PD documents. They looked at how you used your internal networks to have your ideas make an impact on clients.

Managing Success

By the late 1980s, the firm was expanding rapidly again. In 1988, the same year Fred Gluck was elected managing director, new offices were opened in Rome, Helsinki, Sao Paulo, and Minneapolis bringing the total to 41. The growing view amongst the partners, however, was that enhancing McKinsey's reputation as a thought leader was at least as important as attracting new business.

Refining Knowledge Management After being elected MD, Gluck delegated the practice development role he had played since 1980 to a newly constituted Clientele and Professional Development Committee (CPDC). When Ted Hall took over leadership of this committee in late 1991, he felt there was a need to adjust the firm's knowledge development focus. He commented:

By the early 1990s, too many people were seeing practice development as the creation of experts and the generation of documents in order to build our reputation. But knowledge is only valuable when it is between the ears of consultants and applied to clients' problems. Because it is less effectively developed through the disciplined work of a few than through the spontaneous interaction of many, we had to change the more structured "discover-codify-disseminate" model to a looser and more inclusive "engage-explore-apply-share" approach. In other words, we shifted our focus from developing knowledge to building individual and team capability.

Over the years, Gluck's philosophy "to let 1,000 flowers bloom" had resulted in the original group of 11 sectors and 15 centers expanding to become what Hall called "72 islands of activity," (Sectors, Centers, Working Groups, and Special Projects) many of which were perceived as fiefdoms dominated by one or two established experts. In Hall's view, the garden of 1,000 flowers needed weeding, a task requiring a larger group of mostly different gardeners. The CPDC began integrating the diverse groups into seven sectors and seven functional capability groups (See **Exhibit 4**). These sectors and groups were led by teams of five to seven partners (typically younger directors and principals) with the objective of replacing the leader-driven knowledge creation and dissemination process with a "stewardship model" of self-governing practices focused on competence building.

Client Impact With responsibility for knowledge management delegated to the CPDC, Gluck began to focus on a new theme—client impact. On being elected managing director, he made this a central theme in his early speeches, memos, and his first

Exhibit 4 Group Framework for Sectors and Centers

Functional Capability Groups

Corporate Governance and Leadership

- Corporate organization
- Corporate management processes
- Corporate strategy development
- Corporate relationship design and management
- Corporate finance
- Post-merger management

Organization (OPP/MOVE)

- Corporate transformation design and leadership
- Energizing approaches
- Organization design and development
- Leadership and teams
- Engaging teams

Information Technology/Systems

- To be determined

Marketing

- Market research
- Sales force management
- Channel management
- Global marketing
- Pricing
- Process and sector support

Operations Effectiveness

- Integrated logistics
- Manufacturing
- Purchasing and supply management

Strategy

- Strategy
- Microeconomics
- Business dynamics
- Business planning processes

Cross Functional Management

- Innovation
- Customer satisfaction
- Product/technology development and commercialization
- Core process redesign

Clientele Industry Sectors

Financial Institutions

- Banking
- Insurance
- Health care payer/provider

Consumer

- Retailing
- Consumer industries
- Media
- Pharmaceuticals

Energy

- Electrical utilities
- Petroleum
- Natural gas
- Other energy

Basic Materials

- Steel
- Pulp and paper
- Chemicals
- Other basic materials

Aerospace, Electronics, and Telecom

- Telecom
- Electronics
- Aerospace

Transportation

Automotive, Assembly, and Machinery

- Automotive
- Assembly

Source: Internal McKinsey & Company document.

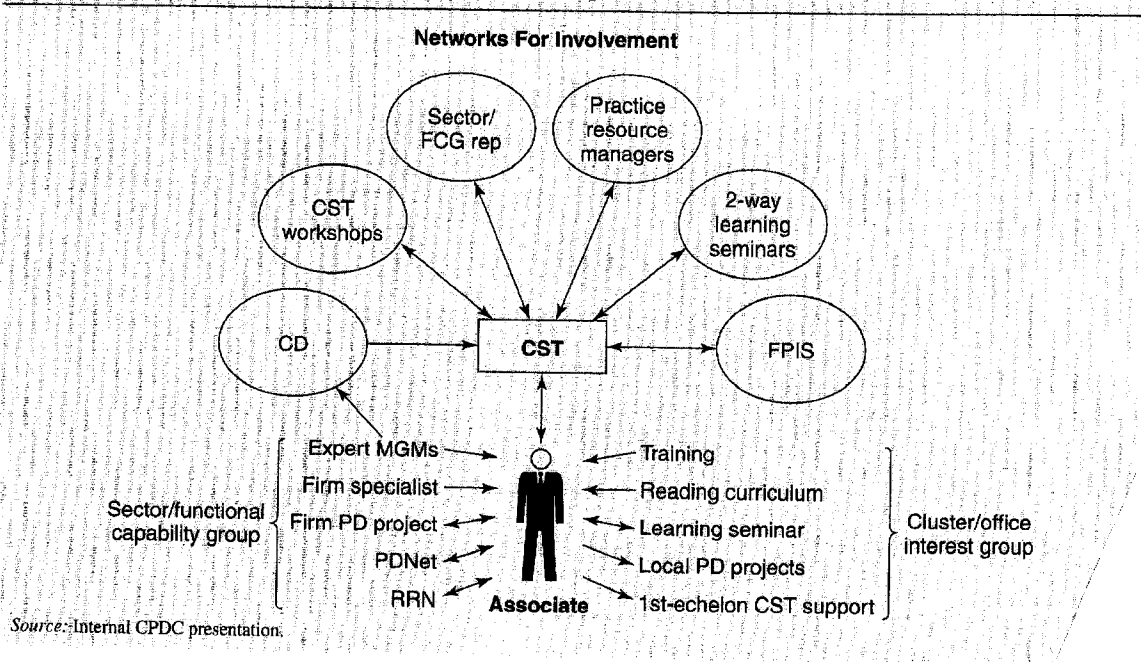
All Partners Conference. He also created a Client Impact Committee, and asked it to explore the ways in which the firm could ensure that the expertise it was developing created positive measurable results in each client engagement.

One of the most important initiatives of the new committee was to persuade the partners to redefine the firm's key consulting unit from the engagement team (ET) to the client service team (CST). The traditional ET, assembled to deliver a three or four month assignment for a client was a highly efficient and flexible unit, but it tended to focus on the immediate task rather than on the client's long term need. The CST concept was that the firm could add long-term value and increase the effectiveness of individual engagements if it could unite a core of individuals (particularly at the partner level) who were linked across multiple ETs, and commit them to working with the client over an extended period. The impact was to broaden the classic model of a single partner

"owning" a client to a group of partners with shared commitment to each client.

In response to concerns within the partnership about a gradual decline in associates' involvement in intellectual capital development, the CPDC began to emphasize the need for CSTs to play a central role in the intellectual life of McKinsey. (See Exhibit 5 for a CPDC conceptualization.) Believing that the CSTs (by 1993 about 200 firm-wide) represented the real learning laboratories, the CPDC sent memos to the new industry sector and capability group leaders advising them that their practices would be evaluated by their coverage of the firm's CSTs. They also wrote to all consultants emphasizing the importance of the firm's intellectual development and their own professional development, for which they had primary responsibility. Finally, they assembled data on the amount of time consultants were spending on practice and professional development by office, distributing the widely divergent results to partners in offices worldwide.

Exhibit 5 CPDC Proposed Organizational Relationships



Developing Multiple Career Paths Despite (or perhaps because of) all these changes, the specialist consultant model continued to struggle. Over the years, the evaluation criteria for the specialist career path had gradually converged with the mainstream generalist promotion criteria. For example, the specialist's old promotion standard of "world-class expertise" in a particular field had given way to a more pragmatic emphasis on client impact; the notion of a legitimate role as a consultant to teams had evolved to a need for specialists to be "engagement director capable"; and the less pressured evaluation standard of "grow or go" was replaced by the normal associate's more demanding "up or out" requirement, albeit within a slightly more flexible timeframe.

Although these changes had reduced the earlier role dissonance—specialists became more T shaped—it also diluted the original objective. While legitimizing the two client service staff tracks, in late 1992 the Professional Personnel Committee decided to create two career paths for client service support and administrative staff. The first reaffirmed a path to partnership for practice-dedicated specialists who built credibility with clients and CSTs through their specialized knowledge

and its expert application. Their skills would have them in high demand as consultants to teams (CDs) rather than as engagement directors (EDs). The second new option was the practice management track designed to provide a career progression for practice coordinators, who had a key role in transferring knowledge and in helping practice leaders manage increasingly complex networks. Valuable administrators could also be promoted on this track. (See **Exhibit 6** for an overview.)

Yet despite the announcement of the new criteria and promotion processes, amongst associates and specialists alike there was still some residual confusion and even skepticism about the viability of the specialist track to partnership. As he dealt with this issue, Gluck kept returning to his long term theme that, "it's all about people," even suggesting people development was the company's primary purpose:

There are two ways to look at McKinsey. The most common way is that we are a client service firm whose primary purpose is to serve the companies seeking our help. That is legitimate. But I believe there is an even more powerful way for us to see ourselves. We should begin to view our primary purpose as building

Exhibit 6 Alternative Career Path Focus and Criteria

| Career Paths/Roles | CSS ¹ Paths | | CSSA ² Paths | |
|--------------------|---|---|--|---|
| | General Consulting | Specialized Consulting | Practice Expertise | Practice Management Administration |
| Focus | Perform general problem solving and lead implementation Develop client relationships | Apply in-depth practice knowledge to studies Develop client relationships Build external reputation | Leverage practice knowledge across studies Create new knowledge | Codify and transfer knowledge Help administer practice |

¹Client Service Staff
²Client Service Support and Administration
 Source: Internal McKinsey & Company presentation.

a great institution that becomes an engine for producing highly motivated world class people who in turn will serve our clients extraordinarily well.

Knowledge Management on the Front

To see how McKinsey's evolving knowledge management processes were being felt by those on the firm's front lines, we will follow the activities of three consultants working in three diverse locations and focused on three different agendas.

Jeff Peters and the Sydney Office Assignment

John Stuckey, a director in McKinsey's Sydney office felt great satisfaction at being invited to bid for a financial services growth strategy study for one of Australia's most respected companies. Yet the opportunity also created some challenges. As in most small or medium sized offices, most consultants in Sydney were generalists. Almost all with financial industry expertise had been "conflicted out" of the project due to work they had done for competing financial institutions in Australia.

Stuckey immediately began using his personal network to find how he might tap into McKinsey's worldwide resources for someone who could lead this first engagement for an important new client. After numerous phone calls and some lobbying at a directors' conference he identified Jeff Peters, a Boston-based senior engagement manager and veteran of more than 20 studies for financial institutions. The only problem was that Peters had two ongoing commitments that would make him unavailable for at least the first six weeks of the Australian assignment.

Meanwhile, Stuckey and Ken Gibson, his engagement director on the project, were working with the Sydney office staffing coordinator to identify qualified, available and nonconflicted associates to complete the team. Balancing assignments of over 80 consultants to 25 ongoing teams was a complex process that involved matching the needs of the engagement and the individual consultants' development requirements. A constant flow of consultants across offices helped buffer constraints, and also contributed to the transfer of knowledge. At any one time 15 to 25 Australian consultants were on short- or long-term assignments abroad, while another 10

to 15 consultants from other offices were working in Australia. (Firm-wide, nearly 20% of work was performed by consultants on inter-office loans.)

They identified a three person team to work with Peters. John Peacocke was a New Zealand army engineer with an MBA in finance from Wharton and two years of experience in McKinsey. Although he had served on a four-month study for a retail bank client in Cleveland, since returning to Australia he had worked mostly for oil and gas clients. Patty Akopiantz was a one-year associate who had worked in investment banking before earning an MBA at Harvard. Her primary interest and her developing expertise was in consumer marketing. The business analyst was Jonathan Liew, previously an actuary who was embarking on his first McKinsey assignment.

With Peters' help, Stuckey and Gibson also began assembling a group of internal specialists and experts who could act as consulting directors (CDs) to the team. James Gorman, a personal financial services expert in New York agreed to visit Sydney for a week and to be available for weekly conference calls; Majid Arab, an insurance industry specialist committed to a two-week visit and a similar "on-call" availability; Andrew Doman, a London-based financial industry expert also signed on as a CD. Within the Sydney office, Charles Conn, a leader in the firm's growth strategies practice, agreed to lend his expertise, as did Clem Doherty, a firm leader in the impact of technology.

With Gibson acting more as an engagement manager than an engagement director, the team began scanning the Knowledge Resource Directory, the FPIS and the PDNet for leads. (Firm-wide, the use of PDNet documents had boomed in the eight years since its introduction. By early 1996, there were almost 12,000 documents on PDNet, with over 2,000 being requested each month.) In all, they tracked down 179 relevant PD documents and tapped into the advice and experience of over 60 firm members worldwide. Team member Patty Akopiantz explained:

Ken was acting as engagement manager, but he was not really an expert in financial services, so we were even more reliant than usual on the internal network. Some of the ideas we got off PDNet were helpful,

but the trail of contacts was much more valuable ... Being on a completely different time zone had great advantages. If you hit a wall at the end of the day, you could drop messages in a dozen voicemail boxes in Europe and the United States. Because the firm norm is that you respond to requests by colleagues, by morning you would have seven or eight new suggestions, data sources, or leads.

At the end of the first phase, the team convened an internal workshop designed to keep client management informed, involved, and committed to the emerging conclusions. Out of this meeting, the team was focused on seven core beliefs and four viable options that provided its agenda for the next phase of the project. It was at this point that Peters was able to join the team:

By the time I arrived, most of the hard analysis had been done and they had been able to narrow the focus from the universe to four core options in just over a month. It was very impressive how they had been able to do that with limited team-based expertise and a demanding client... With things going so well, my main priority was to focus the team on the end product. Once we got a clear logical outline, I assigned tasks and got out of the way. Most of my time I spent working on the client relationship... It was great learning for John and Patty, and both of them were ready to take on a management role in their next engagements.

In November, the team presented its conclusions to the board, and after some tough questioning and challenging, they accepted the recommendations and began an implementation process. The client's managing director reflected on the outcome:

We're a tough client, but I would rate their work as very good. Their value added was in their access to knowledge, the intellectual rigor they bring, and their ability to build understanding and consensus among a diverse management group ... If things don't go ahead now, it's our own fault.

John Stuckey had a little different post-engagement view of the result:

Overall, I think we did pretty good work, but I was a bit disappointed we didn't come up with a radical breakthrough... We leveraged the firm's knowledge

base effectively, but I worry that we rely so much on our internal expertise. We have to beware of the trap that many large successful companies have fallen into by becoming too introverted, too satisfied with their own view of the world.

Warwick Bray and European Telecoms After earning his MBA at Melbourne University, Warwick Bray joined McKinsey's Melbourne office in 1989. A computer science major, he had worked as a systems engineer at Hewlett Packard and wanted to leverage his technological experience. For two of his first three years, he worked on engagements related to the impact of deregulation on the Asia-Pacific telecommunications industry. In early 1992, Bray advised his group development leader (his assigned mentor and adviser) that he would be interested in spending a year in London. After several phone discussions the transfer was arranged, and in March the young Australian found himself on his first European team.

From his experience on the Australian telecom projects, Bray had written a PD document, "Negotiating Interconnect" which he presented at the firm's annual worldwide telecom conference. Recognizing this developing "knowledge spike," Michael Patsalos-Fox, telecom practice leader in London, invited Bray to work with him on a study. Soon he was being called in as a deregulation expert to make presentations to various client executives. "In McKinsey you have to earn that right," said Bray. "For me it was immensely satisfying to be recognized as an expert."

Under the leadership of Patsalos-Fox, the telecom practice had grown rapidly in the United Kingdom. With deregulation spreading across the continent in the 1990s, however, he was becoming overwhelmed by the demands for his help. Beginning in the late 1980s, Patsalos-Fox decided to stop acting as the sole repository for and exporter of European telecom information and expertise, and start developing a more interdependent network. To help in this task, he appointed Sulu Soderstrom, a Stanford MBA with a strong technology background, as full-time practice coordinator. Over the next few years she played a key role in creating the

administrative glue that bonded together telecom practice groups in offices throughout Europe. Said Patsalos-Fox:

She wrote proposals, became the expert on information sources, organized European conferences, helped with cross-office staffing, located expertise and supported and participated in our practice development work. Gradually she helped us move from an "export"-based hub and spokes model of information sharing to a true federalist-based network.

In this growth environment and supported by the stronger infrastructure, the practice opportunities exploded during the 1990s. To move the knowledge creation beyond what he described as "incremental synthesis of past experience," Patsalos-Fox launched a series of practice-sponsored studies. Staffed by some of the practice's best consultants, they focused on big topics like "The Industry Structure in 2005," or "The Telephone Company of the Future." But most of the practice's knowledge base was built by the informal initiatives of individual associates who would step back after several engagements and write a paper on their new insights. For example, Bray wrote several well-received PD documents and was enhancing his internal reputation as an expert in deregulation and multimedia. Increasingly he was invited to consult to or even join teams in other parts of Europe. Said Patsalos-Fox:

He was flying around making presentations and helping teams. Although the internal audience is the toughest, he was getting invited back. When it came time for him to come up for election, the London office nominated him but the strength of his support came from his colleagues in the European telecom network.

In 1996, Patsalos-Fox felt it was time for a new generation of practice leadership. He asked his young Australian protégé and two other partners—one in Brussels, one in Paris—if they would take on a co-leadership role. Bray reflected on two challenges he and his co-leaders faced. The first was to make telecom a really exciting and interesting practice so it could attract the best associates. "That meant taking on the most interesting work, and

running our engagements so that people felt they were developing and having fun," he said.

The second key challenge was how to develop the largely informal links among the fast-growing European telecom practices. Despite the excellent job that Soderstrom had done as the practice's repository of knowledge and channel of communication, it was clear that there were limits to her ability to act as the sole "intelligent switch." As a result, the group had initiated a practice-specific intranet link designed to allow members direct access to the practice's knowledge base (PD documents, conference proceedings, CVs, etc.), its members' capabilities (via home pages for each practice member), client base (CST home pages, links to client web sites), and external knowledge resources (MIT's Multimedia Lab, Theseus Institute, etc.). More open yet more focused than existing firm-wide systems like PDNet, the Telecom Intranet was expected to accelerate the "engage-explore-apply-share" knowledge cycle.

There were some, however, who worried that this would be another step away from "one firm" towards compartmentalization, and from focus on building idea-driven personal networks towards creating data-based electronic transactions. In particular, the concern was that functional capability groups would be less able to transfer their knowledge into increasingly strong and self-contained industry-based practices. Warwick Bray recognized the problem, acknowledging that linkages between European telecom and most functional practices "could be better":

The problem is we rarely feel the need to draw on those groups. For example, I know the firm's pricing practice has world-class expertise in industrial pricing, but we haven't yet learned how to apply it to telecom. We mostly call on the pricing experts within our practice. We probably should reach out more.

Stephen Dull and the Business Marketing Competence Center After completing his MBA at the University of Michigan in 1983, Stephen Dull spent the next five years in various consumer marketing jobs at Pillsbury. In 1988, he was contacted by an executive search firm that had been retained

by McKinsey to recruit potential consultants in consumer marketing. Joining the Atlanta office, Dull soon discovered that there was no structured development program. Like the eight experienced consumer marketing recruits in other offices, he was expected to create his own agenda.

Working on various studies, Dull found his interests shifting from consumer to industrial marketing issues. As he focused on building his own expertise, however, Dull acknowledged that he did not pay enough attention to developing strong client relations. "And around here, serving clients is what really counts," he said. So, in late 1994—a time when he might be discussing his election to principal—he had a long counseling session with his group development leader about his career. The GDL confirmed that he was not well positioned for election, but proposed another option. He suggested that Dull talk to Rob Rosiello, a principal in the New York office who had just launched a business-to-business marketing initiative within the marketing practice. Said Dull:

Like most new initiatives, "B to B" was struggling to get established without full-time resources, so Rob was pleased to see me. I was enjoying my business marketing work, so the initiative sounded like a great opportunity.... Together, we wrote a proposal to make me the firm's first business marketing specialist.

The decision to pursue this strategy was not an easy one for Dull. Like most of his colleagues, he felt that specialists were regarded as second-class citizens—"overhead being supported by real consultants who serve clients," Dull suggested. But his GDL told him that recent directors meetings had reaffirmed the importance of building functional expertise, and some had even suggested that 15%–20% of the firm's partners should be functional experts within the next five to seven years. (As of 1995, over 300 associates were specialists, but only 15 of the 500 partners.) In April 1995, Dull and Rosiello took their proposal to Andrew Parsons and David Court, two leaders of the Marketing practice. The directors suggested a mutual trial of the concept until the end of the year and offered to provide Dull the support to commit full time to developing the B to B initiative.

Dull's first priority was to collect the various concepts, frameworks and case studies that existed within the firm, consolidating and synthesizing them in several PD documents. In the process, he and Rosiello began assembling a core team of interested contributors. Together, they developed an agenda of half a dozen cutting-edge issues in business marketing—segmentation, multi-buyer decision making and marketing partnerships, for example—and launched a number of study initiatives around them. Beyond an expanded series of PD documents, the outcome was an emerging set of core beliefs, and a new framework for business marketing.

The activity also attracted the interest of Mark Leiter, a specialist in the Marketing Science Center of Competence. This center, which had developed largely around a group of a dozen or so specialists, was in many ways a model of what Dull hoped the B to B initiative could become, and having a second committed specialist certainly helped.

In November, another major step to that goal occurred when the B to B initiative was declared a Center of Competence. At that time, the core group decided they would test their colleagues' interest and their own credibility by arranging an internal conference at which they would present their ideas. When over 50 people showed up including partners and directors from four continents, Dull felt that prospects for the center looked good.

Through the cumulative impact of the PD documents, the conference and word of mouth recommendations, by early 1996 Dull and his colleagues were getting more calls than the small center could handle. They were proud when the March listing of PDNet "Best Sellers" listed BtoB documents at numbers 2, 4 and 9 (See **Exhibit 7**). For Dull, the resulting process was enlightening:

We decided that when we got calls we would swarm all over them and show our colleagues we could really add value for their clients.... This may sound strange—even corny—but I now really understand why this is a profession and not a business. If I help a partner serve his client better, he will call me back. It's all about relationships, forming personal bonds, helping each other.

Exhibit 7 PDNetSM Best Sellers: March and Year-to-Date, 1996

| Number Requested | Title, Author(s), Date, PDNet # | Functional Capability Group/Sector | |
|--|---|---|-----------------------------|
| March 1996 | 21 Developing a Distinctive Consumer Marketing Organization <i>Nora Aufreiter, Theresa Austerberry, Steve Carlotti, Mike George, Liz Lempres (1/96, #13240)</i> | Consumer Industries/ Packaged Goods; Marketing | |
| | 19 VIP: Value Improvement Program to Enhance Customer Value in Business to Business Marketing <i>Dirk Berensmann, Marc Fischer, Heiner Frankemölle, Lutz-Peter Pape, Wolf-Dieter Voss (10/95, #13340)</i> | Marketing; Steel | |
| | 16 Handbook For Sales Force Effectiveness—1991 Edition <i>(5/91, #6670)</i> | Marketing | |
| | 15 Understanding and Influencing Customer Purchase Decisions in Business to Business Markets <i>Mark Leiter (3/95, #12525)</i> | Marketing | |
| | 15 Channel Management Handbook <i>Christine Bucklin, Stephen DeFalco, John DeVincentis, John Levis (1/95, #11876)</i> | Marketing | |
| | 15 Platforms for Growth in Personal Financial Services (PFS201) <i>Christopher Leech, Ronald O'Hanley, Eric Lambrecht, Kristin Morse (11/95, #12995)</i> | Personal Financial Services | |
| | 14 Developing Successful Acquisition Programs To Support Long-Term Growth Strategies <i>Steve Coley, Dan Goodwin (11/92, #9150)</i> | Corporate Finance | |
| | 14 Understanding Value-Based Segmentation <i>John Forsyth, Linda Middleton (11/95, #11730)</i> | Consumer Industries/ Packaged Goods; Marketing | |
| | 14 The Dual Perspective Customer Map for Business to Business Marketing <i>(3/95, #12526)</i> | Marketing | |
| | 13 Growth Strategy—Platforms, Staircases and Franchises <i>Charles Conn, Rob McLean, David White (8/94, #11400)</i> | Strategy | |
| | Cumulative Index (January–March) | 54 Introduction to CRM (Continuous Relationship Marketing)—Leveraging CRM to Build PFS Franchise Value (PFS221) <i>Margo Georgiadis, Milt Gillespie, Tim Gokey, Mike Sherman, Marc Singer (11/95, #12999)</i> | Personal Financial Services |
| | | 45 Platforms for Growth in Personal Financial Services (PFS201) <i>Christopher Leech, Ronald O'Hanley, Eric Lambrecht, Kristin Morse (11/95, #12995)</i> | Personal Financial Services |
| | | 40 Launching a CRM Effort (PFS222) <i>Nick Brown, Margo Georgiadis (10/95, #12940)</i> | Marketing |
| 38 Building Value Through Continuous Relationship Marketing (CRM) <i>Nick Brown, Mike Wright (10/95, #13126)</i> | | Banking and Securities | |
| 36 Combining Art and Science to Optimize Brand Portfolios <i>Richard Benson-Armer, David Court, John Forsyth (10/95, #12916)</i> | | Marketing; Consumer Industries/Packaged Goods | |
| 35 Consumer Payments and the Future of Retail Banks (PA202) <i>John Stephenson, Peter Sands (11/95, #13008)</i> | | Payments and Operating Products | |
| 34 CRM (Continuous Relationship Marketing) Case Examples Overview <i>Howie Hayes, David Puts (9/95, #12931)</i> | | Marketing | |
| 32 Straightforward Approaches to Building Management Talent <i>Parke Boneysteele, Bill Meehan, Kristin Morse, Pete Sidebottom (9/95, #12843)</i> | | Organization | |
| 32 Reconfiguring and Reenergizing Personal Selling Channels (PFS213) <i>Patrick Weitzel, Amy Zinsser (11/95, #12997)</i> | | Personal Financial Services | |
| 31 From Traditional Home Banking to On-Line PFS (PFS211) <i>Gaurang Desai, Brian Johnson, Kai Lahmann, Gottfried Leibbrandt, Paal Weberg (11/95, #12998)</i> | | Personal Financial Services | |

Source: *Month By Month* (McKinsey's internal staff magazine).

While Dull was pleased with the way the new center was gaining credibility and having impact, he was still very uncertain about his promotion prospects. As he considered his future, he began to give serious thought to writing a book on business to business marketing to enhance his internal credibility and external visibility.

A New MD, A New Focus

In 1994, after six years of leadership in which firm revenue had doubled to an estimated \$1.5 billion annually, Fred Gluck stepped down as MD. His successor was 45 year old Rajat Gupta, a 20 year McKinsey veteran committed to continuing the emphasis on knowledge development. After listening to the continuing debates about which knowledge development approach was most effective, Gupta came to the conclusion that the discussions were consuming energy that should have been directed towards the activity itself. "The firm did not have to make a choice," he said. "We had to pursue *all* the options." With that conclusion, Gupta launched a four-pronged attack.

First, he wanted to capitalize on the firm's long term investment in practice development driven by Clientele Industry Sectors and Functional Capability Groups and supported by the knowledge infrastructure of PDNet and FPIS. But he also wanted to create some new channels, forums, and mechanisms for knowledge development and organizational learning.

Then, building on an experiment begun by the German office, Gupta embraced a grass-roots knowledge-development approach called Practice Olympics. Two- to six-person teams from offices around the world were encouraged to develop ideas that grew out of recent client engagements and formalize them for presentation at a regional competition with senior partners and clients as judges. The twenty best regional teams then competed at a firm-wide event. Gupta was proud that in its second year, the event had attracted over 150 teams and involved 15% of the associate body.

Next, in late 1995 the new MD initiated six special initiatives-multi-year internal assignments led by

senior partners that focused on emerging issues that were of importance to CEOs. The initiatives tapped both internal and external expertise to develop "state-of-the-art" formulations of each key issue. For example, one focused on the shape and function of the corporation of the future, another on creating and managing strategic growth, and a third on capturing global opportunities. Gupta saw these initiatives as reasserting the importance of the firm's functional knowledge yet providing a means to do longer term, bigger commitment, cross-functional development.

Finally, he planned to expand on the model of the McKinsey Global Institute, a firm-sponsored research center established in 1991 to study implications of changes in the global economy on business. The proposal was to create other pools of dedicated resources protected from daily pressures and client demands, and focused on long term research agendas. A Change Center was established in 1995 and an Operations Center was being planned. Gupta saw these institutes as a way in which McKinsey could recruit more research-oriented people and link more effectively into the academic arena.

Most of these initiatives were new and their impact had not yet been felt within the firm. Yet Gupta was convinced the direction was right:

We have easily doubled our investment in knowledge over these past couple of years. There are lots more people involved in many more initiatives. If that means we do 5-10% less client work today, we are willing to pay that price to invest in the future. Since Marvin Bower, every leadership group has had a commitment to leave the firm stronger than it found it. It's a fundamental value of McKinsey to invest for the future of the firm.

Future Directions Against this background, the McKinsey partnership was engaged in spirited debate about the firm's future directions and priorities. The following is a sampling of their opinions:

I am concerned that our growth may stretch the fabric of the place. We can't keep on disaggregating our units to create niches for everyone because we have exhausted the capability of our integrating mechanisms. I believe our future is in developing around

CSTs and integrating across them around common knowledge agendas.

Historically, I was a supporter of slower growth, but now I'm convinced we must grow faster. That is the key to creating opportunity and excitement for people, and that generates innovation and drives knowledge development... Technology is vital not only in supporting knowledge transfer, but also in allowing partners to mentor more young associates. We have to be much more aggressive in using it.

There is a dark side to technology—what I call technopoly. It can drive out communication and people start believing that e-mailing someone is the same thing as talking to them. If teams stop meeting as often or if practice conferences evolve into discussion forums on Lotus Notes, the technology that has

supported our growth may begin to erode our culture based on personal networks.

I worry that we are losing our sense of village as we compartmentalize our activities and divide into specialties. And the power of IT has sometimes led to information overload. The risks is that the more we spend searching out the right PD document, the ideal framework, or the best expert, the less time we spend thinking creatively about the problem. I worry that as we increase the science, we might lose the craft of what we do.

These were among the scores of opinions that Rajat Gupta heard since becoming MD. His job was to sort through them and set a direction that would “leave the firm stronger than he found it.”

Reading 5-1 Building Effective R&D Capabilities Abroad

by Walter Kuemmerle

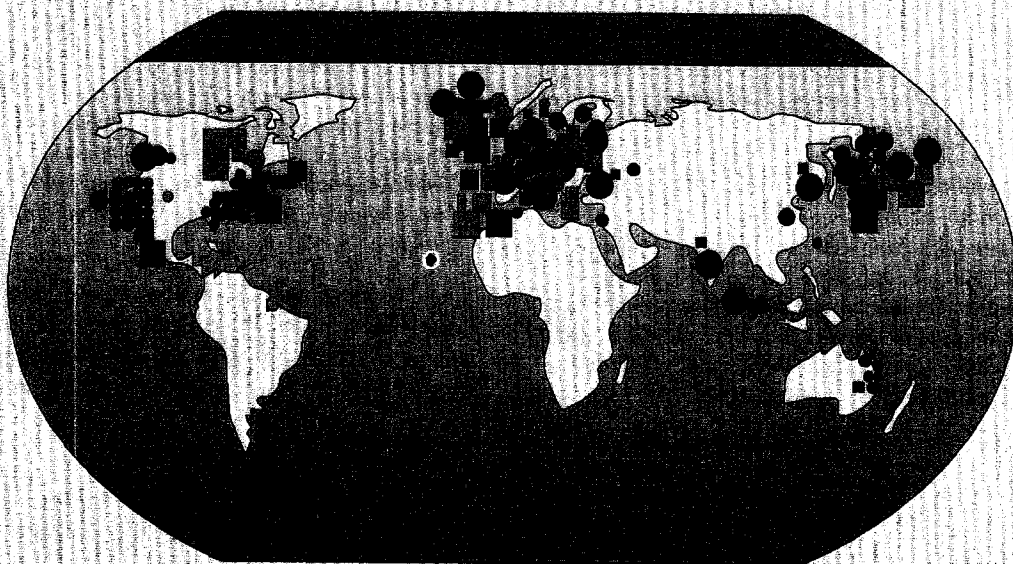
An increasing number of companies in technologically intensive industries such as pharmaceuticals and electronics have abandoned the traditional approach to managing research and development and are establishing global R&D networks in a noteworthy new way. For example, Canon is now carrying out R&D activities in 8 dedicated facilities in 5 countries, Motorola in 14 facilities in 7 countries, and Bristol-Myers Squibb in 12 facilities in 6 countries. In the past, most companies—even those with a considerable international presence

in terms of sales and manufacturing—carried out the majority of their R&D activity in their home countries. Conventional wisdom held that strategy development and R&D had to be kept in close geographical proximity. Because strategic decisions were made primarily at corporate headquarters, the thinking went, R&D facilities should be close to home.

But such a centralized approach to R&D will no longer suffice—for two reasons. First, as more and more sources of potentially relevant knowledge emerge across the globe, companies must establish a presence at an increasing number of locations to access new knowledge and to absorb new research results from foreign universities and competitors into their own organizations. Second, companies competing around the world must move new products from development to market at an ever more

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Laboratory Sites Abroad in 1995



rapid pace. Consequently, companies must build R&D networks that excel at tapping new centers of knowledge and at commercializing products in foreign markets with the speed required to remain competitive. And more and more, superior manufacturers are doing just that. (See the exhibit “Laboratory Sites Abroad in 1995.”)

In an ongoing study on corporate strategy and the geographical dispersion of R&D sites, I have been examining the creation of global research networks by 32 U.S., Japanese, and European multinational companies.¹ The most successful

companies in my study brought each new site’s research productivity up to full speed within a few years and quickly transformed knowledge created there into innovative products. I found that establishing networks of such sites poses a number of new, complex managerial challenges. According to my research, managers of the most successful R&D networks understand the new dynamics of global R&D, link corporate strategy to R&D strategy, pick the appropriate sites, staff them with the right people, supervise the sites during start-up, and integrate the activities of the different foreign sites so that the entire network is a coordinated whole.

Adopting a Global Approach to R&D

Adopting a global approach to R&D requires linking R&D strategy to a company’s overall business strategy. And that requires the involvement of managers at the highest levels of a company.

Creating a Technology Steering Committee The first step in creating a global R&D network is to

¹ In a systematic effort to analyze the relationship of global strategy and R&D investments in technologically intensive industries, I have been collecting detailed data on all dedicated laboratory sites operated by 32 leading multinational companies. The sample consists of 10 U.S., 12 Japanese, and 10 European companies. Thirteen of the companies are in the pharmaceutical industry, and 19 are in the electronics industry. Data collection includes archival research, a detailed questionnaire, and in-depth interviews with several senior R&D managers in each company. Overall, these companies operate 238 dedicated R&D sites, 156 of them abroad. About 60% of the laboratory sites abroad were established after 1984. I have used this sample, which is the most complete of its kind, as a basis for a number of quantitative and qualitative investigations into global strategy, competitive interaction, and R&D management.