The Invisible Hand

NYT

A new book argues that McKinsey & Company has accrued huge influence chasing profits at the expense of moral principle.

By SHEELAH KOLHATKAR

IN 2002, Martin Elling, along with three colleagues at the global consulting firm McKinsey & Company, published an article in the firm's quarterly journal intended to gin up more business from the pharmaceutical industry. Elling's article argued that drug companies were missing an opportunity by not tracking how often individual physicians were prescribing certain drugs. By aggregating such data, pharmaceutical salespeople could target their marketing pitches to the doctors most likely to become heavy prescribers, and the sales reps themselves could also be better evaluated by their companies. Soon enough, a relatively unknown drug company called Purdue Pharma came calling, retaining McKinsey in 2004 to help increase sales of its opioid pain killer OxyContin — which had already topped $1 billion annually. In the face of a worsening national opioid addiction crisis and multiple state and federal investigations, prescriptions of higher-strength OxyContin pills had begun to level off. Among other recommendations, McKinsey, led by Elling and his team, suggested "turbocharging" sales through more innovative and aggressive marketing tactics. Between 2004 and 2019, Purdue paid McKinsey $83.7 million in fees.

For decades, McKinsey was associated with professionalism and prestige. By inviting the firm's high-priced consultants into a company's decision-making sanctum, C.E.O.s telegraphed that they wanted the smartest, most market-tested advice. The firm was founded in 1926 by an accounting professor named James O. McKinsey, but it was Marvin Bower, a Harvard law and business school graduate, who helped transform the firm into a global powerhouse. Bower joined the company in 1933 and infused its culture with a sense of excellence and purpose: McKinsey ran a "practice," as opposed to a "business," and work for a client was "an engagement" rather than a "project" or a "job."

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Over the last several years, however, the press and the public started to pay more attention to McKinsey and its influence, and the firm underwent a reputational reversal. As Walt Bogdanich and Michael Forsythe, reporters for The New York Times, document in their deeply reported book, "When McKinsey Comes to Town: The Hidden Influence of the World's Most Powerful Consulting Firm," McKinsey has worked with opioid makers, hostile autocratic governments, cigarette companies and U.S. immigration authorities responsible for the family separation policy at the southern border. Reading Bogdanich and Forsythe's account, one has a hard time imagining any paying client the firm would turn away. Many of the company's recommendations follow a predictable Milton Friedman-inspired playbook, centering on "right-sizing," an absurdist euphemism for laying off workers, and other forms of cutting costs, such as reducing expenditures on food, medical care and the supervision of detainees at the border.

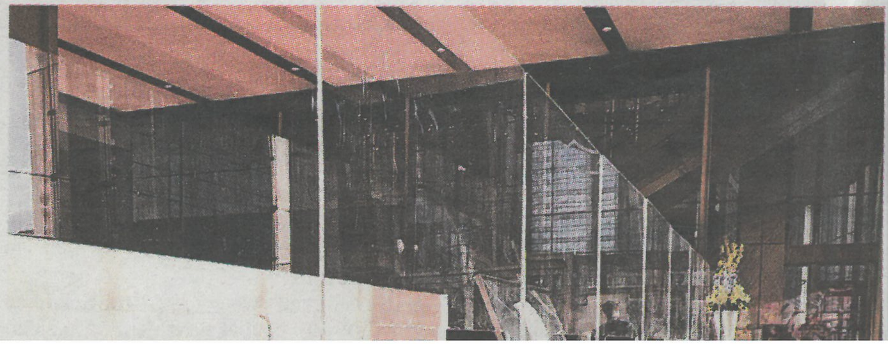
WHEN McKINSEY COMES TO TOWN
The Hidden Influence of the World's Most Powerful Consulting Firm
By Walt Bogdanich and Michael Forsythe
368 pp. Doubleday. $32.50.

All of this work has earned McKinsey's top partners enormous personal wealth, while the firm has consolidated an inordinate amount of influence, most of it hidden. The company's august alumni include Senator Tom Cotton of Arkansas, Transportation Secretary Pete Buttigieg and Sheryl Sandberg, the former C.O.O. of Meta. (In general, former employees are forbidden from discussing their work there, though during the 2020 presidential campaign, Buttigieg was granted permission to talk about his time at the firm.) "Because the firm won't identify clients or disclose the advice it gives," the authors write, "Americans and, increasingly, people the world over are largely unaware of the profound influence McKinsey exerts over their lives, from the cost and quality of studies, creates a clear and devastating picture of the management philosophy that helped drive the decline of a stable American middle class over the last 50 years. In 1950, when the average C.E.O. made about 20 times the income of an average production worker, McKinsey helped set off exploding executive compensation by arguing that workers' wages were rising more quickly than their bosses'. (In 2020, the average C.E.O. made at least 350 times as much as an average worker.)

In the 1990s, the firm promoted layoffs and the shipping of jobs to cheaper, foreign countries, such as India, where McKinsey advised major outsourcing firms like Infosys, as well as American companies that were sending jobs their way. In 2005, McKinsey advised Walmart, which paid such low salaries to its retail employees that a significant proportion of them and their children were on public assistance. A task force led by McKinsey consultants recommended that in order to raise profitability Walmart should increase its number of part-time employees, keep salaries and health-plan costs low, and reduce contributions to workers' 401(k)s. Duff McDonald, in his 2013 book about McKinsey, "The Firm: The Story of McKinsey and Its Secret Influence on American Business," wrote that McKinsey may be "the single greatest legitimizer of mass layoffs than anyone, anywhere, at any time in modern history."

In addition to Purdue Pharma, McKinsey has advised nearly every other major pharmaceutical company, as well as the government regulators who monitored them. As the opioid crisis grew and Purdue's liability increased, McKinsey got more creative about the ideas it put forth to amplify OxyContin sales. As Bogdanich and Forsythe reported in The Times, in 2017, the same year an estimated 47,000 people died from opioid-related overdoses in America, McKinsey suggested that Purdue consider offering "rebates" to drug distributors for every customer of theirs who overdosed. (CVS, which was also a McKinsey client, would have gotten an estimated $36.8 million in 2019.) By August 2021, a year after Purdue had filed for bankruptcy protection amid a swirl of lawsuits, McKinsey had agreed to pay about $641 million to settle legal claims from U.S. states and territories over its role in the opioid crisis. (Litigation at the federal and local level continues.)

One college graduate clarified for Bogdanich and Forsythe the differences between McKinsey and the investment bank Goldman Sachs, which is often competing to hire the same top-performing business school graduates with less of the "values" nonsense. At Goldman, "There was never ever, ever an attempt to be anything other than what they were — 'We are the sharks and that's why we are the best and everyone wants to work here because we are the sharks,'" the graduate said. "And that's refreshing. No one was lying to themselves at night." □



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The firm recruited new consultants from the very best schools — Harvard Business School is a favorite hunting ground — and now receives as many as 200,000 applicants each year, often hiring only 1 or 2 percent of them. Starting salaries are as much as $195,000 with bonuses, but part of the reason so many bright young graduates want to work at the firm is its purported "values." Ethics are said to be embedded in its culture. Recently, McKinsey has begun telling new recruits that they would be working to solve some of the world's most intractable problems, targeting issues like poverty and climate change.

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With chapter titles like "Guarding the Gates of Hades: Tobacco and Vaping," "Toxic Debt: McKinsey on Wall Street" and "'Clubbing Seals': The South Africa Debacle," the authors of "When McKinsey Comes to Town" are not subtle about their views. The portrait this book creates is one of a company chasing profits, spreading the gospel of downsizing and offshoring, its leaders virtually unmoored from any guiding principles or moral code. If there is a pro-McKinsey case to be made — one imagines it would be based on arguments about promoting "efficiency" in the economy — it won't be found here.

Yet laying out McKinsey's most morally compromised assignments, like a series of damning Harvard Business School case

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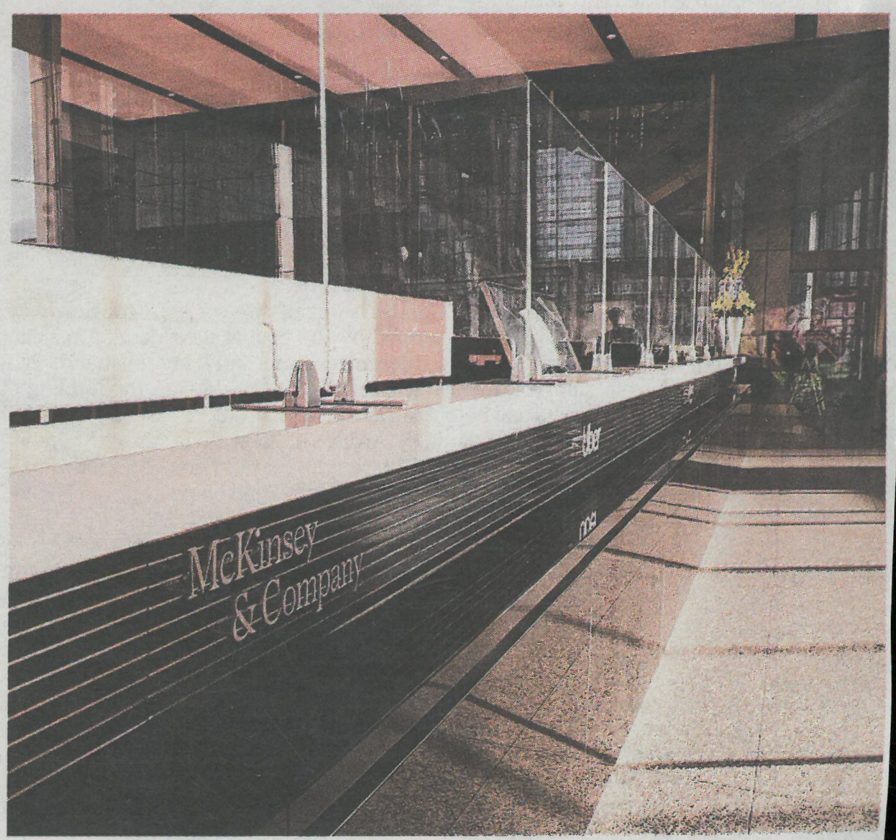

McKinsey & Company's Manhattan headquarters.

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