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## Context to the nugget

Rajat speaks at length about how he led McKinsey over the 3 terms when he was the Managing Partner. He says that during the first term he co-created the future strategy of the firm and started executing on it. The second term, he says, was largely around driving expansion around the world while establishing key governance processes. The third term, he says, was largely around navigating the dot com crisis after the bubble had burst.

## Transcription

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Deepak Jayaraman (DJ): Going back to that stint when you were heading McKinsey Rajat what sorts of things, how did you spent your time and attention and I guess in a way you had three terms so I am curious about as a leader if you could talk about just a, if you got capable partners driving their own ship, therefor what's the role of the leader and what sorts of things does he or she spend time on to move the firm forward?

Rajat Gupta (RG): So I was in a fairly unique time, I became managing partner and I was the first managing partner who joined the firm after Marvin Bower retired, so Marvin Bower was the defacto founder of the firm and shaped the values of the firm very much and all of the managing directors before me were mentored by Marvin, now Marvin was still active when I joined the firm but he formally retired and he used to come to the office but basically

DJ: You are talking about him showing Santa....

RG: It's like the real transition in the firm where you didn't grow up under the founder but you came after that, I was also 45 when I got elected and it was really a transition to the next generation of firm leaders I was also the first non-American to be elected as managing partner I was also the first managing partner to be elected outside New York, I mean I was the Chicago office manager when I got elected so all of that had a kind of a, I don't know, it was sort of a change in a way that was and I decided not to move to New York I decided to say in Chicago so here was the supposedly the centre of the firm was New York, it clearly said no not really, New York is just an another office and there are many offices so there were a lot of signals of change in my first term as a managing director. I undertook a strategy project for the firm which most managing directors do but I had thought about it in a very different way, I thought about it as a process and normally when you do it strategy you pick may be a task force of 10-15 partners and you say go and think about it for 6 months and do your analysis just like a client strategy team and you come back and I felt that was not the right process for us and that what we should be doing is to involve a very large number of people and a very large number of Principals which is the junior partners so that they could deliberate on the direction they want to take their firm because they were future leaders at the firm and also that we

would have a very involved process which would be, which eventually took about two years. So, it was a long process where you have a process of dialogue amongst partners shaped by this very large team that did that and we would come together and deliberate and came out of that sort of directional themes for the firm. It was a very successful process because by the time you got to end of it about half of it was already implemented because people thought the idea was good, we would go and do something and there's still the process, it wasn't like here is the strategy report. So, the first term was consumed by that in addition to the normal activities that a Managing Director does which is make appointments, visit offices, visit clients the other thing I did was very much everywhere I went I visited clients I mean I talk to clients I never actually gave up clients service because one of the things I always said, 'this is the client service firm so even as a managing partner I was introducing clients and helping in client teams and so on because I thought I must keep an hand in client service the second term was sort of more consumed by governance issues now the firm was growing very fast, it was now had a global footprint, previously it was more a north American European firm with some office, Tokyo office, Hong Kong office and something, but basically we rapidly opened in other 20 or so offices in around the world and I believed that we should have a global footprint much like our clients were getting global footprints so in order to serve them effectively we should have global footprint ourselves perhaps even a more extensive one otherwise how would we serve them? So, but the second term the time to came was the firm was becoming larger and larger how do we change the governance of the firm to maintain the spirit of partnership and the principals behind partnership and yet be prepared for a much more global, much larger firm, so I set up a governance task force which was very different kind of, it was more senior people but not the most senior people, so these were not the senior directors but the directors who likely the next leadership group in the firm people who would be succeeding me and so on. So, I gathered a group of 20 very high talented junior directors who formed this task force and we created a set of governance recommendations, I want go into all of them but basically it was designed to certain Principles of governance we wanted to enshrine like rotation, it had become little bit static, there were if you became an office manager or a head of an office you stayed there for a very long time, and we said no. I mean every five six years we must change the leadership in office and in fact the practice leaders we said every three or four years you should change and so rotation became part of one of the principles. There were many such principles, governance principles we articulated, in fact one of the changes I wanted to do was to also have rotation in managing director, I was 45 when I could do five terms 15 years and that was way too long. If I haven't done what I wanted to do in seven to ten years I will never be able to do it. So, it didn't make any sense to me, so I imposed term limit of three terms for the managing partners the board also would be rotating and so on so that was the one of the governance things but the other was to make another important one was to make the industry axis and the functional practice access also as strong as the geographic axis McKinsey first was the very geographically oriented firm you are head of this office that office not only a head of office is important but head of industry was important and head of functions like operations or IT etc. and that created a more complex form because it's sort of a three dimensional matrix but at the same time it was able to better meet the needs of our clients. So I don't want to go through all the points but second term was pretty much consumed by governance changes and implementing them and so on.

The third term, the main issue there was really the .com bubble had burst and it was as you articulated little bit earlier to me, it was a time when it was very tough we were growing fast and suddenly the music stopped and we had, normally McKinsey used to get about overall about two thirds of the offers generally we made.

**DJ: From hiring perspective**

RG: So, in order to hire about 1800 to 2000 consultants a year which we did at that time we would make about 2700 offers and so, we made 2700 offers, and the demand dropped and the acceptance rates went up to over 90% almost a 100% if you got 2600 people. It was quite amazing and this was true of most consultant firms they managed differently than we did, we're accepted everybody and we created internal projects to keep them busy and so on and when the economy then took off we had a bench that was stronger than anybody else because we had taken them all and not A so the third term was pretty much consumed by dealing with post bubble crisis in a way and managing the firm through those times.

## Reflections from Deepak Jayaraman

DJ: I find it interesting that when one moves from a CXO role to a CEO role, one needs to start focusing on the Balance Sheet much more without losing sight of the P&L.

- In the first term, Rajat speaks about evolving the strategy at McKinsey by involving a large number of Junior Partners around the world over a prolonged period. He sees this as a change opportunity and not just as a strategy development exercise
- In the second term, he talks about building structures and governance processes that would set the firm up for the future and speaks about involving junior Directors (the future leaders of the firm) in doing so
- In the last term, he speaks about taking a cross-cycle view by not firing talent immediately after the dot com crash and investing in them, thereby having the capacity to go after the market when the cycle turned

It is interesting to see how there is a long-term institution building mind-set that is embedded in each of the things that Rajat says in the way he went about embarking on each initiative.

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## End of nugget transcription

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### **About Deepak Jayaraman**

Deepak seeks to unlock human potential of senior executive's / leadership teams by working with them as an Executive Coach / Sounding Board / Transition Advisor. You can know more about his work [here](#).

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