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Schumpeter

The future of the Firm

McKinsey looks set to stay top of the heap in management consulting

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IT IS one of the engines of global capitalism. Not only does McKinsey provide advice to most of the world's leading companies (and governments). It also pioneered the idea that business is a profession rather than a mere trade—and a profession that thrives on raw brainpower more than specialist industry knowledge or plain old common sense.

Yet McKinsey's name has suffered a succession of blows in the past 15 years. The Firm, as it calls itself, was deeply involved in the Enron debacle: the energy company's boss, Jeff Skilling, was a McKinsey veteran who praised the consultancy for doing "God's work", and the *McKinsey Quarterly* published articles on Enron as enthusiastically as *Hello!* runs pieces about the Beckhams. In 2010 Anil Kumar, a McKinsey consultant, admitted passing inside information to Raj Rajaratnam of Galleon, a hedge fund. Last year Rajat Gupta, a former McKinsey managing partner, was also convicted of passing inside information to Mr Rajaratnam.

Life is getting tougher for professional-services firms. Midsized consultancies are already suffering: Monitor Group went bankrupt last year—Deloitte later bought it for $120m—and Booz & Co and Roland Berger are agonising about their futures. If the legal profession is anything to go by, worse is to come: Dewey & LeBoeuf collapsed last year after borrowing heavily in a dash for growth, and other elite law firms are struggling to win business.

So, are McKinsey's best days behind it? Two new publications offer some interesting answers. "The Firm", by Duff McDonald, is a generally admiring book that nevertheless asks hard questions about the organisation's future. "Consulting on the Cusp of Disruption", by Clayton Christensen and two colleagues, is a penetrating article in the October *Harvard Business Review,* arguing that the comfortable world of the strategy consultancies is about to be turned upside down.

McKinsey's success depends above all on an unimpeachable reputation for integrity. It cannot continue to serve most of the world's leading companies (including working simultaneously for competitors) if its consultants are willing to spill secrets. Mr McDonald argues that the firm's size makes it impossible to avoid repeats of the Kumar problem. It is now a giant factory with 1,200 consultants rather than the cosy club of old. The firm has to keep growing, not least to provide its partners with the $1.5m or so a year that they earn. But every time it grows it puts its most important asset at risk.

McKinsey's success also depends on its ability to remain at the cutting edge of business. But in recent years it has seemed to be on the wrong cutting edge. Mr McDonald points out that whereas McKinsey has led the "financialisation" of basic industries such as oil and gas, it has had little if any role in shaping the giants of the internet economy, such as Apple and Google. The new lords of business are engineers in hoodies, not MBAs in pinstripes.

Mr Christensen focuses on a bigger subject: how the forces that have disrupted so many other businesses, from steel to publishing, are disrupting consulting. The big three strategy consultants—the other two are the Boston Consulting Group (BCG) and Bain—are masters of opacity. But Mr Christensen argues that light is being let in on the magic. Companies are getting better at measuring results and demanding value for money. They also have access to more business expertise than ever before: the big three have more than 50,000 living alumni.

The big three have been masters at bundling lots of different services into a single, high-priced package. But clients no longer want to pay fat fees for a bit of strategic advice from a senior partner and a lot of humdrum work from neophytes. Mr Christensen says low-priced competitors are beginning to dismember the consultants' business. Eden McCallum cuts costs by deploying freelancers, most of whom once worked for the big three. BeyondCore replaces overpriced junior analysts with Big Data, crunching vast amounts of information to identify trends.

McKinsey clearly faces a more difficult market than it is used to. But it has overcome serious challenges before—such as in the 1980s, when it lost the intellectual high ground to BCG and then Bain before regaining it. The firm is fixing some of the problems from the Gupta era. It has elected two successive managing directors, Ian Davis and Dominic Barton, who have worked hard to restore its professional ethos. Mr Barton urges companies to embrace "long-term capitalism" rather than "quarterly capitalism" and corporate responsibility rather than financial engineering: the very opposite of the Enron-era McKinsey's gospel.

Old boys (and girls) everywhere

McKinsey also has two huge assets: talent and knowledge. It retains an unrivalled ability to recruit hundreds of clever young people and turn them into an army of problem-solving worker ants. It also has an enviable network of alumni, many of whom are happy to hire their old employer: in 2011 more than 150 ex-McKinseyites were running companies with more than $1 billion in annual sales. The firm has also invested heavily in knowledge for decades: perhaps no other organisation has as much interesting data on global capitalism.

Though lesser firms may be facing disruption, McKinsey dispenses a special sort of consultorial fairy-dust that is hard to replicate, and as much in demand as ever. The global ruling class is seized with a toxic combination of status-obsession and status-insecurity. Decision-makers also fear being swept away by one of Mr Christensen's disruptive forces. They seek constant reassurance and reaffirmation from prestigious institutions. McKinsey knows better than almost anyone how to exploit this peculiar mindset. That will guarantee the Firm a solid future, even if no one can prove that its advice actually does any good.

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