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McKinsey's Knowledge Management Practices

*This case was written by **Indu P**, under the direction of **Vivek Gupta,** ICMR Center for Management Research. It was compiled from published sources, and is intended to be used as a basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation.*

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"Sharing knowledge is deeply embedded (at McKinsey and Company)... it is just totally expected, that is what you do."[1]

– John Stuckey, Managing Partner, McKinsey & Company, Australia, in 2001.

"The three fundamental dimensions of our strategy are lines, people, and knowledge."[2]

– Rajat Gupta, Former Managing Director, McKinsey & Company, in 2001.

INTRODUCTION

In July 2006, US-based McKinsey & Company (McKinsey) earned recognition as one of the companies committed to growth through innovation and managing enterprise knowledge to create intellectual capital. McKinsey figured in the Most Admired Knowledge Enterprises (MAKE) Report[3] 2006, published by Teleos[4] (Refer to Exhibit I for the winners of 9th annual Global MAKE Study).

A panel comprising executives from Global *Fortune* 500 companies and KM experts chose the winners of the 2006 MAKE awards (Refer to Table I for the traits of the companies that won the 2006 Global MAKE Awards). Commenting on the winners, Rory Chase, Managing Director of Teleos, said, "These organizations have been recognized as global leaders in effectively transforming enterprise knowledge into wealth-creating ideas, products, and solutions. They are building portfolios of intellectual capital and intangible assets which will enable them to out-perform their competitors now and in the future."[5]

McKinsey was also inducted into the Global MAKE Hall of Fame for being a Global MAKE finalist for five years in a row. On McKinsey, the MAKE report wrote, "McKinsey & Company, founded in 1926, is perhaps the most knowledge-oriented firm within the global management consulting industry. McKinsey is not the largest consulting company in the world (US$ 3.5 billion in annual revenues and 10,000 staff working in more than 80 offices in 44 countries), but it is among the most profitable and many consider that it has the strongest brand image. McKinsey & Company spends at least 10% of its annual revenues on managing and sharing knowledge."[6]

1 Lucinda Schmidt, "Knowledge: Word Spreads on Collective Wisdom," Australia's BRW, February 23, 2001.

2 "McKinsey's Managing Director Rajat Gupta on Leading a Knowledge-Based Global Consulting Organization," Academy of Management Executive, May 2001.

3 The report was developed by KNOW Network, in association with Teleos. KNOW is a global community of knowledge-driven organizations dedicated to sharing best knowledge management practices. Teleos is an independent knowledge management and intellectual capital research firm.

4 Teleos is an independent knowledge management research company that administers the MAKE program. Teleos founded KNOW Network in 1999.

5 2006, Global Most Admired Knowledge Enterprises (MAKE) Report, www.knowledgebusiness.com, July 27, 2006.

6 2006, Global Most Admired Knowledge Enterprises (MAKE) Report, www.knowledgebusiness.com, July 27, 2006.

Table I

Traits of 2006 Global Make Winners

• Creating a corporate knowledge-driven culture
• Developing knowledge workers through senior management leadership
• Delivering knowledge-based products/solutions
• Maximizing enterprise intellectual capital
• Creating an environment for collaborative knowledge sharing
• Creating a learning organization
• Delivering value based on customer knowledge
• Transforming enterprise knowledge into shareholder value

Source: www.knowledgebusiness.com.

McKinsey, which pioneered management consultancy, gave a lot of importance to capturing and managing knowledge and considered capturing and sharing knowledge to be one of its strengths. The importance given to KM in McKinsey could be gauged by the fact that there were only three policy committees in the company that reported to the board — the knowledge committee, the people committee, and the clients' committee.

Though knowledge sharing had been prevalent in McKinsey since its inception, it was during the late 1970s that McKinsey began focusing on putting formal KM systems in place. McKinsey was largely successful in its efforts to proliferate knowledge across the organization with the use of databases and also by encouraging employees to share knowledge. It focused on exploring knowledge from internal and external sources as well as on distributing and utilizing this knowledge. McKinsey also encouraged sharing of tacit knowledge through personalized knowledge sharing.

BACKGROUND NOTE

McKinsey was founded in 1926 by James O. McKinsey (James), who was a professor at the University of Chicago. The company was initially known as James O McKinsey & Company (JOMC). At that time, the company termed itself as 'management engineers,' with the focus on improving the efficiency of the clients' operations. Marvin Bower (Bower) joined McKinsey in 1933, to manage its newly opened New York office. One of the first high profile projects that the company undertook was conducting a comprehensive analysis of the businesses of leading retailer Marshall Field and Company (Marshall Field)[7] in 1934. JOMC was asked to analyze the reasons behind the company's huge losses since 1931. At that time, Marshall Field had gone through a major diversification into wholesale, construction, textile mills, and manufacturing businesses, but these were not successful and had resulted in huge losses. James and Bower conducted analysis of the company and recommended to Marshall Field that it concentrate on department stores and divest itself of other businesses. The report by JOMC generated lot of attention among the corporates in the US at that time. At the end of 1934, James joined Marshall Field as its Chairman and Chief Executive.

In 1935, JOMC merged with an accounting firm – Scovell, Wellington & Company[8]. This led to the creation of two partnership firms – Scovell, Wellington & Company (SWC) and McKinsey, Wellington & Company (MWC). SWC concentrated on accounting activities and MWC on

[7] Marshall Field was founded in 1852 and grew to become one of the major department stores. The company acquired several companies and was finally acquired by British American Tobacco in 1982.

[8] Scovell, Wellington & Company was formerly known as Clinton H Scovell and Company. In 1930, Charles Oliver joined the company, and was made a partner in 1932, after which the firm was renamed.

management related activities. Oliver Wellington (Oliver), who headed SWC, became managing partner of both the firms. MWC functioned from Chicago, New York, and Boston. One of the major clients of MWC was US Steel. In order to emphasize the growing consulting abilities of the firm, Bower decided to rename 'management engineers' as 'management consultants.' Though the merged entity was functioning well, there was some resentment among the staff of the erstwhile JOMC toward Oliver and what was described as his autocratic management style.

By mid-1937, MWC's study on US Steel came to an end, and the firm lost a major source of its revenues, as US Steel had accounted for around 55% of the billings. In November 1937, James died of pneumonia. By 1938, MWC had gone into losses, and the differences between the New York and Chicago offices persisted. Bower proposed a new partnership taking over the practice of MWC in the east coast, while the Chicago practice functioned separately. The east coast firm was named McKinsey & Company, and the Chicago firm was called McKinsey, Kearney & Company.

Horace G Crockett (Crockett), who was heading the New York office, became the managing partner of McKinsey, and continued to be the manager of the New York office. Crockett was responsible for the day-to-day activities of the firm, while Bower took care of the long-term plans of the company. In the first year, the firm's total billings were US$ 284,000. McKinsey emphasized that a consultant should provide truthful independent advice, preserve the confidence of the clients, and put the interests of the client ahead of the firm's financial benefits.

McKinsey & Company's national expansion began in 1944 with the opening of an office in San Francisco. McKinsey opened its office in Chicago in 1947 after McKinsey, Kearney & Company decided to operate independently. Both the companies severed ties with each other in 1946 and McKinsey, Kearney & Company was renamed as AT Kearney & Company. Another office was opened in Los Angeles in 1949.

The initial profits that McKinsey earned were divided equally among the partners. As the profits increased, half of the profits were distributed among the partners in proportion to the shares they held and the other half was shared among the employees. The employees were generally paid according to their performance.

Till the late 1940s, McKinsey focused mainly on building solid economic foundations for the firm. It increased the number of clients, opened new offices, and concentrated on providing the clients with the best possible solutions. In 1950, Crockett stepped down and Bower became the managing partner. Though Bower had several plans to develop professionalism and strategic direction for the firm, he was of the view that they could be achieved only after a strong economic foundation had been laid.

In 1950, the revenues of McKinsey stood at US$ 2 million. In the early 1950s, McKinsey achieved enough financial strength to devote resources to future growth. It decided to bring in policies in the areas of governance, recruitment, and ownership. In 1951, an office was opened in Washington DC.

In 1953, McKinsey began recruiting directly from business management schools. Bower was of the view that with its growing reputation, McKinsey could attract talented individuals, and the clients would also accept the new recruits, with the credibility it had built up. McKinsey essentially looked for intellectual capabilities and qualities like self-confidence and a forceful personality in the individuals rather than experience.

The 'up-or-out' policy was adopted in 1954 for the associates. An associate was asked to leave the firm if he/she did not have the qualities to become a principal. All the associates were reviewed against the set standards annually and those who failed to become principals by the time they were 40 years old were asked to leave the firm. In 1956, the position of senior consultant was created in order to accommodate associates with special skills who did not become principals by the age of 40.

By 1955, McKinsey had some of the major US companies as its clients. These included General Electric, General Foods, Corning Glass Works, and American Airlines. By then, McKinsey's associates were being paid around US$ 15,000 – 20,000, principals US$ 25,000 – 40,000, and partners' annual earnings were above US$ 100,000.

In 1956, McKinsey became a private corporation and in June 1956, incorporation documents were signed. This was intended to keep the ownership of the company exclusively with the active members. All the shareholders were required to sign a contract which stipulated that the partners' shares should be sold only to other shareholders or to the firm at the book value. It was also decided that none of the partners could hold more than 25% of the total available stock. After the firm was incorporated, the partners were called directors.

By the late 1950s, McKinsey had begun concentrating on expanding internationally. Between 1959 and 1966, the firm opened offices in the UK (London – 1959), Switzerland (Geneva – 1961), Australia (Melbourne – 1962), Holland (Amsterdam – 1964), France (Paris – 1964), and Germany (Düsseldorf – 1964). Some of the major international clients included Imperial Chemical Industries Limited, DuPont, Royal Dutch Shell, and KLM Airlines. By 1967, McKinsey's revenues had increased to US$ 20 million.

The 1970s were turbulent times for McKinsey, as its growth slowed down. At that time, McKinsey's management conducted an in-depth analysis of the company and realized that it needed to concentrate on client relationships, which had taken a back seat after its global expansion drive during the 1960s. This led the company to invest substantially in developing expertise and strategy.

With globalization in the 1990s, McKinsey expanded its activities and the number of consultants reached 5,000. Bower retired from the company in 1992. As of 1993, McKinsey had 58 offices in 31 locations around the world. The annual revenues had risen to US$ 3 billion by 2000. Some of the major clients of the firm by the mid-2000s were HP[9], Johnson & Johnson, General Motors, Siemens, and Home Depot.

As of 2005, McKinsey had 6,000 consultants working for the company in its 83 offices in 45 countries. About half of the consultants had a business management or economics background while the remaining specialized in fields like computer sciences, arts, humanities, etc. The company also employed doctors, lawyers, and engineers.

As of mid-2007, McKinsey was owned by more than 1,000 partners spread across the world. A managing director was elected by the partners, and was responsible for setting the overall direction for the firm. The managing director appointed several committees to govern the firm. Each of the offices was led by partners who were responsible for the main operational decisions, including selecting the projects, working on the projects, hiring the consultants, etc.

Usually the projects taken up by the firm were of three months' duration. However, depending on the nature of the project, it sometimes took just a few weeks to complete the project. And in the case of large programs like organizational transformation, the project duration was nearly a year. In order to provide more consultants with learning opportunities, in the projects of long duration, the teams were changed over gradually.

All the offices of McKinsey operated with a high degree of autonomy. The head of each of the offices was authorized to take decisions, but within the confines of principles, strategy, and policies of McKinsey. This was popularly known as the one-firm policy, under which the consultants were recruited by the firm and not the individual office and the profits and shares of the partners were determined by the total profit of the firm, and not by office-wise profit. In a similar manner, all the clients were treated as clients of the firm, and not as clients of a specific office (Refer to Exhibit II for core principles of McKinsey).

9 McKinsey acted as a key advisor to CEO of HP Carly Fiorina, when it acquired Compaq.

EVOLUTION OF KM

Since its inception, McKinsey's management had focused on capturing, managing, and disseminating knowledge across the company. In the year 1920, James published a book *Principles of Accounting*. In 1922, he published a textbook on budgetary control. In the book, he expressed his view that accounting should essentially emphasize the understanding of the entire organization, and should serve as an integrating device to understand the problems.

After setting up the consultancy firm, James developed a General survey outline, in 1931 which was a 30-page booklet consisting of details about the policies, structure, personnel, facilities, controls, and industry outlook. The General survey outline was based on the philosophy he had conveyed in his textbook and was used as a means to evaluate organizations. The main sections were industry outlook, company's competitive position, marketing, facilities, control, finance, and personnel. The General survey outline helped McKinsey to analyze industry attractiveness and the competitive position of the client and to analyze the effects of competition on business performance. By using it, the top managers at McKinsey were able to gain an overall view of the operations of the company.

In 1937, Bower wrote a memo on the objectives of the firm, where he described a long-term vision for the firm. In the memo, he expressed the view that McKinsey should concentrate mainly on management consulting, lay emphasis on solving management related problems, maintain high standards of integrity and ethics, maintain technical excellence, and select, train, and advance the right kind of people in order to ensure the firm's success. He proposed financial rewards and growth opportunities that would attract people of high caliber and qualifications. This memo helped the company set up a long-term vision. From the beginning, Bower had two goals for the employees of McKinsey – put the client's interests ahead of McKinsey's and only perform work that was necessary and that McKinsey could perform well.

In the year 1940, Bower wrote a booklet for the prospective clients of the company. The booklet titled, 'Supplementing Successful Management' described McKinsey and its practices and advocated a goal of helping large companies solve problems faced by the top management. Even while writing the booklet, Bower wanted a consensus among all the three partners of the firm at that time, so that it would help them have a common goal and long-term vision for the company.

One of the goals of McKinsey, as envisaged by Bower and his two partners, was to build a firm that was everlasting. This required all the employees and partners to work toward building the reputation of the firm to be passed on from generation to generation. This goal was kept in mind while recruiting consultants. McKinsey essentially looked for people with potential to become partners. McKinsey did not dilute the criteria for selecting employees even when there was a dearth of talented people.

In 1945, McKinsey came up with the 'New Engagement and Executive Relations Guide,' which proposed that every new assignment that the firm undertook should bring with it experience and prestige, apart from revenues. The top down approach to training as advocated by James was in place, and emphasized the generalized approach to management rather than the specialized approach.

McKinsey did not solicit clients directly nor did it advertise for attracting customers. Instead, it organized seminars that brought together executives from different companies and members from McKinsey. This program was started in 1940. McKinsey sent a newsletter entitled 'Top Management Notes' to the clients.

During the 1950s, McKinsey began focusing on internal development. As a result, written guidelines for sharing profits, promotion policy, and selection of new partners were adopted. In 1951, three committees – the profit-sharing committee, the executive committee, and the planning committee were established. The profit-sharing committee worked on sharing the profit among the partners. The executive committee's main task was to act for all the partners in the task of decision-making. The planning committee discussed some of the important management questions and made recommendations. The committee system went on to become a characteristic of McKinsey and its management process. This helped in the smooth growth of the company over the years. Most of the important decisions were made through consensus among the committee members and found firm-wide acceptance. In 1964, McKinsey launched the McKinsey Quarterly, a journal of management ideas.

McKinsey solved the problems of the clients using the Mutually Exclusive-Collectively Exhaustive (MECE) approach. The approach advocated that each idea was separate and distinct. Collectively exhaustive implied that all the possibilities had been thought about. The teams solving the problem worked from an initial hypothesis and either proved or disproved it. The issue of lack of specialized industry specific or company specific knowledge was handled through exhaustive data and analysis (Refer to Table II for more about MECE).

Table II

MECE and Structured Way of Thinking

Key Steps in Business problem analysis

- General Research, general industry study
- Generate initial hypothesis – structure issues in a tree structure
- Research – Facts Pack
- Size the project – the outcomes to achieve
- Plug the low hanging fruit
- Put the solution in easy words
- Step back for the big picture.

Source: Ethan M.Rasiel, The McKinsey Way.

KM IN ACTION

McKinsey's 'one-firm' culture helped in creating informal networks that facilitated knowledge sharing within the organization. The company's values also helped in the problem solving approach (Refer to Exhibit III for Values and Mission of McKinsey). However, knowledge sharing was limited to the methodology, like solving problems and framing issues. There was no specific attempt to use the learning from one assignment in the other. The main reason for not being able to transfer knowledge was that though the partners and directors were successful in developing generalized knowledge and excelled in maintaining client relationships, they were not ready to acquire specialized skills. Several consultants were of the view that specialized knowledge would damage the value of client service as it would lead to a few specialists interacting with the clients on a short-term basis, which would prove a hindrance to long-term association with the clients.

In the 1970s, the oil crisis and economic recession slowed down the company's expansion across Europe. At the same time, client management was getting sophisticated and specialized with the advent of companies like the Boston Consulting Group (BCG), which came up with a new concept of marketing the corporate strategy as products such as 'growth share matrix' and 'experience curve.' Big accounting firms also came up with their own management consultancy divisions.

A commission was appointed in April 1971 to study the firm's aims and goals. It researched the problem and concluded that McKinsey had been neglecting the advancements in professional and technical skills, due to its concentration of generalized management and was losing ground to companies which were promoting thought leadership.

Ron Daniel (Daniel), who took over as Managing Director in 1976, redefined the mission of the company to in order to institutionalize the changes. The new mission suggested attracting, developing, exciting, and retaining exceptional people. Under Daniel, a new position of training director was created. He also emphasized developing functional expertise.

A catalogue of key words describing the research and consulting tasks that McKinsey undertook was planned. Through this exercise, McKinsey planned to label specific experiences and research projects, and collect them in a central database. This was mainly done in order to help the consultants understand and study what had already been done on a specific topic, and also to get the support from employees who had already worked on those areas.

McKinsey already had a standard classification in place for industries and it realized that all the documents could be classified based on the industries. But another classification based on the functions also became necessary, as some functions like change management and organizational restructuring could be similar for different industries. Again, there was confusion about the right terminology to be used. McKinsey decided to limit the number of keywords. For example, in marketing some of the sub-terms were sales force management, pricing, global marketing, and market research. These keywords were tested for their adaptability among different users and the final framework was then arrived at.

McKinsey began paying more attention to helping the clients reduce their costs and improve their performance. Through this method, it was able to differentiate itself from other consultants who were competing based on low prices for their services. By the end of the 1970s, McKinsey started applying a distinction between cost and value. In 1977, 'super groups' were formed with the aim of developing functional expertise. These groups shared function specific ideas which formed a base for the strategy practice.

In 1980, Fred Gluck (Gluck)[10] joined McKinsey as part of a group that was focusing on building knowledge in the company. Under his guidance, McKinsey introduced practice bulletins which were two-page summaries of important ideas. Practice bulletins consisted of a list of experts who could provide more details about the topics discussed.

In the 1980s, McKinsey again began concentrating on providing customers with better service and on building knowledge. In 1982, McKinsey launched 15 centers of competence to enable renewal of the intellectual resources of the firm and to develop consultants. Centers of competence dealt with areas like change management, leadership, finance, logistics, manufacturing, marketing, microeconomics, sourcing, strategic management, etc.

The role of the centers of competence was to develop consultants and ensure renewal of McKinsey's intellectual resources. Experts in each field were appointed as practice leaders, and they were required to assemble a core group of partners active in a particular area and interested in contributing to the development of knowledge in that area. To ensure that knowledge produced in the centers of competence was used effectively, every area had a full time practice coordinator. The practice coordinators were responsible for monitoring the quality of data and for helping the consultants to search for the relevant data. Apart from the centers of competence, in order to develop knowledge in the areas of strategy and organization, where knowledge was not codified, McKinsey set up working groups. These groups were headed by two partners. The strategy group consisted of experts in the strategic consultancy field while the other group concentrated on bringing together the knowledge in the area of organization in McKinsey.

Though the centers of competence worked toward developing knowledge, sharing of knowledge was still not very prevalent even in the late 1980s. As there were no processes in place to share knowledge there was reluctance to do so. Moreover, there was no mechanism to capture internally generated knowledge. The consultants were encouraged to publish and share their findings, but the contributions were few and far between. McKinsey found that though collectively the employees

[10] In 1988, Gluck became the managing director.

were very knowledgeable, it was not taking advantage of their knowledge and was thus missing several opportunities to provide better service to customers.

To address this problem, in 1987, McKinsey launched the KM project, which made recommendations to improve the capturing and distribution of knowledge. The recommendations included:

- Maintaining a computer database that consisted of details of the projects carried out for the clients (practice information system).
- Developing a database of 2000 documents, representing the core knowledge (practice development network) of the company.
- Creating a list of specialists and key document titles (knowledge resource directory).

Acting on the recommendations, McKinsey set out to build a common database of knowledge accumulated through client interaction and service. This was called the practice information system. Other initiatives included a knowledge resource directory – a list of specialists and titles of some of the key documents and practice development, with an initial database of over 2,000 documents representing the core knowledge in the firm.

The Firm Practice Information System (FPIS) was a database which contained data on client engagements. Rather than just being a record of client engagement, McKinsey planned to update it regularly to make it complete and accurate.

There was no formal mechanism to capture knowledge in the practice areas. Each practice within the organization was asked to develop and submit the documents that represented core knowledge. The next step was to launch the Practice Development Network (PDNet). PDNet was launched after knowledge generated in different practice areas was formalized and the employees developed documents representing their core knowledge. A lot of data which was available was coded using the PDNet. In order to ensure that only relevant data was available on PDNet, McKinsey had in place coordinators in different areas, who monitored the content that was placed on PDNet. McKinsey created PDNet best sellers, which was a rating of the content on the network. This provided a list of documents that were frequently used in McKinsey.

Another resource that McKinsey used was the Knowledge Resource Directory (KRD). This contained the details of experts in the firm by region and function, and key documents based on the practice areas. These details were published in a small book that could be carried around by the employees. All the employees contributed their work related knowledge to KRD and they were required to answer any queries within 24 hours. KRD came to be known later as the McKinsey Yellow Pages.

In order to capture knowledge about the happenings around the world, which would have a major impact on the clients of the company, McKinsey launched special initiatives on emerging topics like the Internet, e-commerce, and globalization in the mid-1990s. About 16 industry groups were established, which functioned as performance cells, monitoring happenings in each of the industries.

In the early 1990s, McKinsey introduced client impact committees, which studied the ways in which it could ensure that the clients could benefit from the expertise that the company had developed over the years. It was found that the projects that engagement teams undertook were completed on time. However, they concentrated mainly on the immediate task and not on the long-term impact on the clients. This led to the incorporation of client service teams that were focused and committed to working with the clients for a long period, thus helping the company create a deeper understanding on client-related issues. The client service teams were linked to multiple engagement teams. It was estimated that as of 1993, McKinsey was spending US$ 50 million annually on knowledge building. The company encouraged the staff members to publish books and articles.

In 1994, Rajat Gupta (Gupta) became the first foreign born managing partner of the firm. Under Gupta, KM practices in the company received a further boost. He considered knowledge to be a key business driver, and put in place a four-pronged strategy. The strategy comprised emphasis on practice development, practice Olympics (an annual event, special initiatives to focus on emerging issues), and expansion of the McKinsey Research Institute.

Gupta, like his predecessors, laid major emphasis on KM. He was personally involved in KM efforts in all the fields. According to him, "When I started as managing director, one of the most important things I emphasized was making sure we were in the forefront of knowledge, in the development of knowledge, and in investments in knowledge. To be in the forefront and the cutting edge of research in management thinking, not as much from an academic point of view as from a truly applications point of view."[11]

EMPLOYEE TRAINING AND KNOWLEDGE SHARING

Recruitment was given high importance in McKinsey. The company recruited graduates from top-tier business schools. Before a candidate was selected, he/she was interviewed six to eight times by the partners and principals. The company recruited talented individuals capable of receiving and spreading knowledge through person-to-person knowledge sharing mechanisms[12] that were present in the organization.

At McKinsey, fresh management graduates joined as associates. After two to three years, associates who performed well were promoted to the position of engagement manager. Two to three years later, depending on their performance, they became senior engagement managers. The next stages were associate principal, principal, and director. Only one in five associates became principal.

All new employees started with a one-week training course called basic consulting readiness. All the new recruits from a non-business management background were required to complete a three-week mini-MBA course. During the first five years, all the consultants spent three weeks on an average every year on training (Refer to Exhibit IV for more about the training in McKinsey).

Associates were a part of the consulting team and were actively involved in different aspects of the project including defining the problem, structuring the approach, collecting the information, analyzing the findings, and developing change programs. Associates received on the job training and mentoring by team members. The partners and engagement managers on the team monitored the performance of the associates. Each associate was assigned to a development leader who provided support and guidance and acted as a source of information. The associates constantly assimilated knowledge through research and practice development projects, global exposure, participating in research projects, writing articles, and serving as faculty members in training programs. Interaction with the clients and visiting clients globally also added to the knowledge of the associates.

McKinsey considered developing employees to be as important as working with the clients. All the consultants were regularly required to attend seminars and workshops across the world. Training included a wide range of topics from presentation skills, industry specific skills, and general subjects. The training helped employees gain knowledge and deal with the situations they could face while carrying out their day-to-day activities.

[11] "McKinsey's Managing Director Rajat Gupta on Leading a Knowledge-Based Global Consulting Organization," Academy of Management Executive, May 2001.

[12] Person to person knowledge sharing is one of the most prevalent methods of knowledge sharing. It is one of the less formal ways of sharing knowledge, where people acquire knowledge by interacting with others.

Talent exchange was widely prevalent in the organization. In the internal talent exchange program, the consultants nominated themselves for a project and made the manager bid for them. This program brought about a change in the way the teams were assembled for the projects. Through the exchange network, top performers could share their knowledge and experience. Those who contributed to the program were able to bid for good projects in the company. Through the internal exchange program, consultants could move around different industries and verticals. This also acted as a method of spreading knowledge and helped the employees gain new knowledge.

In order to share the process and findings of the project, McKinsey required all the teams carrying out projects to appoint an employee to document the proceeds including experiences from the assignment, team members involved in the project, and client reactions to the assignment.

For successful implementation of KM systems, McKinsey ensured that the employees developed proficiency in their field of specialization and that they were willing to share their expertise with others. In order to encourage the consultants to share their expertise, the company had a reward system in place. These consultants were evaluated based on their role as knowledge generators and it was one of the criteria based on which their promotions were decided.

In order to encourage intellectual contribution from the employees that would promote generation of knowledge, McKinsey introduced practice Olympics in 1995. Through this, teams (of two to six people) from its offices across the world were encouraged to develop on the ideas that were generated through their interactions with the clients. They were required to present these ideas at regional and company level meetings. Apart from this, the senior partners initiated several internal assignments aimed at creating knowledge, especially for the CEOs.

CAPTURING KNOWLEDGE

In McKinsey, the KM system evolved from the need to connect people effectively. The company generally dealt with high level management problems that were difficult to put across in standardized formats. Initially, most of the consultants in the company were not in favor of documenting the concepts, as many consultants were suspicious about reusing ideas. Most of the consultants were of the view that each problem required a different approach and solution and packaged ideas could not be used. This was one reason why the concepts had not been documented. Slowly, the senior management convinced the consultants and principals that sharing their knowledge would help them build a good reputation for themselves within the firm and help them to build personal networks, something which was considered important in the organization.

Apart from codifying knowledge through PDNet, McKinsey emphasized a personalized strategy to knowledge management, where the focus was on dialogue and knowledge sharing between individuals. The company was of the view that knowledge was exchanged between individuals not only during the brainstorming sessions, but also through regular correspondence, telephone conversations, and video conferences.

Personalized knowledge was necessary in strategy consulting firms like McKinsey. However, sharing this knowledge was cumbersome and time consuming as it could not be systematized. This called for mostly one-to-one training and could prove fruitful in organizations with only a few employees. However, in McKinsey, knowledge that was not found in any of the databases and was not codified was transferred through one to one conversations and brain storming sessions. Personalized knowledge sharing helped McKinsey customize its offerings and it was able to provide its clients with high-end and customized services, and to charge a premium for these services.

For the success of personalized knowledge management, building and fostering networks of people within the organization was necessary. McKinsey built these networks by making the employees work in different offices, building a culture of prompt response, and by having in place directories of experts. Through the directories of experts and electronic document systems, the consultants working on a particular project could find the people who had worked on similar projects and seek their assistance by approaching them directly.

McKinsey employed editors to convert the knowledge that was present in PowerPoint presentations and videos into documents. The company also had a quality ratings system that ensured that all outdated documents were removed from databases in due course.

McKinsey had in place a KM support system in order to support the consultants in the field. This included business research libraries and industry specific libraries, apart from several databases and journals. The practice development documents written by the consultants also helped in capturing the data about client engagements. The data also included the details of employees who had worked in specific areas and with specific clients. The consultants who were working on a particular project could approach these employees for any clarifications.

McKinsey established the McKinsey Global Institute (MGI), a research center, in the year 1990. The main objective of MGI was to study the critical economic issues facing businesses and governments around the world and to study the implications of the changes in the global economy on business and improve the business performance and competitiveness of the clients. MGI focused exclusively on long-term research on topics like capital markets, consumer demand, healthcare, labor markets and offshoring, global economic integration, etc. It conducted in-depth, sector-based analysis of 20 economies and more than 30 industry sectors (Refer to Exhibit V for the details of research at MGI).

CONCLUSION

At McKinsey, all employees had an important role to play and the major roles were serving their clients, developing knowledge, and building the practice. Knowledge management helped McKinsey in solving the clients' problems effectively through every step (Refer to Table III for steps in a typical engagement at McKinsey).

In 1995, McKinsey had undertaken a project on the impact of the digital economy on services. In the report, it was said that reducing telecom costs would result in remote services, by which countries like China and India would provide assistance to customers in the US. This led McKinsey to establish a knowledge center in Gurgaon near New Delhi, India. At the knowledge center, the researchers carried out background research to help the consultants located across the world. These activities included number crunching, analysis, PowerPoint presentations for the consultants across the world, etc. It also set up research programs on topics like growth, globalization, and the changes taking place in companies across the world. The oft repeated quote within the company was, "We do more research on business issues than the business schools at Harvard, Stanford, and Wharton combined."[13]

The center had three groups – generalist research, practice research, and analytics. The generalist research supported consulting teams across the world on issues that called for research and analysis, in the areas of financial and economic analysis and company and industry overview. Practice research group provided support to the industry and functional practices of McKinsey. These included industry practices like financial institutions, pharmaceuticals, telecom, etc. and functional practices like finance, manufacturing, and supply chain management. Analytics used advanced tools like SAS and CPLEX, and techniques like cluster analysis, simulation, and linear programming to solve data intensive problems (Refer to Exhibit VI for different industry and functional practices).

[13] McKinsey & Company, Company Profiles, www.iwon.com.

Table III

Steps in a Typical Engagement at McKinsey

- **Define the problem.** Meet with the CEO or client team to clearly articulate the challenge they are facing and come to a mutually agreed goal.
- **Break the problem down.** The team breaks the problem up into manageable pieces, assigns responsibilities, and creates work plans to prove or disprove hypotheses.
- **Understand the client's business.** Team members interview client team members to better understand how the business and industry work, define specific problems, and identify data sources. Team members also access McKinsey's global network to get industry or functional expertise.
- **Gather and analyze data.** The team develops models, analyzes results, and refines hypotheses. The team also makes recommendations on which parts of the client's problem will be addressed as rapidly as possible.
- **Work with the client team.** Sharing early findings, engaging in brainstorm sessions, and problem solving with client team members help the team to lay the groundwork for effective implementation of the recommendations. It also helps develop the trust necessary for the team members to act as counselors.
- **Make recommendations.** The team evaluates possible solutions and determines recommendations; presents results and recommendations to client leadership.
- **Help implement recommendations.** Depending on the type of engagement, the team can also help in the implementation of anything from sales stimulation to pricing changes to manufacturing plant productivity improvements.

Source: www.mckinsey.com.

Though McKinsey was largely successful with its KM efforts, analysts were of the opinion that the unprecedented growth in terms of number of employees and offices across the world at McKinsey could have eroded its culture and its ability to manage knowledge effectively. The consultancy industry is knowledge intensive, and people are McKinsey's main assets. Some of the industry experts were of the view that McKinsey could face challenge of retaining knowledge, and it should try to retain knowledge through codification or through retention of employees. There was also widespread view that despite several computer systems and databases at place, KM process in McKinsey still relied heavily on personal networks.

Exhibit I

Ninth Annual Global Make Study – Winners

Accenture (Global)
Apple Computer (United States)
BHP Billiton (Australia/United Kingdom)
Buckman Laboratories (United States)
Dell (United States)
Ernst & Young (Global)
Fluor (United States)
Google (United States)
Hewlett-Packard (United States)
Honda Motor (Japan)
McKinsey & Company (Global)
Microsoft (United States)
Novo Nordisk (Denmark)
PricewaterhouseCoopers (Global)
Samsung Group (S. Korea)
Sony (Japan)
Tata Group (India)
3M (United States)
Toyota (Japan)
Unilever (Netherlands/United Kingdom)

Source: www.knowledgebusiness.com.

Exhibit II

Core Principles of McKinsey

Follow the top management approach

We find and solve the most critical and challenging problems. We take an overall, independent, and fact-based view of a client’s performance. We rely on facts because they provide clarity and align people. Facts are the global management language. We work with facts to provide credible recommendations. We work directly with leaders who can partner with us to develop and accept recommendations and have the ability to implement them.

Use our global network to deliver the best of the firm to all clients

No one at McKinsey "owns" a client relationship. We rely on multiple people, not a single consultant or a single office, to provide leadership and our high standard of client service in each situation. We draw on our global network of internal or external expertise to bring together the right minds for the right solutions.

Bring innovations in management practice to clients

Our clients need new insight. We ask our people to bring their best thinking to our clients. We invest significant resources in building knowledge. We see it as our mission to bring this knowledge to our clients and we publish it for the benefit of business and government leaders worldwide and to force ourselves to think about what is next.

Build client capabilities to sustain improvement

We work with our clients as we do with our colleagues. We build their capabilities and leadership skills at every level and every opportunity. We do this to help build internal support, get to real issues, and reach practical recommendations. We bring out the capabilities of clients to fully participate in the process and lead the work after we have left.

Build enduring relationships based on trust

We earn our clients’ trust. We do this through our consistently superior service, our professional conduct, and our complete commitment. Each one of us is responsible for earning and keeping our clients’ trust with our individual behavior and the quality of our work. We care for our clients as people and organizations, even when we are not serving them.

Source: www.mckinsey.com.

Exhibit III

McKinsey – Values and Mission

What we Believe
We believe we will be successful if our clients are successful.
We believe that solving the hardest problems requires the best people. We believe that the best people will be drawn to the opportunity to work on the hardest problems. We build our firm around that belief. We believe you can't do one without the other. We believe these two parts of our mission reinforce each other and make our firm strong and enduring.
We believe in professionalism. For us this means to always:
Put the client's interest ahead of our own.
This means we deliver more value than expected. It doesn't mean doing whatever the client asks.
Behave as professionals.
Uphold absolute integrity. Show respect to local custom and culture, as long as we don't compromise our integrity.
Keep our client information confidential.
We don't reveal sensitive information. We don't promote our own good work. We focus on making our clients successful.
Tell the truth as we see it.
We stay independent and able to disagree, regardless of the popularity of our views or their effect on our fees. We have the courage to invent and champion unconventional solutions to problems. We do this to help build internal support, get to real issues, and reach practical recommendations.
Deliver the best of our firm to every client as cost effectively as we can.
We expect our people to spend clients' and our firm's resources as if their own resources were at stake
Mission
To help leaders make distinctive, lasting, and substantial improvements in performance, and constantly build a great firm that attracts, develops, excites, and retains exceptional people.

Source: www.mckinsey.com.

Exhibit IV

Training at McKinsey

Basic Consulting Readiness

This is a week-long course and all the consultants who join the firm are required to take the course. The course basically teaches McKinsey's problem solving approach and knowledge management techniques, along with core values and guiding principles.

Mini-MBA

This course is for the people who join the firm with advanced degrees in subjects other than business management to help them develop business judgment needed to begin their career as a consultant at McKinsey. The training is of three weeks' duration, and covers topics like microeconomics, accounting and finance, marketing, and business strategy.

Business Analysis Training

This training is of one-week duration covering topics like advance problem solving and interpersonal and communication skills. This course is meant for business analysts and pre associates in the firm.

Training Programs After One Year

After one year, the emphasis shifts toward project management skills, building client relationships, and acting as a counselor to senior executives. The programs also cover problem solving skills and people management skills. The training programs are conducted by senior faculty members in McKinsey, peers, and experts in the field.

Initial Leadership Workshop

This training prepares consultants, who have demonstrated exceptional problem solving skills, for their future leadership positions. The training aimed at developing the consultants' influencing and coaching skills.

Engagement Management Basis and Engagement Leadership Workshop

This training is provided in order to prepare the consultants for the role of engagement managers.

Client Leadership Workshop

This is meant for newly designated associate principals, to prepare them for their role as leaders in client service. This workshop helps the participants arrive at their strengths and weaknesses in terms of leadership roles and their professional development aspirations.

Compiled from various sources.

Exhibit V

McKinsey Global Institute – Research

Capital Markets

The capital markets database of McKinsey maps global financial stock and analyzes capital flows and financial systems at country level.

Consumer Demand

The focus is on examining how the rise of new consumer classes in developing countries, especially India and China, will impact businesses and societies

Global Economic Integration

The topics researched include integration of India and China into global sectors, middle income economies, impact of multinational companies on the US current account deficit, and impact of foreign investment on developing countries and industry restructuring.

Health Care

In the health care sector, MGI draws from the expertise of McKinsey to analyze the dynamics of health care systems along with cross-country comparisons.

Labor Markets and Offshoring

Supply and demand for offshore talent at the occupational, sectoral, and global levels are researched by MGI. The other topics of study are implications of wages, employment, and company decisions on selecting locations, and the impact of these on global labor market.

Productivity and Competitiveness

MGI has studied drivers of productivity in 20 countries and 30 industrial sectors around the world. The productivity, performance, and competitiveness of different countries against global standards were assessed. The impact of managerial decisions and industry dynamics, impact of growth drivers like innovation and IT, manufacturing, service industry, informal economy were also assessed.

Resource Markets

With McKinsey's expertise in the energy sector. MGI studied the drivers of energy demand.

Source: www.mckinsey.com.

Exhibit VI

Industry and Functional Practices

Industry Practices	Functional Practices
Automotive & Assembly	Business technology office
Chemicals	Corporate finance
Consumer packaged goods	Marketing
Electric power & Natural gas	Operations
Financial services	Organization
High tech	Strategy
Media & entertainment	
Metals & mining	
Non-profit	
Payor / Provider	
Petroleum	
Pharmaceuticals & Medical products	
Private equity	
Pulp & Paper / Forest Products	
Retail	
Telecommunications	
Travel & Logistics	

Source: www.mckinsey.com.

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