

DIRECTOR'S DIALOGUE WITH IAN DAVIS

LSE, Tuesday 12 October

Howard Davies

Welcome to the latest Director's Dialogue. This evening my guest is Ian Davis who is the Head of McKinsey worldwide. Ian and I have only known each other since 1982, which is when I joined McKinsey. Ian had joined from Bowater after a degree at Oxford in PPE. Since then, he has clawed his way up the McKinsey greasy pole, starting as an Associate, then an Engagement Manager and Senior Engagement Manager, then Principal and a Director, and then two and a half years ago, the firm elected a new Managing Director. Although it would be wrong to say McKinsey is in every respect a participatory democracy - I certainly don't recall being given much choice about what I did when I began life as an Associate - at the other end of the firm, the partners elect the head of the firm worldwide. There were two candidates for the Managing Director position two and half years ago and at the point of the election, I have to say – Ian, you'll take in the nicest possible way – I was very pleased that I didn't any longer have a vote - because the two candidates were Ian Davis and the person with whom I had shared an office with in London. So both candidates were from the London office and Ian won, which leads me to my first question - how is it that when it came to it, the two candidates to lead the firm worldwide were from the London office? And does this mean that McKinsey in New York, and in America is in trouble now and the London takeover of McKinsey is imminent?

Ian Davis

Before I answer that let me say I am delighted to be at the LSE. It is the first time I've ever actually been into a building at the LSE and I hope it is not my last. It is a great privilege for me to be here and to have the chance to talk with you.

Now, to answer the question "Is London taking over McKinsey?" I think I'd have to say no. Firstly, Michael would describe himself as an Australian... Secondly, although it is fashionable to think of McKinsey as a US firm - and that was our history - in fact 70% of McKinsey partners and 70% of McKinsey staff are now from other parts of the world, meaning under a third of our practice is in the US. So the image of McKinsey as a US management consultant firm is factually incorrect.

Just by the law of averages sooner or later somebody from outside the US was going to be Managing Director. It turned out to be me; I happened to be British and from London, but I don't think the appointment was anything to do with Britishness. In fact, in the newspapers when there was lots of talk about London and all the rest of it, in McKinsey it didn't cause any interest at all. They tend to think of you as an individual - so what nationality you are and what sex you are is really not relevant or much of a source of topic. It was just circumstances - I happen to be British, I happened to be in London at the time and I think there is no more to it. So is this a British takeover of McKinsey, for those who are British? Absolutely not. I think it's very, very likely that in 10 or 15 years time the MD of McKinsey will be Chinese or Japanese - it just reflects the way of the world.

Howard Davies

So you won a lottery ticket of sorts to become the head of the firm.

Moving to the firm's competitive advantage, if you look across almost all industries, it is relatively rare to find a firm which has been right at the top of its market for as long as McKinsey has been in its market. No doubt some economic historians here will produce me a list of people who have also been top of their respective industries for 30 years, but it's pretty unusual. How have you done it?

Ian Davis

I think there are some people that might challenge whether McKinsey is at the top of its market everywhere in the world, but it is true that McKinsey has been around for 80 years, which I think for a management consulting firm is far longer than anybody else. I often think about why that is. What makes McKinsey an enduring institution - and a people business or a professional services firm, particularly when you see really very fine professional firms like Arthur Andersen go under so quickly. How has McKinsey survived and prospered? I don't think there is a quick answer, and I don't want to sound self-congratulatory at all, but if I could pick on three factors that I do think explain enduring natures of professional services firms.

One is a very, very clear and enduring goal. McKinsey has always said it wanted to be a management consultant firm, focused on top management. Now that may sound very simple and simplistic, but we have never deviated from that and there are plenty of temptations to do so. We could have gone into IT systems work for example; we could have

gone into heavy-duty implementation; we could have gone into corporate finance; we could have gone into private equity - that looked very, very lucrative and it would have been extremely lucrative for McKinsey to have done that, but we decided we were going to stick to what we call our mission. I do think that organisations that stick to their mission or their objective, whatever you want to call it, is a very, very important part of being enduring.

Secondly, we've always been very clear - and we may want to come on to this in the questions - on the type of people that we want to recruit. We have been very, very clear and consistent about the personal and intellectual characteristics of the people we want to recruit. Sometimes that provokes comments about a McKinsey type of person and partly that's true but also it partly explains the enduring nature of our organisation. So I would say consistency of people.

And thirdly, I have to assume that word of mouth and reputation of what we do - doing good work - does get around. If you can get positive word of mouth amongst clients - McKinsey does do good work often enough - that does create its own momentum. So a very simple philosophy of good people doing good work - and it doesn't happen all the time, I wish it did - but if you do it most of the time I think that does explain why we've managed to stay up there for so many years. If we can stick with it then I think we will stay up there for many, many years going forward.

Howard Davies

If you look at the competitive environment now who worries you? To whom do you lose business to?

Ian Davis

We don't think of losing business but we do think about the clients that we would like to serve. The clients that we would like to serve, we lose to a lot of different people. There is no one institution and there is much variation depending on which geography you're in and which sector you're in - if you're working in energy, oil and gas or banking or marketing or corporate finance - if you're working in China versus Brazil versus the West Coast - you will see a number of different consulting firms, or indeed a number of different professional services firms. If you think of it in terms of competition, sometimes a client might be deciding whether to use an investment bank or McKinsey. It's not always competing as it were with other consulting firms. Sometimes you're competing with other advisors, many of

whom are absolutely excellent as well. So I think sometimes the consulting profession is overly categorised. But there is no one answer.

I like to think that in most areas, most other consulting firms say they compete with McKinsey, because we are broadly based by sector and by geography, but the nature of individual competitors does vary hugely. The usual traditional segmentation is McKinsey, Bain, BCG, Booz Allen, but that wouldn't actually reflect the reality - it's much more complicated, and much more fragmented.

If you were using market share – which we don't, we don't measure our position like that – McKinsey's market share of consulting is probably 2 or 3 percent. It's a very, very fragmented market, it's very individual, it's very expertise driven.

Howard Davies

If we move from the competitive environment to the geographical dimension, can you give us a picture of the way in which the firm has been changing in recent years? Which have been the big growth areas, where have you opened new offices, which places at the moment are the kind of hot buttons in the McKinsey network?

Ian Davis

I think it will be no surprise to anybody here - we either tend to follow or create the action - you can take your pick. Asia is very, very hot for us at the moment - we're extremely busy in Asia. Two reasons: one is not just that Asia is growing economically which it is, but it is quite clearly and overtly participating in the global economy. So, for example, in China where if we could recruit and develop consultants - we could have three times as many people as we do at the moment - we just can't develop the people fast enough. The Chinese government and Chinese companies have clearly decided they want to be global world class players and they naturally use, amongst others, people who have worldwide experience. Second is when you get industries which are going through big flux or big change I think consultants like us tend to be most active and the most value. Areas like high technology, areas like healthcare, the public sector increasingly is becoming an area all over the world going through significant change. That's typically when organisations would turn to us or firms like us. When you get an industry that's either a comfortable or uncomfortable steady state they tend not to want to use firms like us very much.

Howard Davies

Where are things not going so well?

Ian Davis

At the moment, we're flat out. It wasn't the case three years ago - things weren't quite as easy - so I don't want to give the impression that we are just onwards and upwards in a remorseless fashion. But where there's regulatory uncertainty, where people are not quite sure what's going to happen, say for example in some financial services markets, people are waiting to see which is going, they would not use us, nor would we expect them to. So we're very happy to say to clients "Look, there's nothing that we can do that's useful given the uncertainty of the external environment." We tend to take a very, very long-term view of clients and industries.

Howard Davies

If we move onto the sort of people you are interested in, given that the firm has grown dramatically over the last 30 years or so - not quite in a straight line as you say - and is now extremely broad, how far now within the firm are people typically specialised by industry sector, or how far do you still expect people to be able to turn their hand to analytical work in a range of different industries?

Ian Davis

The issue of specialisation and what is called generalisation is a recurring theme and it's a source of great interest and concern, particularly to younger people coming into the firm. Typically the motivation of most people, including myself, was to become a consultant to get a variety of experience, to do a number of different things and then maybe leave and do something else. At the same time there's absolutely no doubt that our clients want deeper and deeper knowledge and there is a quite clear expectation that they expect our consultants to understand the industry they work in. If we're working on a technology issue or a marketing issue they expect at least some members of the team to have deep knowledge of the relevant function.

So we've got two conflicting trends, one is the desire of people to get broad learning experiences – to learn general management skills - either with a view to staying on as a consultant or doing something else and it's a wonderful training. Yet our clients want something different, so there's a tension. My own view is that I think it's both and not

either/or. I think consultants of the future are going to have to pick, at some point, an industry in which they will specialise in order to be effective with clients. In addition, we encourage all our consultants to develop what we call – apologies for the jargon – a "functional spike", so you should be really good at corporate finance or operations, or strategy, or marketing - which doesn't matter, people should choose - but we do like people to have what we call a "key shape profile" of some industry expertise and some functional expertise as the basic model.

On top of that I think you have to have a generalist mindset; people use McKinsey because in the end we bring more than a specialist consulting firm. We do expect people to bring a general management perspective. So I think over a career it's a combination of deep specialist knowledge and an ability to integrate that knowledge into a manner that's usable by top management. But I do have to say that any of you that may be considering a career, at least in McKinsey and I think in most consultancies, it is developing a specialised knowledge and expertise that is a necessary part of a career going forward.

A little bit different to when we were both there Howard. If you look back it wasn't the case, because 20 years ago if you were extremely clever and you had an MBA, you had a knowledge advantage against the average manager in most parts of the world who didn't have MBA type of skills. Now those skills are very broad spec and the old model of what I call the MBA arbitrage, if I can use that language, is gone. It has to be a lot more than that and I think that's terrific. I think there have been huge advances in the technical quality of management, more or less everywhere in the world.

Howard Davies

The conventional wisdom about McKinsey consultants is that they work 75 hours a week, and have no social or emotional life. Is that true of all of you, or just most?

Ian Davis

I would say it is true of some, not even of most. I'm afraid it is true of some, it's true of a lot less than it used to be. It's very difficult to work 75-80 hours a week and not have an emotional life because normally your spouse or friend make sure you have an emotional life when you get back home at 1 o'clock in the morning. I think this is an issue, I don't think it's just McKinsey; when you look at most leading edge professional firms, the sort of firm that all of you might be considering joining, the work pressure is very high. At the same time it is

absolutely clear to us that the whole issue of what is called work/life balance, lifestyle, whatever language you want to use, is becoming a much bigger issue. We know that we have to not just attract, but retain our A-list people. So I would say that the clear trend is towards working much more flexibly. Expectations of long hours is not there anymore. I know the average working week in McKinsey offices is 62 hours. We know that average, there are some nutters who work regularly 85 hours a week, and by the way some of them enjoy it. It's very important not to make judgements on how people should lead their lives and we're not mandating it, we're just saying we want to make it possible for people to work within reason for a life that's sustainable. Why? It's in our interests.

If I can tell a little story - it's a bad story for McKinsey but it brought it home to me. I was talking to our partners in our French office and we had a very, very able woman manager - extremely able. She had quite a usual profile, she had two children, she was married to a Goldman Sachs bankers, everything was pressure everywhere. In the end she just decided it was too much and she left. Everyone was very upset about it but guess who was the most upset about it? The client! The client was livid with McKinsey. "How could you let her go? Why didn't you tell us, we could have rearranged the work schedule, we could have done anything." And I think that brought it home to us. It's in everybody's interests to try, within reason, to actually make it work. That story has gone the rounds of McKinsey and other professional firms. We have to make this work and strategically too. In many of our offices in Asia, women consultants are 40 or 50% of the consulting staff. Again you don't have to be a brain to work out. I'm using women as a surrogate, a lot of men have exactly the same view. This is a problem we and other professional service firms are going to have to resolve.

Howard Davies

So what's the profile in the London office among professional staff? What percentage are women?

Ian Davis

26% in London.

Howard Davies

And at the Director and Partner level?

Ian Davis

At the Director level, Senior Partner it's 4%, and Partner it's 12%. We don't have balance through the system. I think the trend is good. I don't know of any professional service firm that has a higher proportion of women partners but it is only 12% and that's an opportunity for us as well as a challenge.

Howard Davies

Got to wonder how a Goldman Sachs banker and a McKinsey Partner ever found the time to conceive two children...

Ian Davis

Quite!

Howard Davies

But I guess miracles happen.

Ian Davis

I have to say it is not and never will be a 9-5...But we are very honest about what can be expected in certain parts of the world. The travel schedule for example is very intense, though not in the UK. We are very, very honest about what you can expect and in the end people like you have to make your own choices on the sort of life you want to lead.

Howard Davies

I was only at McKinsey for four years and I never had a client whose head office was more than three miles from my home or the office, which of course had my American partners completely baffled. But if you live in Islington and the office was at St James's, you could encircle, or pretty well fit the whole British corporate sector within that radius.

Ian Davis

But you can pick. If somebody says I want to work in oil and gas and petroleum but I don't want to travel, it's useless. You can pick what you want to do a little bit to fit your lifestyle. There are certain industries where you just have to travel and you would if you worked in that industry, that's not just a McKinsey trait. So choosing a client base that fits your lifestyle is another important component, which we've been slow to recognise but we do now recognise.

Howard Davies

I'm going to throw it open to the audience in just one second so be prepared with your questions. But let me just ask you about the sort of profile of your recruitment here. You've still got two entry routes essentially, the business analyst route and the associate route. How do people distinguish, how should they think about these two different routes in?

Ian Davis

For those of you that are interested, we have two primary routes as Howard says. You can either join as what we call a Business Analyst, which is straight from undergraduate or sometimes from PhD or advanced programme, and we call them business analyst or research analysts and the typical profile you come in is at 22/23/24 - that sort of age, work for two or three years and then either stay on at McKinsey or go and do an MBA. Or as we use internally - get a real job for two to three years - and I do think McKinsey is a real job but that's what we call it internally - and then our hope is that people will come back at 27/28. We do like people to have had some other experience, not necessarily, but that is encouraged. So that's one entry vehicle: as a business analyst, and that would be typically for most of you if you were to think about consulting. It's true not just for McKinsey, it's true for most consultants that I know of.

The more usual entry level, in terms of numbers, is at about 27/28 when you've had four or five years work experience, or possibly deep academic experience, or you've become a doctor or a lawyer etc. We recruit doctors, we recruit lawyers, last year we recruited somebody who is a priest - he spent five years studying to be a priest. So we are trying to be increasingly eclectic, to find people who have done something and achieved something. We recruited somebody who had been a professional footballer can you believe. He also had a PhD from Cambridge, so probably the only footballer who can think as well as play football. But that's a more usual thing, coming in at 27/28. Those are the two – the second level I think you and I, Howard, came in at.

So for many of you if it doesn't appeal now or it doesn't work out now, judging what you want to do at 22... it's agonisingly difficult when you're 42, but at 22 it's particularly difficult. There's absolutely another chance to join. But also the door doesn't ever shut - anybody who's very able, who we feel could work for us then there is a prospect for them

Howard Davies

David Beckham is going to need a new career soon and he could be a strong candidate?

Ian Davis

Not to be a consultant, no.

QUESTION 1

For these people that would like to enter McKinsey at the business analyst level, what can they do to be of most value to the firm since they can't have also had a real job or since they haven't specialised? What does McKinsey expect of undergraduates?

Ian Davis

Business analysts are not just to us consultants-in-training. One thing that all business analysts have is they have brains that are at least the equal of the senior people. We recruit people whose intellectual capacity is very strong and also they have energy and insight. Sometimes their lack of knowledge can be a source of unbelievable creativity, even if you may not always recognise the creativity. So our philosophy is very much that if you join as a business analyst, you're not just a consultant-in-training, you are part of the team and it is amazing how much contribution that you can get from younger people, perhaps with no business experience. Sometimes the brilliance and the insight and the innovation is quite remarkable, and certainly many of the teams that I've worked on – Howard will remember this as well – some of the best ideas come from the younger people. So we deliberately have younger people, we're a great believer in mixing not just diverse groups of people in terms of gender, sex and race, but also age group. That is not new by the way, if you look at most academic departments and if you look at most of the great scientific breakthroughs, you'll normally see the pattern of an experienced professor, somebody who has been around for a while, and often five or six quite young people. There is a lot of evidence that suggests that both rigorous and innovative thinking comes from a mixture of different age groups. That is a passionate belief for McKinsey. We often get asked by clients, and abused, when they ask what can these young kids tell us about running our business? But they miss the point - it's the ideas and the freshness of their perspective that's different.

I think it is very important to make sure that the younger people - the business analysts – are supported by senior people and that's why we always have business analysts working in teams where Partners are actively involved day-to-day.

But the point I absolutely want to emphasise is that if you were to join us as business analyst you wouldn't just be a trainee. You would be getting training, you would be learning but you would be expected to contribute.

QUESTION 2

My name is Edward, I'm a PhD graduate. Could you explain the business model of public sector consulting. I read in the Harvard Business Review a couple of years ago a McKinsey article about consulting to foundations, but I also think there's more government consulting. Can you explain a little bit about that?

Ian Davis

You used the word business model which is not language we use, we don't think about what do you do when you consult the public sector.

Our view is that consulting in the public sector is not any different from consulting in the private sector. There are organisations - maybe publicly, maybe privately owned - who want some independent view point or some advice on issues that are important to them. So our basic approach and our style is exactly the same and we say "Look, this is how we do it, this is the way we do it." Our fee arrangements in the public sector are the same as the private sector. We don't distinguish and in parts of the world what is in the private sector in the west maybe in the public sector elsewhere. So distinguishing between public and private - we don't really think like that - we think by industry and by issue. Obviously the pressure's on keeping the public sector using firms like us - there's much more media coverage, there's much more sensitivity - that's an issue but that's typically something we would say is the responsibility of the client rather than ourselves.

You asked another question about consulting to foundations. That is different. We may do that on a pro-bono basis, which is just for the good for no fees. That's a choice we would make. Like many companies we obviously do things pro-bono. But that's a decision made by the partners. The way we consult, the issues we consult, our attitude is the same - it's still

just another client. So it may surprise you but we just don't distinguish and the way we do things is just the McKinsey way of consulting.

QUESTION 3

My name's Gary [Wood] I work in the Careers Service here at LSE. One of the things the students often ask me about McKinsey is what's the secret to get into the McKinsey London office? Because every year they seem to have success in getting into McKinsey Paris and McKinsey Moscow etc. I'm wondering whether you could maybe elaborate on the different recruitment needs of the different geographical offices. You mentioned Asia was a particular growth area for example.

Ian Davis

I'm intrigued by the comment. There shouldn't be difference in recruitment needs and we tend to look to the same characteristics. We don't have a different recruiting profile anywhere in the world, so it maybe circumstances - it maybe the make-up of the students of LSE. It's maybe somebody who has come here from Asia, has shown a lot of drive, a lot of commitment, a lot of financial ability, so they may have demonstrated more sacrifice or more drive which we might like. But there shouldn't be any systematic answer and we expect anybody who joins McKinsey to be able to, in due course, move anywhere in the world. The assumption is that if you're a businessman who lives in Shanghai or in Sao-Paulo, you could consult anywhere in the world. So when you join McKinsey, you join McKinsey. You might join in an office, but at some point you'll be anywhere.

So the answer is there shouldn't be any. I do have to say that in certain cities, London is one, San Francisco is another, the competition and the applications are incredibly high, because they are cities with a lot of people - you people may be married or have boyfriends or girlfriends in those cities because that's where there is concentration of career. I think it is fair to say that the competition maybe higher, but in terms of characteristics, if there is a difference it's absolutely not we intend or plan.

Howard Davies

I recall when I was recruited – maybe this was a mistake - but I was recruited by a team from the San Francisco office for a job in New York and then ended up working almost straight away in London. Are London office people recruiting just for London and Moscow office people for Moscow?

Ian Davis

It depends by office. It used to be that if you got an offer to join McKinsey you could join anywhere in the world but we stopped that because we found that everybody was finishing up in certain cities and then they were flying the whole time. That created lifestyle difficulties and so we now recruit, certainly the business analysts, for an office. But it maybe that if somebody is exceptional and they don't quite make it we may just say, "Look, you know, it may work out in another office" If you join and you do well, after two years then you can go anywhere you want, that's the ethos.

QUESTION 4

I have a question about two books that have supposedly lifted the lid on McKinsey and they were published recently by one of your alumni. One is called *The McKinsey Mind* and the previous one is *The McKinsey Way*. I was wondering whether you read them and to what extent they reflect the kind of the uniqueness of the firm and the unique procedures and ways of doing things in the company. And secondly which companies – obviously other companies - would come close to using the same knowledge management procedures, or promotional structure, or have a similar way of doing things, for example General Electric.

Ian Davis

With regards to the two books, I dipped into one of them and the other one I just read the front, so I can't comment on them. Some of what they say could be true, some of it I wouldn't have interpreted in that way. One of the authors had a very, very particular point of view about McKinsey even whilst they were there, so they're just books, form your own judgement, I personally didn't. The one I read I didn't think "Wow, I've never thought McKinsey like that" I have to be honest. So to me I don't have any particular comments on those.

With regards to other firms using the McKinsey way, or perhaps more fairly, us using ways other firms do things, I think there are certain similarities. In terms of what we call our people systems, I think that's probably the area where McKinsey is most distinctive. Most companies that come to us who want to know how we do things tend to focus on the way we recruit, develop and evaluate our people, which is probably more rigorous than anywhere else in the world. I think it's a bit of a no brainer, it's the only asset we have. So

on that side I would say I think we are a source of a particular type of practice, where the best or not best is subjective.

When it comes to knowledge management systems, that's another huge thing for us - we do talk and use a lot of learning. So when it comes to electronic data management, what we call codifiable knowledge, we look at the accounting firms, which are often very good at that. When it comes to intellectual knowledge where you need more human interface, you can't just do it through electronic means and at McKinsey, most really high value knowledge we believe is still exchanged through human mechanisms - that's why we have so many personal get togethers with high travel and very high expenses associated with it. It's an expense we've decided to take, we still believe that high value learning takes place.

GE is a company we admire very much for the way they do that. Toyota is a company we admire very much - the way that they develop knowledge and capability methods. There are lots of firms that do things very well, that we can learn from, but there's no one particular firm that we just copy and we pick up ideas from. Academia - some of the best of academic departments, particularly in the US, some of the ways that they develop and exchange innovative knowledge and new ideas is very impressive. I would say if we had to pick one model it would probably be the academic world actually. So a bit of a magpie approach to knowledge learning.

QUESTION 5

Mr Davis, would you say something about non-executive directors? There seem to be many weaknesses and abuses in the present system and may account for many large firms having gone down, for instance Marconi.

Ian Davis

This is an incredibly difficult topic as you know. I sometimes think that the expectations of non-executive directors are just incredibly unrealistic. To expect someone who is spending ten or fifteen days a year, which is the usual, to really, really know exactly what's going in a company, without ghost management is very, very difficult. Plus, it's an inevitable part of a market-based system that some companies are going to fail. In fact they need to fail in a competitive market system, which has characterised much of the western world in the last 20 years. We can debate whether that's right or wrong, but if you have winners, you have losers. The notion that if there's a loser, somehow the non-executive director has screwed

up is not always accurate. Management make misjudgements - you miss technologies, you make marketing mistakes. You can't always blame the non-executive directors for misjudgements on strategy, for example, and sometimes you have to back the management I think. So sometimes the expectations of non-execs and the notion that if there is a failure, somehow the non-exec is responsible is just wrong. It is unfortunate, but it's just wrong.

Having said that, I do think that there is a need for non-execs particularly for the Chairmen of companies. Overall, although I know it's been a big debate, I think the latest changes in corporate governance will strengthen the ability of non-execs to deal with a problem when it arises. A non-exec director who I admire very much said that there are two value adds the non-exec can do: one is to make sure that they appoint a good CEO and you can get that right or wrong; the second is to have procedures for dealing with a problem or a mess when it arises so that a problem doesn't become a disaster - I think that is probably the biggest value add. So I think it's a combination of better procedures and better training, but I do have to say I think the expectations of the non-exec have to be realistic. And the notion that every time a company fails - which think about it, in a capitalist system, is required by the system and in times of increasing technological change is going to happen more often, we're going to see more company failures for sure in the next ten years, it's inevitable - doesn't necessarily mean that the non-execs aren't doing their job, in my view.

Howard Davies

Can I add another supplementary to that and that is McKinsey has a pretty unique perspective on corporate governance worldwide and as you say, part of the culture of the firm is that you meet each other all the time and discuss your client work. If you simplify grotesquely you've got a US system - what I think of as the kind of heroic model - the Chairman, CEO combined in a single individual. You've got the British model - rigorous separation now of the Chairman/CEO and you've got what you might call a Rhineland model - supervisory board on top of a management board. Which is best?

Ian Davis

I don't think there is a right answer to that and I think prescriptions about corporate governance are very dangerous. I think the best model, or what is the right model, is determined by the context of the country and also the history of the company but you do need horses for courses. For example, if you take corporate governance in South East Asia, I don't know if there are any people from South East Asia here, the family business is the

usual model. The appropriate corporate governance is very different from a public company operating in a very sensitive industry, let's say genetics, for example. So I think generalisations have been a worrying feature of corporate governance. I think they are more likely to do harm than good. There are some principles that hold true anywhere, however. As a general rule it is wise not to let one individual have too much power - history teaches us that in any state, and in any organisation. Now, whether that means the division between the Chairman and Chief Exec? On balance I would say that is usually a good thing. But if you do have a combined Chairman and Chief Exec then I think you need to have a very strong non-executive board - checks and balances - not allowing too much concentration of power. I think transparency of information of what is going on is a very, very, useful corporate governance tool, though quite what that means will vary by a country. I think the training of non-executive directors - no-one thinks about training them - is a useful tool. And letting the shareholders - whether the shareholder be a government or individual or institution - know what the role of the key individuals are, is a very useful principle. So my preference is to adopt some principles.

If you go back to the Hicks report, I think their rule was comply or explain. I would rather it was explain or comply, I think to explain what you're doing and how you're providing services or comply would be a better route. But I think these generalisations about governance being good or bad are dangerous. Should we adopt Hicks or SOX in Germany? The supervisory system in Germany gets a lot of bad press, but it's not, in my view, a bad system. People are moaning about it now because of what's happening in Germany - if you have labour representing the board look at the mess you get into. But labour productivity in Germany is higher than any country in the world. So you've got to be very, very careful. I'm a great believer in the traditions of a country from the legal frameworks of countries and avoiding generalisations on good and bad corporate government systems. I think most, not all, but most of my colleagues at McKinsey would take that view as well.

QUESTION 6

What would you say is the biggest mistake that you have made in your career and what did you learn from it?

Ian Davis

Some of them have been professional, relating to clients. There was one client who just thought that because I am McKinsey I walk on water because the company has done

unbelievably well. They did well for exactly the wrong reasons that McKinsey recommended. We completely got it wrong and I was leading it. But it actually turned out fine because all the assumptions that we made worked out. This is a sign about how far management and management science can go. Another mistake, I would say the biggest mistake is this, it is not thinking about the human dimension of a problem and I say this in a professional sense rather than a personal sense. There was something that really didn't work well at all, and it wasn't because the solution was right or wrong or good or bad, we just didn't really pay enough attention to the human dimension of the company. The people dynamics weren't there and it really ended up as a major, major mess for the company. The lesson I've learned and we are trying to learn is the human dimensional of problem solving - not something always traditionally associated with McKinsey but I hope is now, and certainly I hope will appear to be in ten years time. The human dimension is an absolutely critical part of the solution, it's something I'm personally trying to push very, very hard. You cannot look at strategic problems, organisational problems in isolation of individuals that comprise that company. So what could be a great solution for one company could be wrong for another company even though the analytics look exactly the same.

It could be a very long talk if you want to add all my mistakes.

QUESTION 7

Can you tell me about McKinsey's relationship with its alumni?

Ian Davis

There's a lot of talk about this - that we manage alumni incredibly carefully as part of the grand McKinsey strategy and it really isn't true. I think most McKinsey alumni retain very close links with the firm and vice-versa. When you work closely with each other, you work very hard with each other and you're partnered with each other, then friendships form. So people look to stay in touch because they have friends at the firm and most McKinsey people, not everyone, but practically everyone finds it a very, very good learning experience. They would describe their experience of McKinsey as a very formative part of their lives, even if they didn't enjoy it. They would say "It was a really influential part of my life" in the same way as many of you will say "the LSE was a very influential part of my life" and that normally means you want to stay in touch. So all McKinsey usually does and traditionally did was once a year, maybe twice a year, to hold a party and say "Come back". And by the

way, it used to be in London, but you had to pay to come back - we said "It'll cost you 10 quid for you to drink your bottle of vino."

It was really no more than a social network built around friendships, but that developed of course, and then as it developed people suggested that we form an interest group of people who work in the telecoms industry or people who work in banking. So from that we were able to develop a different ethos. But when we realised what our role model was, people said, which are the organisations that really have very loyal alumni? And we actually looked at the military. If you look at most militaries, take the British Army for example, most people are very proud of the regiment that they serve in, even if they only serve in it for three years and we've always admired that and we said, "Well, what do they do?" And what they do is just say come back. So it's the intensity of the work experience, it's the friendships that are formed, and on the whole people would say it was a very valuable part of their work life experience.

Is it good for McKinsey? There's a lot of talk that you've got all your alumni running these companies, running the country and is it good for the McKinsey network? Sometimes it is and sometimes it isn't. If you were an ex-McKinsey person you'd be pretty careful about bringing back your old mates immediately. So that side of it really doesn't work for us at all, it can be a very much a two-edged sword from the point of view of a professional idea. This is much more of a social thing - we just like being with each other.

Most of my best friends are ex-McKinsey people. I have some great friends who are at McKinsey but most have left and I just like them. So it's just as simple and as human as that. Just as I expect and hope that some of you will stay in touch with each other, that's what we do. Howard, you know how the system works.

Howard Davies

For every 10 people who join, how many are still there are five years?

Ian Davis

Of every 10 that join, 1½ to 2. That's another reason - a lot of people leave. We have an up or out system, so we have a system that progresses. There is no humiliation. The contract is if you join McKinsey, if you want to join for life you can, you may not be working at McKinsey but you're always welcome. Anybody who has worked for McKinsey can go to any

McKinsey office any time with the appropriate security. So the culture is you join, you may leave, but you're part of the firm, that's fine, that's the deal. So, 1 in 5, 1 in 6 stay to be partner for whatever reason. That's the reality of it. Many people choose to leave, they want to run companies, they want to go back into academia, they want to be mothers or fathers, they want to be whatever and we understand that. We hope that more people, able people, will stay.

Howard Davies

I always thought the reason I went to the parties was because I thought that if you didn't go to the parties people would think you must have been fired.

Perhaps other people were less cynical.

QUESTION 8

What are the major problem areas for McKinsey or for consulting and what are the major opportunities?

Ian Davis

These things go in waves. I think that the major challenges are: firstly on the people side - why would you join and stay? Answering Howard's question - why stay at a firm like McKinsey. It is very demanding despite what I said about lifestyle, it is very stressful, it is very stretching. How can we make our proposition to people really so compelling that they want to do it? I would say that's a constant challenge. Everyone who joins McKinsey, or most people who join McKinsey, as it will be for most of you, are getting constant offers to do something else, for often much, much better pay. So you've got this constant challenge of making it so rewarding, so stimulating socially or intellectually, whatever, that people want to stay. Inevitably, perhaps more in consulting than other things, you have ups and downs, people are getting great offers when they're in a down period and you can lose them, and we do lose some terrific people who just get, from our point of view, caught at the wrong time. So I think making ourselves really, really exciting for talented people is an enduring challenge and I think it will get harder rather than easier over the next 15 years for demographic and other reasons. The war for talent is not dead - it's alive and it's going to get hotter and hotter. It'll be great great news for you guys.

The second is that it's an enduring challenge to make sure that we're distinctive and we have something to bring to the party from our clients' point of view. Most of our clients have bright MBAs, most of them have lots of former consultants. Why would they want to use someone like us? And there's always a group of managers who never, ever use a consultant - leave them aside. But the ones that are making a judgement, ask can firms like McKinsey add value? We've got lots of PhDs, we've got lots of MBAs, we've got lots of ex-consultants so staying ahead of the game, staying relevant, having the knowledge, having the insights, having the perspectives on other firms and institutions, have the creativity - this is an enduring challenge. Sometimes, when we have a little bit of a blip you can often trace it back to that fact that we ran out of energy. It usually follows a period where we've been incredibly busy and we've stopped investing in new knowledge, in new people, in new ideas, and finding out what's going on.

So if I was to pick, it's making sure that we remain an attractive place to work for great people like you and making sure that we stay relevant and ahead of the game with very, very sophisticated global companies, which is McKinsey's core client base.

QUESTION 9

What would you do to double your market share in five years?.

Ian Davis

Well, I hope we don't - I must be one of the few MDs that is trying to actually slow the growth of McKinsey. Going back to my point about distinctiveness of people, we don't need to double our growth - we're a private firm, we're not a public firm, we're a private partnership, we can grow at any rate. I don't think in terms of doubling market share, and doubling market share from 2-3% or 4% doesn't make much sense anyway. We're not like an industry or a business. I think we should think much more about at what pace can we develop our people, at what pace can we be distinctive and in my view that means that we should grow relatively slowly. So at the moment my job - this may sound bizarre, but think about it - is actually trying to make sure that we don't grow too quickly, so that we can give the apprenticeship, and give the learning. And at the same time when things are going less well for us, we should still keep going on the development part.

Howard Davies

The firm has always prided itself in the kind of one firm concept - we're a single partnership etc. Is there some point at which that is no longer really plausible?

Ian Davis

I think there is - we haven't reached it, yet. It maybe an issue for my successor but when Howard talks about a one firm partnership, the partners of McKinsey are a partner of McKinsey; you're not a partner of McKinsey in Korea, you're not a partner of McKinsey in Sweden, you're a partner of McKinsey. You maybe based in Korea or Sweden, but you're a partner of the firm and we have the same evaluation systems, you're in a one firm partnership. We have 900 Partners, of whom 280 are senior partners, so that is putting some pressure on our social system, but we've found a variety of ways that make that possible. But can we do that when, and I say "when" deliberately, we have 2000 partners, I don't know, But we're meant to be problem solvers so hopefully somebody can figure that problem out.

Howard Davies

So do you know the names of the spouses of all the 280 Directors?

Ian Davis

No, but most of them. I know the names, faces and what the personal situations are of all 280 Directors; and my own view is, and I've said this in public, that if we cannot make that system work then we should not grow. I think McKinsey's ethos is such that we're so wedded to being a private partnership that there's sense that if we can't figure out how to make it work then we will just not let the firm grow.

QUESTION 10

What are the differences in consulting in Asia compared to consulting in more developed markets?

Ian Davis

There's less difference than you might imagine. A lot of the companies that use us in Asia, for example, are very keen to leapfrog or get on to the leading company status. If you look at Korean or Taiwanese or Chinese companies a question they ask us is "How can we be up

there with these companies?" The academic background and intellect of these people is at least as strong - they may be a little bit less sophisticated and more pertinent, they may not be used to market based systems, or capitalist based systems. So the context is different, but there's a lot less difference than you might think. The one thing that we find, going back to lifestyle, is the work ethic and what people do is completely different. I mean most of the consultants in Asia work a lot more than 62 hours a week and they think that's just fine, if they didn't work for McKinsey and they worked for somebody else they'd be working just the same amount.

So I think the cultures are different but the actual consulting method and analytical approach is quite similar.

QUESTION 11

A lot of us two days ago went to listen to Geoffrey Sachs at St Pauls Cathedral, talking about the Millennium Development Board. I was wondering what your personal opinion on the Millennium Development Board, sustainable development and what is the role of the major corporation you work with in attaining it?

Ian Davis

I think like any human being, all of us want to alleviate poverty. Either you do or you don't - that's a human thing, it's not an organisational thing. I think it's a huge issue and I do worry about the increasing disparity in incomes in the world for a variety of different reasons. I think the Millennium Goal and what Sachs has recognised and what he is doing should be achievable. The way it's been gone about, I don't think it will be achieved unless there's a substantial change in collaboration. It's a long, long question, this idea of mobilising businesses and governments to really get at this issue. I'm a passionate believer in the fact that business, particularly business, has a huge role to play in this, not by charitable work, or giving money - they can do that if they want. But if business does what business does - which is to provide products and services - and can begin to provide those products and services in the poorest parts of the world, I think it would make more difference than anything. So I would argue with Geoffrey that I think the best thing he could do is not to talk just about water and what can companies do but how can you get the businesses to operate there so that there is economic activity, so there is an economic structure which will allow water to be developed.

So I would argue that the indirect approach, rather than the direct approach - largely driven around aid - and we all know what happens to a lot of aid in lots of parts of the world - is the best chance of creating the wells that will allow water to be delivered. You get people attacking big private businesses and I do understand that, but whenever I go to Africa, for example, the one thing all these countries are screaming out for is big global businesses to set up there. That's what they want, they want investment but what they also want is the skills and the expertise and the training that goes with it.

So I absolutely applaud Geoffrey's goals and his humanity and his thinking. I think that private business, or business could play a much bigger role by doing what business does, which is business, rather than through ease of development-led economies, what I call traditional welfare economics.

QUESTION 12

Mr Davis, correct me if I'm wrong. I am aware that you start finance business units in Asian regions, if not globally, and I'm just wondering how McKinsey find its niche in a market that is dominated by investment banks.

Ian Davis

We have a corporate finance practice like we have a market practice - it's not a business unit, it's just a skill centre. We are increasingly finding that clients, particularly in Asia, want independent advice, so there is a belief somewhere that investment banks may not be the first to say "I wouldn't buy that company if I were you." Our fees are fee based - we don't charge any success fees or contingent fees or anything like that. So our independence is one factor and second, for many M&A type of deals the link with strategy is much stronger than the link with the financials of the market. So a lot of the value can be created through strategic and organisational change rather than financial change. It would be quite natural for us to have people with corporate finance expertise working alongside our strategists, and often working alongside banks. It's very, very usual in major deals that McKinsey will be working alongside an investment bank. We do not, I must emphasis, we do not, get involved in transactions. We will not do the transactional side of M&A which is what the investment banks do.

We have a philosophy of collaborating rather than competing with investment banks, but it's crucial if you are involved in a big deal that you understand the corporate finance aspects

and I've quite a few ex-investment bankers working with McKinsey. They've taken a pay cut to do it, but...

QUESTION 13

I'm just wondering now a new season for job hunting is starting off, and actually lots of us might be very confused about what to do next. What will be the appropriate career choices? Could you please share some of your experience from your own career path development like what lead you to McKinsey, what leads you to consulting and do you have from the beginning the ambition and the big picture of how to come to where you are - the Managing Director of McKinsey.

Howard Davies

This is a tough question, it's 45 years ago that he joined.

Ian Davis

I don't know about you, I really had no idea what I wanted to do when I was 22. I knew something that I did not want to do, but I really didn't know what I wanted to do. In my own case I sort of bummed around for a year, until I had no money left and my father made it quite clear that there wasn't any more coming. So I had to get a job and I literally finished up as a management trainee in a paper company, which I loved by the way, but I just finished up there. I couldn't say that it was my burning ambition, I just knew some things I didn't want to do - like to become a lawyer, all my family were lawyers and I didn't want to do that.

McKinsey was a complete fluke. I never had any ambition to join McKinsey, in fact I didn't really know what McKinsey was when I got first approached by it. It just happened and I certainly never thought I'd stay. I thought I would go back into business, that was my assumption and expectation and I had, by then, been in business long enough to think that I wanted to be an executive. But, I loved the work, I loved the people and I stayed - I certainly never wanted to and I'm not sure anybody with any sense would want to be Managing Director of McKinsey. I stayed because I liked consulting and you absolutely should not stay at McKinsey unless you like the work. Somebody's got to be Managing Director, somebody's got to run a practice, but if you want to run something I would strongly advise you not to stay in consulting or any professional services firm. The whole ethos of a professional services firm is to serve clients and I love that, I like being an

advisor, I like being an influencer rather than having to deal with the corporate clap-trap and there's a lot of corporate clap-trap around.

My point is as I believe and I still observe, there's a lot of circumstance in life, most of you may not know exactly know what you want to do. If by the age of 28 or 30 you still have no idea it might be a source of anxiety - I have children of your age and I know there's a lot more pressure - what are you going to do, what job? It worries me a bit, I think most people don't know at your age, and that's why I'm saying most firms like us you can join at 22, 23, but there's another chance at 27, 28. So if some of you don't know what you want to do, and it's easy for me to say it, but I don't think it matters that much. Sometimes when I meet somebody at 21 who knows exactly what they want to do it's quite spooky to me, I think "My God, how bizarre".

I think the key though is to know what you really, really like. I apologise if I'm going a bit long. I often think of a really good job as a combination of intellectual and professional satisfaction, financial satisfaction and social satisfaction. So who you work with, how much you get paid and the content of the work matters. If you can decide which of those is the most important to you or what mix of it is, I think that will help guide you. So if money is very important to you, and I know it's not fashionable to admit it, you should think about private equity and investment banking, that's good. If the social side is very important, being with people you like, something like the civil service or consulting can be great, you work with young, very able people, often like-minded. If the intellectual or professional side appeals, academia, further studies, maybe consulting, again it can be very good. So I think the best advice is to say when you look at yourself in the mirror - what are the things that you get the most satisfaction from, I think that will help guide you in choice of career.

QUESTION 14

What do you see the value in MBAs and foreign languages in the next few years?

QUESTION 15

I'd like to go back to the Millennium Development Goals question and hear a little bit more about McKinsey's commitment to eliminating poverty, what does McKinsey do about it?

QUESTION 16

You talked about how you still have to work on the gender balance within McKinsey but do you feel that there is some areas or geographical areas where women are not as accepted by the management and where would you see those?

Ian Davis

Firstly MBAs and second language. An MBA I think is a very useful thing to do for business and for consulting. It will never replace talent, so having the right attitude, the right brain and talent is more important. If you have an MBA it may not help that much, but it is a useful thing to do. I don't have an MBA: 50% of McKinsey people don't have an MBA, but we value advanced education, MBA or PhD. It gives discipline, it gives technical knowledge, it shows that you're committed to business as well - somebody who has got out of it for two years. So it's a good thing. It is not the only thing.

Second language, crucial if your second language is English - you must have English to operate, otherwise it doesn't matter. English is crucial. If English is not your first language, learn English - you all do, or you wouldn't be here. Beyond that it doesn't matter. The average number of languages spoken by McKinsey people is 3½. Most McKinsey people do speak more than one language, but it doesn't matter. The number of languages I speak is one, English.

In terms of poverty, the McKinsey blueprint for poverty - we don't have one. We are trying to help but I don't think there is a blueprint and I think the search for a blueprint is a dangerous path to go down. My belief, I would say it wouldn't I, is that the solution to poverty comes through economic development and I think the right regulation, the right government, the right business structures is the best way, and then you need the finances to do it. But a blueprint - it's a desperately complicated issue as you know and I think there is no McKinsey blueprint. Maybe there should be.

Women. It's a real problem, there are some geographies where it is very, very difficult for women to work. So there's some countries in Europe and parts of the States where working mothers, or working women is frowned upon socially, and there is therefore tremendous pressure. Amongst clients it's not usually a problem, we're very aggressive on that. It's usually the social ethos of the country. But there are three offices where we have no women out of fifty two. Only three where we have none.

I think there are some places in the world where the current generation of women are going to be the pioneers and they will be the pioneers, but on the whole it's not a significant issue. By far the bigger issue is to make it sustainable for women to work successfully.

Howard Davies

I get the right to ask one last question. After all this time being an expert in management, do you think Sven Goran Eriksson is a good manager?

Ian Davis

It all depends on the results doesn't it?

Howard Davies

Ian, thank you very much for answering questions so fully.

And he did say he would employ most of you.

Ian Davis

Well, thank you very much. Whatever you choose to do I wish you the very, very best of luck in your careers.