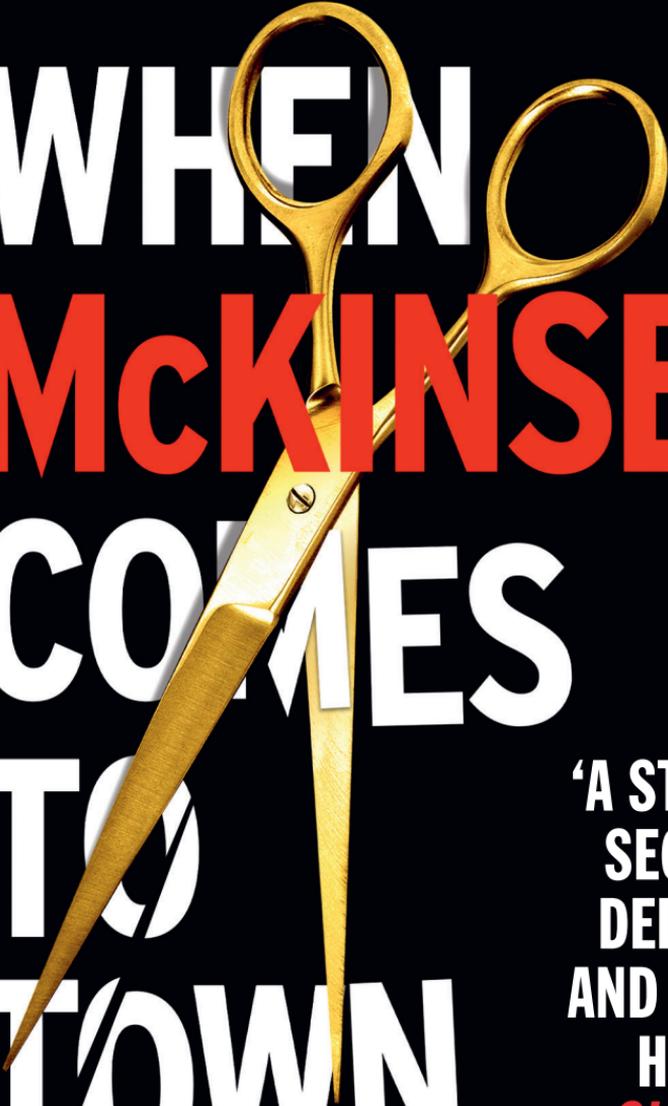


Walt Bogdanich & Michael Forsythe



WHEN
MCKINSEY
COMES
TO
TOWN

**'A STORY OF
SECRECY,
DELUSION
AND UNTOLD
HARM'**
Observer

'MASTERFUL'
Washington Post

'MAKES YOU SO ANGRY'
Sunday Times

'DAMNING'
The Times

‘Hard-hitting . . . damning . . . If you think what management consultants do is to dress up common sense in jargon and flog it as vision to credulous executives, you are, according to [Bogdanich and Forsythe], greatly underestimating their impact’

The Times

‘A masterful work of investigative journalism . . . to unearth conflicts of interest, corruption, hypocrisy and strategic blunders that read like a prosecutor’s indictment . . . The fact that neither regulators, the public, nor most of McKinsey’s employees knew about these sordid episodes . . . is a testament to the authors’ prowess as investigative reporters . . . superb’

Washington Post

‘Deeply reported . . . 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 . . . a clear and devastating picture of the management philosophy that helped drive the decline of a stable . . . middle class over the last fifty years’

New York Times

‘A lengthy and damning charge sheet . . . makes you so angry you want to chuck rocks at its offices . . . the evidence the authors winkle out is astonishing . . . What sustains you are the authors’ eye for detail and killer quotes. If you want to know why top pay for US executives has risen to a record 350 times that of the average worker, look to McKinsey’

Sunday Times

‘*New York Times* reporters Walt Bogdanich and Michael Forsythe’s devastating investigation into the consulting firm uncovers a story of secrecy, delusion and untold harm . . . The book’s scrutiny – and measured sense of outrage – is overdue and, you hope, only the beginning’

Observer

‘With McKinsey’s deep reach into business and government around the world, it is inevitably and correctly a focus for discussion on what modern corporations are for . . . That this internal turmoil has come to light is testament to the depth of sourcing of journalists Walt Bogdanich and Michael Forsythe [whose] reporting of these and other controversies has intensified questions over the firm’s ethics . . . The debate . . . is intensely uncomfortable for McKinsey’s leadership’

Financial Times

‘In government and the private sector, the influence of McKinsey is difficult to overstate. Walt Bogdanich and Michael Forsythe penetrate the firm’s vaunted culture of secrecy to expose the malign ways in which McKinsey’s “scientific management” ends up impacting all of our lives. Panoramic, meticulously reported and ultimately devastating, this is an important book’

Patrick Radden Keefe

‘Excellent investigative work . . . Every chapter of *When McKinsey Comes to Town* lays out another disturbing case in which McKinsey worked against the public interest’

Literary Review

‘An investigative tour de force [that] strip[s] away the aura of respectability that has surrounded the profession for more than a century’

Prospect

‘[An] account . . . based on exhaustive research . . . [which] makes for compelling reading’

Times Literary Supplement

‘A highly informed, fascinating read’

Guardian

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WALT BOGDANICH AND
MICHAEL FORSYTHE

When McKinsey Comes to Town

*The Hidden Influence of the World's
Most Powerful Consulting Firm*

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For Stephanie, Nicholas, and Peter

For Leta, Aidan, and Liam

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WHEN MCKINSEY
COMES TO TOWN

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INTRODUCTION

When McKinsey Comes to Town

IN GARY, INDIANA, just past the rusting bridges, peeling paint, and railroad switching station sits a green well-tended plot of land that seems oddly out of place. It is a grassy knoll of bushes and trees overshadowed by the drab, hulking remains of a plant run by what was once the world's biggest, most profitable company, the U.S. Steel Corporation.

To the right, a towering furnace and smokestacks rise high against the northeastern sky. Basic steel is made there, forged in heat so intense the metal resembles white-hot lava flowing from a volcano. Nothing is soft or forgiving, only concrete, fire, and metal. To the left, rows of buildings with gabled roofs stretch to the western horizon. This is where steel is treated to make it less brittle before rolling it into massive coils for shipment to places near and far.

Occupying seven miles of lakefront, the steel plant has two hundred miles of railroad tracks, its own hospital, fire department, and police force. In years past, the company did its civic duty by sending workers with good voices and top hats to sing Christmas carols at grade schools across the city.

Inside the green oasis is a granite memorial with a book describing how 513 people died from accidents inside the steel mill. This book of the dead, covered in thick plastic and soot, tells of workers crushed by railroad cars, trucks, and steel. Others fell to their death, were torn apart by explosions, asphyxiated, burned, buried alive, and even drowned. Forty-one died by electrocution. The labor reporter

Joseph S. Pete wrote that steelworker funerals are often closed-casket affairs. The book of the dead explains why.*

Gary once held the promise of twentieth-century industrial America, a melting pot of racial and ethnic groups in pursuit of a better life, money for college, paid vacations, and pensions. From this emerged a solid middle class, two Nobel Prize winners, and the Jackson Five, as well as pollution that befouled the air and waterways.

In the last quarter of the twentieth century, the company's fortunes fell sharply because of cheap foreign steel, old equipment, and suspect management. The workforce dropped below eight thousand. Departments were closed or pared down.

The decay spread to Gary, the city U.S. Steel founded more than a century ago as "a triumph of scientific planning." By the end of the century, Gary had descended into a landscape of abandoned office buildings, stores, and churches. Rather than spend money it didn't have to tear them down, Gary rented the locations to crews filming postapocalyptic and horror movies, including *A Nightmare on Elm Street* and *Transformers*. Even a scene from the miniseries *Chernobyl* was filmed there.

Crime spiked, and Gary's population dropped to 69,000 from a high of 177,000 in 1960. Billboards along the steel mill's southern border reflect a population that had lost its moorings. "Shackled by Lust? Jesus Sets You Free," reads one, followed by ads for a strip club, an injury attorney, and a casino.

The year 2014, however, brought Gary's steelworkers a glimmer of hope. The company's new chief executive, Mario Longhi, hired an elite consulting firm, McKinsey & Company, to inject new ideas into the aging manufacturer. For decades McKinsey sold clients on its reputation as a firm that delivered scientific solutions to complex problems. Blue-chip companies and governments around the world

* In the 1970s, I was one of twenty-seven thousand employees at U.S. Steel. My father also worked there, as did my brother and most of my relatives. Using a long metal hook, I pulled hot steel rods off a roll line, then tied the bundle with metal wires. I knew steelworking was dangerous. After I started, a twelve-year employee in my department, Robert Plunk, died after being pinned under a red-hot bar of steel—his suffering unimaginable. —Walt Bogdanich

hired its consultants, as did the CIA, the FBI, and the Pentagon, among others, believing McKinsey had the wisdom and wherewithal that their managers lacked.

McKinsey came to U.S. Steel with the goal of restoring the steelmaker to its iconic status as a company that built the nation's bridges, buildings, and weapons that defeated America's enemies. With McKinsey's help, U.S. Steel promised to recapture that spirit through "a relentless focus on economic profit, our customers, cost structure, and innovation"—all without sacrificing safety or harming the environment. Gary's labor force had little idea of what to expect from these highly paid consultants, some graduates of Ivy League business schools.

But steelworkers would learn soon enough, as did others before them, what can happen when McKinsey comes to town.

Construction on U.S. Steel's Gary plant had begun in 1906 under the direction of the company's chairman, Elbert Gary, a former judge who wanted the city to bear his name, though he did not want to live there himself. Called "a dour moralist" by one historian, Judge Gary cared less about the welfare of residents than about the efficiency and profitability of his steel mill.

Judge Gary sought out European royalty and collected Renaissance art, while steelworkers were stuck living in "the patch," a raw, disease-infected district that had two hundred saloons with names like Bucket of Blood. They worked twelve-hour days, seven days a week. A church group called this eighty-four-hour workweek a "disgrace to civilization," and a congressional committee termed it "a brutal system of industrial slavery." Judge Gary didn't much care. He opposed unions, considered labor leaders his social inferiors, and believed his employees preferred to work as many hours as possible.

The founder of McKinsey & Company, James O. McKinsey, an accountant from the Ozarks, also believed in efficiency and profits. His young company began advising U.S. Steel in the Great Depression. The company quickly became the firm's biggest client; more than forty consultants were assigned to the account. At one point, U.S. Steel generated at least half the billings in McKinsey's New York

office. When the Wagner Act of 1935 required companies to negotiate with workers seeking better pay and safer working conditions, McKinsey set up a special unit to advise corporate executives on how to deal with their demands. But McKinsey eventually lost its biggest supporter at the steel company, and in the 1950s the two companies moved apart. Sixty years later, the iconic steelmaker was floundering, and U.S. Steel's new chief executive, Mario Longhi, decided to restore their close relationship.

The Brazilian-born Longhi became CEO of U.S. Steel in 2013. He inherited a company saddled with old, inefficient manufacturing methods. Smaller companies with newer technology had been gouging out big chunks of business from lumbering U.S. Steel, which had not turned an annual profit in years.

Like Judge Gary, Longhi favored a mustache and opulence. He bought a mansion in Florida with ten baths, a guesthouse, a separate gym, media room, and swimming pool. Longhi sold the complex for \$9.8 million. He also owned property on Fisher Island, one of the nation's wealthiest enclaves, accessible off the Miami coast only by ferries, helicopter, or private yachts.

Longhi had no experience with a big, fully integrated steel company—most of his previous work experience was at Alcoa—but he knew people who could guide him, and that was his “long time trusted adviser,” McKinsey & Company.

At Longhi's direction, McKinsey implemented a “transformational” business plan called “The Carnegie Way,” in honor of U.S. Steel's co-founder Andrew Carnegie. The plan was so important to U.S. Steel's future that the manufacturer cited the Carnegie Way forty-nine times in its 2014 annual report. Among the plan's most important goals was finding a more rational, cost-efficient way to maintain the company's aging equipment and infrastructure. There seemed no better firm to manage maintenance costs than McKinsey, widely recognized as the world's premier efficiency experts.

The following January, Longhi told a trade publication that U.S. Steel's transformation was a “phenomenal” success. As proof, he cited his consultants “who have seen what we are doing” and have concluded “there is no deeper, broader transformation effort taking place in the country.” Longhi dared anyone to say his company had

not considered every option to improve profitability. “We are doing everything that is required—and pretty effectively, by the way.”

With a new chief executive and a turnaround plan, U.S. Steel stock began rising, and in 2014 it posted its first annual profit in six years. But the progress was more illusion than fact. The manufacturer posted a \$75 million loss in the first quarter of 2015. The downturn impacted workers as well as investors. Nine thousand employees at company plants, including Gary Works, received notices of possible layoffs. Maintenance workers were hit hard: Dozens of them were laid off. Two hundred others were demoted to roving labor gangs at a significant reduction of pay and sent to work in unfamiliar parts of the plant.

Union members came to believe that the Carnegie Way was simply a cover story for the company’s plan to cut costs—a plan that workers said jeopardized their safety. Mike Millsap, District 7 director of the steelworkers’ union, said McKinsey had no experience running a steel mill or “what it takes to protect the employees from harm.”

The warning proved prophetic. In June, workers in Gary found Charles Kremke unconscious with third-degree burns on his head. A U.S. Steel spokeswoman said the employee could not be revived. The coroner ruled that Kremke had been electrocuted, but months would pass without the company’s disclosing the cause of his death.

Because of the fatality, the State of Indiana cited U.S. Steel for four safety violations, all deemed serious: failing to “de-energize” the live connection prior to maintenance; failing to adequately train employees to identify a live connection; failing to test equipment to ensure live connections were de-energized before maintenance; and failing to provide protective gear to those working around live connections in a confined area.

The layoffs and safety concerns did not dissuade U.S. Steel from going forward with its plan to issue 21.7 million new shares of stock. This special stock offering, which raised \$482 million, occurred in August, the same month the union accused the company of gutting its maintenance department. Angry over safety issues, the union on August 26 led a protest march to U.S. Steel’s main gate in Gary. Normally union protests occur only during contract negotiations.

Workers chanted, “McKinsey sucks! McKinsey sucks!” Union members carried signs that drove home their sentiment:

- “Hello Mario! McKinsey must go.”
- “McKinsey stole.”
- “McKinsey = contract violations.”
- “Union yes, McKinsey no.”
- “McKinsey steals.”
- “Give McKinsey the (picture of a boot).”

In the days after Kremke’s death, Jonathan Arrizola, a thirty-year-old navy veteran and father of two young children, worried that his maintenance job was becoming too dangerous, so he began looking for other work. Arrizola told his wife, Whitney, that he had recently received an electrical shock on the job. “He was constantly complaining about the McKinsey group cutting back workers,” she told *The Times of Northwest Indiana*. “There was always some kind of close call with someone he worked with.”

Then, at the end of September 2016, Arrizola was on a four-person crew troubleshooting an electrical issue on a crane when he came into contact with 480 volts and was electrocuted.

“All they care about is money,” his wife said after learning of her husband’s death. “I have no husband. My children have no father. I have no idea how I’m going to pay for my house, or my car, any of my bills. I was a stay-at-home mother. I have no experiences. Jon was everything to me.” Friends and well-wishers raised \$14,000 on her behalf through a GoFundMe campaign.

Billy McCall, president of United Steelworkers Local 1066 during the Carnegie Way, said Arrizola was well liked. “U.S. Steel made all these moves via McKinsey schemes, and ultimately he was moved from one area where he was quite proficient into another area where he was not as proficient,” McCall said. “That quite possibly was the direct reason he died.”

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For the electrocution deaths of Kremke and Arrizola, the government fined U.S. Steel a grand total of \$42,000, though that amount

was reduced to \$14,500 through negotiations with the company. The steelmaker agreed to make ten corrective actions to prevent similar accidents in the future. Adam Finkel, the former chief regulatory official for worker safety under President Clinton, said fines start low and then get “knocked down and down and down.” He added, “The fine is bigger for harassing a wild donkey on a national grazing land than for killing a worker.”

Union complaints about safety were echoed by U.S. Steel investors who filed a class-action lawsuit, alleging that U.S. Steel misled them on the company’s financial health. Based largely on confidential interviews with eleven current or former U.S. Steel employees, many of them managers or supervisors, the investors called the Carnegie Way a “sham,” a cover for extreme cost cutting through “massive layoffs and deferring desperately needed maintenance and repairs.” They said these policies left the company “with a skeleton crew of inexperienced plant employees who did not know how to maintain or repair equipment, were required to work long hours of up to 90 hours per week, and which resulted in severe unplanned outages.”

The company adopted a policy of “don’t buy, get by,” whereby managers bought items only when absolutely necessary, according to a former U.S. Steel purchasing specialist whose primary job was to order machine parts for the company’s American plants. Rather than make needed repairs, the official said, maintenance teams were asked to “jury-rig” failing machines to keep them operating.

Orders for some parts required approval of a “control tower,” consisting of McKinsey and the plant manager. “The implementation of the control tower resulted in a significant reduction of requisition approvals,” the investor lawsuit stated. A former director of maintenance at another U.S. Steel facility said that McKinsey did not want to hear about “critical” structural maintenance because of the cost and that the consultants played a role in cutting the repair and maintenance budget. (McKinsey and U.S. Steel said consultants had no approval authority over the purchase of parts.)

Billy McCall, the former union official, said he understood that McKinsey received a percentage of what U.S. Steel purportedly saved. In fact, McKinsey’s compensation was tied partly to the

steelmaker's financial performance, raising questions about the firm's motive in recommending cuts in expenses.

After Donald J. Trump won the November 2016 presidential election, in part by promising to restore blue-collar jobs, Longhi and his second-in-command, David Burrirt, decided the time was right to cash in. The two sold a combined \$25 million in stock over eight trading days. Longhi told CNBC that he hoped to restore ten thousand jobs, citing a more favorable regulatory environment and lower taxes.

Longhi's optimism carried over to early 2017, when he reassured investors that the worst was over. Days after President Trump took office, he named Longhi as one of twenty-eight business leaders to serve on his Manufacturing Jobs Initiative.

And that's where things stood until three months later, when U.S. Steel reported first-quarter earnings for 2017. Analysts had expected a healthy profit. Instead, the company shocked Wall Street by posting a \$180 million net loss, triggering a 27 percent drop in the stock price, the company's largest daily drop in more than a quarter of a century.

Gordon Johnson of Axiom Capital Management called the loss all the more troubling "given that it occurred in a market where U.S. steel prices are high versus previous years." He further noted that the industry had "enjoyed significant protection from imports from both the Obama and Trump administration." Johnson concluded that if the company performed this poorly in good times, then the rest of the year "looks set to resemble a *'Nightmare on Elm Street,'*" an unintended nod to Gary's role in that movie.

Within two weeks of that earnings report, Longhi left U.S. Steel with a \$4.54 million bonus. Longhi wasn't the only casualty. His vaunted Carnegie Way disappeared like footprints on Lake Michigan's sandy shore. Whereas the Carnegie Way merited more than forty citations in U.S. Steel's 2016 annual report, it received not a single mention in the 2017 annual report. History had been erased, Soviet-style.

U.S. Steel regrouped and, in 2018, created a new plan *and* a new slogan.

"Underlying our efforts," the company wrote, "is our belief that

we must operate as a principled company committed to a code of conduct that is rooted in our Gary Principles and our core values.” Those core values are “articulated in our **S.T.E.E.L.** principles . . . : **S**afety First, **T**rust and Respect, **E**nvironmentally Friendly Activities, **E**thical Behavior, and **L**awful Business Conduct.”

S.T.E.E.L.—with a dash of Ayn Rand. As a Christmas present, the company’s new chief executive, David Burritt, gave the former union official Billy McCall a surprise gift—the book *Atlas Shrugged*. “This is the philosophy right now,” McCall said in an interview. “This is corporate philosophy, for crying out loud.”

With Longhi and the Carnegie Way having passed their expiration dates, McKinsey still remained tethered to the steelmaker, taking in at least \$13 million in fees from 2018 through 2020, according to McKinsey records.

Three McKinsey consultants even wrote an article that explained, without a hint of irony, “why maintenance staffing matters.” The authors acknowledged that maintenance staffing is easy to get wrong. “Cut too deep and too fast and reliability suffers. And mistakes are tricky to fix.”

Especially, they might have added, when people die.

There is no book of the dead at Disneyland, not at a place sold as the “Happiest Place on Earth.” Walt Disney designed the park to be pure fantasy. “I don’t want the public to see the world they live in,” Disney said. “I want them to feel they are in another world.” Disneyland offered a mix of past and future, adventure, boat rides, cartoon characters posing for pictures, and theme-based roller coasters. Some rides intended to scare, but not endanger. Under Walt Disney, who died in 1966, the park had an exemplary safety record, earning a reputation as the industry leader for safety.

Several years after it opened, the park had already become a cultural phenomenon. At the height of the Cold War, the Soviet premier, Nikita Khrushchev, tried to visit the “Magic Kingdom” but was denied entry. “I asked: Why not?” Khrushchev said. “What do they have, rocket-launching pads there?”

Buoyed by the success of Disneyland, the company’s footprint

grew. Other Disney parks opened, including the biggest of all, Disney World Resort in Orlando. The company moved aggressively into filmmaking, publishing, television, and Broadway plays. Then, in 1994, a former toy executive, Paul S. Pressler, became Disneyland's top executive.

Described as handsome, charismatic, and a favorite of Disney's chief executive, Michael Eisner, Pressler set out to leave his mark on the company by hiring McKinsey to thoroughly evaluate the park's operation.

After more than a year of study, on May 13, 1997, McKinsey presented Pressler with its findings in a confidential report titled "Transforming Maintenance: Defining the Disney Standard."

McKinsey professed to have found a way to make Disneyland more efficient and increase profits without sacrificing quality, but that required rethinking how maintenance should be performed. "Intuition or science?" McKinsey wrote in its analysis for Pressler. The correct answer, the firm made clear, was science, as McKinsey defined it.

Maintenance decisions should be based not on the judgment of veteran employees, McKinsey said, but on an analysis of maintenance histories, breakdowns, and cost. Called reliability-centered maintenance, the process originated in the aviation industry, where safety is paramount.

At Disneyland, though, the process evolved primarily into a mandate to cut expenses. Using terms like "cost avoidance," McKinsey recommended cutting back on park maintenance, eliminating jobs, paying some people less, and hiring outside contractors. In a broadly unpopular move, most maintenance workers were transferred to the overnight, or graveyard, shift. To deal with the shock of such a sudden move, McKinsey recommended bringing in counselors to address issues of sleep, nutrition, and relationships. Each overnight worker would also receive a one-year subscription to the *Working Nights* newsletter.

Only a small crew, the Maintenance Response Team, would handle mechanical breakdowns during the day. And even that group, McKinsey said, could eventually be whittled down by 30 percent.

Consultants certainly knew the risk in reorganizing a theme

park, already the envy of the entertainment world. But the reward for implementing the changes, they argued, would be “world class maintenance,” eventually saving the company millions of dollars.

McKinsey let no self-doubt dampen its enthusiasm for the changes. “The magnitude of the opportunity gives one pause,” the firm told Pressler. “Change of this magnitude is not managed—it is led.” To meet this challenge, “leaders must inspire and develop a bench of true change champions.”

Finding those “true change champions” might be difficult because McKinsey held a low opinion of many park managers, saying they lacked “critical skills,” necessitating the removal or restaffing of 50 percent of the park’s leadership. After studying one work area, the consultants wrote, “Meetings, admin and safety using too much time.” McKinsey also recommended cost savings through “performance measures based on overhead rate and dollars. Hold shop managers accountable for location overhead.”

“There’s nothing wrong with saving money,” Mike Goodwin, a former maintenance supervisor, told the *Los Angeles Times*. “But not at the expense of your prime objective, which is to keep the place running safely.” McKinsey asked another maintenance supervisor, Bob Klostreich, why lap bars on a roller coaster were inspected daily when records showed they never fail.

Klostreich, a twenty-year Disney employee, became incensed. “The reason they don’t fail is because we check them every night,” he said. Goodwin said Disney viewed not checking lap bars as an acceptable risk. “It’s like a pilot saying, ‘Hey, we haven’t crashed in a while, let’s skip the preflight.’”

Five months after McKinsey recommended cutting maintenance costs, Klostreich warned Disney that safety concerns at the park were growing. “As you know,” he wrote, “I have expressed to you and others on several occasions my deep concerns over what I feel has been a serious decline in management’s readiness, willingness and ability to properly and safely maintain the high speed attractions assigned to the roller coaster team. Our staffing and labor distribution has been and is inconsistent with effective daily preventive management.”

Klostreich said he received no response.

The following year, on Christmas Eve, Disneyland experienced a

fatal accident that rocked the industry. Luan Dawson, a thirty-four-year-old computer programmer at Microsoft, and his wife, a pharmacist, were waiting to board an old-fashioned riverboat, *Columbia*, which had just finished a cycle through the park. Docking the heavy boat required skill acquired only through training and experience. But on this day, a supervisor filled in for an absent employee even though she had never trained on that boat and had never tried to dock it.

With the boat still moving, too fast as it turned out, the supervisor tied a substitute nylon rope to a metal cleat on the boat. The force of the moving boat tore loose the metal cleat, apparently attached to rotting wood, propelling it like shrapnel from a bomb, killing Dawson and severely disfiguring his wife in front of their son, according to court records filed by a Dawson family attorney, Christopher Aitken. The supervisor was hospitalized with injuries as well.

Aitken said a safer rope that breaks under intense pressure had been used in the past, but wasn't used on this day.

The fatality prompted a national reexamination of safety at the nation's amusement parks and led directly to a new state law in California requiring an independent investigation of serious accidents there. Previously, park officials investigated themselves. The Dawson family reached a confidential settlement with Disney reported to be \$25 million.

Aitken said McKinsey's cost-saving measures directly contributed to the *Columbia* accident, among others. At McKinsey's suggestion, Disney had eliminated the higher-paid expert managers on each ride—called ride leads—including on the *Columbia*. They were responsible for ensuring that the rides operated safely. Maintenance also suffered. When employees called mechanics to fix problems, they didn't immediately respond, so they stopped calling, Aitken said. It didn't help, he added, that workers with the most institutional knowledge of rides were "getting forced into graveyard shifts."

In February 1999—two months after the *Columbia* fatality—Klostreich resent his earlier warning to Disney leadership. "I am

concerned that the attractions are deteriorating even more so now than at the time I authored the attached memo,” he wrote.

Later that year Klostreich was terminated—a move he said was retaliation for being a whistleblower. Disney said he refused to work the graveyard shift for health reasons and no job openings were available during the day. Klostreich filed suit, but it was dismissed.

In July 2000, safety issues became more pronounced. A wheel assembly fell off a ride in Space Mountain, injuring nine people. Poor maintenance was cited as a cause.

Two months later, a four-year-old boy, Brandon Zucker, fell out of the Roger Rabbit ride and was crushed under another car, where he remained for ten minutes. Before his rescue, he went into cardiac arrest, resulting in permanent brain damage. He never walked or talked again. Employees had placed him in a seat that was less safe given his size and failed to fully lower the lap bar. Brandon died at age thirteen. State officials ordered Disney to make significant changes to improve the ride’s safety.

David Koenig, who has written extensively about Disneyland in books and articles, said the company wanted a firm like McKinsey because management felt park operations had become too expensive. “They encouraged the Disneyland management to reduce staffing, reduce training, reduce maintenance, reduce, reduce, reduce—reduce everything to the point where it became unsafe,” Koenig said. He couldn’t say whether the fault rested with McKinsey’s recommendations or Disney’s implementation of them. “I just know they got the ball started, and we all know where it ended up.”

John J. Lawler, who taught in the University of Illinois’s School of Employment and Labor Relations, believes management consultants mainly serve to legitimize the goals of their clients. “Clients like to be told they are doing the right thing,” Lawler said, adding that management techniques viewed as best practices “are very often propagated by consulting firms and thus these techniques become largely institutionalized in the business world.”

The accidents represented a major blow to Disneyland’s reputation, but they did not slow the corporate advancement of the cost cutter in chief, Paul Pressler. As reported by the *Los Angeles Times*,

Pressler “enjoyed a meteoric rise, leapfrogging over other executives, including managers of the much larger Disney World in Florida.” He joined the inner circle of Disney’s CEO, Michael Eisner.

Still, it was a résumé marked by accidents. And it wouldn’t be long before new questions arose over the wisdom of Pressler’s maintenance policies and McKinsey’s role in recommending them.

In the late summer of 2003, Disney employees began hearing strange noises coming from a roller coaster, built to look like a train, as it whizzed through Big Thunder Mountain. Mechanics replaced a guide wheel and put the ride back into service. After the “same unusual clicking sound” occurred again, maintenance once more replaced a wheel. A yellow tag was placed on the train, named I. M. Brave, indicating it should not be used, but it was.

On September 5, 2003, as the temperature climbed toward its high of eighty-seven degrees, Marcelo Torres, twenty-two, and three friends prepared to board the Big Thunder Mountain train shortly after 11:00 a.m. Earlier in the day, Disney employees had continued to hear unusual noises but did not remove the roller coaster for inspection. The yellow tag warning remained.

Torres and his friends did not know they had just boarded a ride with a history of mechanical problems. The previous month, riders had to be evacuated after the train broke down. Of more immediate concern, two retaining bolts had just detached from the axle on the previous ride, causing the wheel guide to fall unnoticed onto the track.

At 11:17 a.m., the crippled train departed with twenty-four passengers on its thirteenth run of the day, a three-minute thrill ride with twists and turns reaching speeds of forty-one feet per second.

When the unusual sounds continued, the decision was made to remove the train for inspection at the conclusion of the thirteenth ride. That proved too late. As the train exited a banked curve, the movement broke an axle rod. The unstable axle eventually wedged itself between the track tie and the locomotive, pushing the locomotive up and back over the first car, crushing Torres inside. He died

and ten others were injured. Afterward, state inspectors found parts of the ride scattered all along the track.

The state uncovered significant maintenance and training shortcomings. Employees failed to tighten two screws holding the wheel assembly in place and failed to install a safety wire as part of the “wheel assembly attachment.” Ride operators were not trained on how to respond to unusual sounds on roller coasters and did not understand the tagging system used to keep problematic rides sidelined until they were fixed. The maintenance “reliability team” did not follow proper procedure involving the use of tags on other rides. And machinists were allowed to sign for work completed by other machinists.

California required Disney to retrain all outside machinists at Big Thunder Mountain as well as those assigned to the roving “reliability” team, including their managers. The state mandated that all employees get clear instructions on what to do when an unusual noise is detected. Machinists were also forbidden to sign for work they did not perform.

Christopher Aitken’s law firm filed suit on behalf of the Torres family, blaming Disney for adopting McKinsey’s recommendations. “Disney knew, or should have known, that making extensive cutbacks in their safety and maintenance programs would ultimately have devastating effects on the safety of the public.” The lawsuit cited pressure the company placed on employees to keep rides in service, company incentive plans that rewarded money saved, and a “run to failure” philosophy.

Disney reached a confidential settlement with the family, while McKinsey said its work “was not related to the tragic incidents at Disneyland.”

Pressler, the Disney executive who solicited and implemented McKinsey’s advice, wasn’t around to deal with the aftermath of the fatality on Big Thunder Mountain. He left the year before to become chief executive of Gap, the clothing store chain. His mandate: cut costs. He lasted four years before being pushed out.



McKinsey was not held to account for what happened at U.S. Steel and Disneyland. No one sued the firm. No government agency accused it of wrongdoing. Consultants were simply doing what they were paid to do: give advice, not orders.

As a result, if something bad happened, the spotlight didn't shine on them. They took no credit publicly when their clients did well, and for years they accepted no blame when their recommendations sent companies off the road into the ditch.

U.S. Steel and Disneyland could not have been more different—one a vestige of a once great blue-collar company, the other a sunny fantasy powered by the latest technology. They were not McKinsey's most lucrative clients or most controversial. Yet they did exemplify the cold cost-cutting advice that turned the firm into the godfather of management consulting.

This core advice is not inscribed in the firm's cherished statement of values, but time and again that is what McKinsey quietly recommended to executives—as workers and communities throughout the world would come to learn when McKinsey came to town.

WEALTH WITHOUT GUILT

McKinsey's Values

FOR THE SMARTEST, most accomplished college students, a job at McKinsey & Company can seem like a path to wealth and prestige as well as an opportunity to prove themselves by solving the business world's toughest problems.

As a management consultancy, McKinsey has no peer, and acts like it. When it recruits each year, the firm might attract 200,000 applicants, hiring as little as 1 to 2 percent. A stint at McKinsey, even for a short time, is a lifelong passport to industry and government, thanks to the firm's vast alumni network reaching around the world.

Other top companies dangle promises of riches and the status that comes with them. McKinsey offers that, but also something more—the opportunity for young recruits to use their talents for a higher purpose, to make the world a better place. “Change that matters,” McKinsey tells job candidates, a sales pitch of wealth without guilt. “We are a values-driven organization,” McKinsey insists.

By portraying itself as a company with a heart, not just a lust for profits, McKinsey appeals to younger, idealistic students concerned about issues like global warming, inequality, and racial justice. It is a potent sales pitch and a strong message to the future wolves of Wall Street that they need not apply. But the firm also offers something just as intoxicating: influence.

For the past century, McKinsey has methodically built its marquee consultancy by selling its philosophy of scientific management to the world's best-known blue-chip companies. At one time

or another most Fortune 500 companies have paid McKinsey for advice. So have more than a hundred government agencies around the world.

Because the firm won't identify clients or disclose the advice it gives, 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 their medical care to the jobs that pay for their children's education.

A search of records, including internal company documents, found that the firm has advised virtually every major pharmaceutical company—and *their government regulators*—along with health insurers, airlines, universities, museums, weapons makers, private equity firms, casinos, bookmakers, professional sports teams, and media companies, including *The New York Times*. Many of its consultants were just as comfortable advising Trump officials as they were Obama's.

Operating in more than sixty-five countries, they can whisper in the ears of despots and elected leaders alike. In fifteen of those countries, the firm has advised the military, police and defense, and justice ministries. Its consultants have weighed in on the maintenance and support of "armored personnel carriers; minesweepers, destroyers and submarines." Nations hire McKinsey to advise sovereign wealth funds worth more than \$1 trillion. McKinsey's own robust earnings make it possible for the firm to run a private hedge fund for senior partners, with large parts of its roughly \$31.5 billion in assets under management concealed behind a tangle of shell companies on an island tax haven in the English Channel.

McKinsey's reputation is enhanced by the success of its former consultants, including Tom Cotton, the conservative U.S. senator from Arkansas; Pete Buttigieg, U.S. secretary of transportation; Bobby Jindal, former governor of Louisiana; Sheryl Sandberg of Facebook; Lou Gerstner of IBM and American Express; and James P. Gorman of Morgan Stanley and Merrill Lynch. Outside the United States, McKinsey's alumni have also reached exalted positions, including Kirill Dmitriev, head of Russia's sovereign wealth fund; William Hague, Britain's former foreign secretary; and the former Credit Suisse CEO Tidjane Thiam.

Although the firm is named after its founder, James O. McKinsey, its spiritual leader was Marvin Bower, who joined the consultancy in 1933, ushering in an era of professionalism patterned after the prestigious Cleveland law firm where he once worked. Brilliant but uncompromising, he defined how consultants should work *and* dress. He insisted that McKinsey call itself a firm, not a company; that it run a practice, not a business; and that client work be an engagement, not a job. According to the firm's official history, "The very word *commercial*, when spoken about anyone at McKinsey, is akin to profanity," one consultant said. Because of Bower's principles—the most important being "client first"—the consultancy thrived.

A graduate of Harvard Law and Harvard Business School, Bower believed consultants are best recruited young and trained in-house because "it is easier and more effective to train outstanding people in their formative years." He didn't want consultants offering advice filtered through their prior business experience or, worse yet, their intuition.

Bower also developed the firm's valuable ties to Harvard Business School by aggressively recruiting its prestigious Baker scholars, who earned academic honors and ranked in the top 5 percent of their graduating class. Duff McDonald, who has written deeply reported books about McKinsey and the Harvard Business School, found that as of 2010 roughly five hundred Harvard Business School graduates were working for McKinsey, more than its main recruiting rivals, Goldman Sachs, Google, and Microsoft.

The business school's reputation grew as McKinsey hired more of its graduates and McKinsey gained exposure through the *Harvard Business Review*. Since 1959, the *Review* has given out the "McKinsey Awards" for the best "practical and groundbreaking management thinking" published in the magazine during the year.

If there was an award for squeezing the most out of clients, McKinsey might be the favorite to win it. A senior partner told young recruits that when he started at the firm, a McKinsey manager helped him by offering tips on building client relationships. "Wedge yourself in and spread like an amoeba," he said. "Once in, you should spread yourself in the organization and do everything." In other words, he said, act like "a Trojan horse."

Although based in New York City, McKinsey operates through semiautonomous offices in cities around the world. If New York is the city that never sleeps, so it is for McKinsey, its technical staff ready at any hour to assist consultants in different time zones prepare their findings in the firm's standard format: PowerPoint slides.

McKinsey's sales pitch appealed to Rogé Karma, a Notre Dame graduate. He picked the firm because it emphasized the opportunity to improve people's lives. "That's not Goldman Sachs's pitch. That's not the ExxonMobil pitch," he said. Karma, now a staff editor for the Ezra Klein podcast at *The New York Times*, took the long view. "By coming to McKinsey, you are going to learn a tool kit—a way of operating that will help you to be a change maker when you go out into the world. No matter what you want to do, no matter what impact you want to have, you are going to have this tool kit."

One college graduate worked at Goldman before joining McKinsey, and he said the difference couldn't be more stark. 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'—and that's refreshing. No one was lying to themselves at night."

McKinsey held itself out to be different. "It is clearer than ever that we need to work with our clients to consider the full impact of our work together, not just on their performance, but on society as a whole," the firm's former managing partner Kevin Sneader wrote in 2018. Toward that end, McKinsey sponsors programs to uplift women, disadvantaged youth, and people of color, as well as other nonprofit work.

Erik Edstrom joined McKinsey to combat global warming. Caitlin Rosenthal, a Rice graduate, joined McKinsey's Houston office not knowing what to expect, but was pleasantly surprised by her compassionate colleagues. "On my first day," she recalled, "I said, 'I don't want to work for any oil companies.'" Karma said he didn't want to work for a pharmaceutical company. McKinsey honored both requests. "My first project was working for a local museum,"

said Rosenthal, now a history professor at the University of California, Berkeley.

Other companies talk about doing well by doing good. Google once had a simple motto: “Don’t be evil.” That motto disappeared from the preamble to its code of conduct in 2018 during the tenure of its chief executive, a former McKinsey consultant, Sundar Pichai.

Few companies promote “values” as a recruiting tool with the fervor of McKinsey.

The sales pitch often begins when candidates are asked in interviews to solve business problems, such as how to improve vaccine distribution in Africa, an issue McKinsey actually dealt with in Nigeria. “It was very much made to seem like the kind of work I would get to do regularly if I joined,” Karma said.

One Harvard undergrad said he had never heard of McKinsey but applied because his friends did. “No one grows up and dreams of being a McKinsey consultant,” he said. But one night after class, while drinking wine from a Solo cup, he decided to fill out an application. After two rounds of interviews, he got an offer. “They do everything to get you to sign up on the spot.” And when you do, he said, your McKinsey handlers pop open a bottle of champagne.

In their first year at McKinsey, business school graduates can make as much as \$195,000, bonus included, but are often expected to work long into the night, with a demanding travel schedule. “I left after one year,” Louis Hyman, an associate professor of economic history at Cornell University’s School of Industrial and Labor Relations, said. “One of the feedbacks I got after an engagement was I was too academic. We don’t need academics. We need athletes. It’s about enduring pain, but it’s also about being focused on the team, focused on the victory.”

After a short orientation, new hires are assigned to projects run by engagement managers, who are in turn overseen by the firm’s partners. If the newbies want to advance, they must develop relationships with partners who can arrange work for high-profile, profitable clients, the kind that senior partners notice. Without a sponsor,

employees are “on the beach,” meaning out of circulation, either waiting for an assignment or trying to develop their own projects.

“When I was a first-year associate, I experienced a lot of anxiety when I was on the beach while others were staffed on studies,” one McKinsey partner recalled. “I would certainly laugh at myself [now] for having resented beach time doing client development work.” Without finding new clients, the firm would wither away.

McKinsey employs about thirty-four thousand people, many of whom depart or, in McKinsey-speak, are “counseled to leave” after less than stellar evaluations. Those who remain have demonstrated not only their consulting prowess but also their ability to attach themselves to important people in the firm, opening the way for advancement. A small percentage are eventually elected partners or senior partners, with an income in the millions of dollars.

Leaving McKinsey is not a dishonor. It is more like college graduation, with the gift of high-level connections for future jobs. McKinsey knows that by seeding the business world with former employees, it stands to get new clients in return.

McKinsey’s stature allows it to engage, mostly without criticism, in practices that others might view as awkward or inappropriate. It simultaneously consults for companies competing in the same market, so one set of consultants might be telling Company A how to beat Company B while another set is telling Company B how to beat Company A. McKinsey also consults for government agencies that regulate McKinsey clients. In addition to advising the U.S. Food and Drug Administration, McKinsey has consulted for at least nineteen pharmaceutical clients—all subject to FDA regulation.

McKinsey defends these consults on the grounds that sufficient safeguards exist to ensure confidential information is not inappropriately shared.

McKinsey’s values are more than a marketing tool; they are the firm’s guardian angels, according to McKinsey’s noncirculating official history. “Whenever the firm has made mistakes or has allowed its ambitions to run to excess, its values have reined it in,” McKinsey

says. “A system of values serves as an essential foundation of long-term institutional success.”

To drive home the point, McKinsey employees are asked to participate in a “Values Day” organized by offices around the world. Senior partners can use the opportunity to expound on applying McKinsey’s values in day-to-day work. In 2019, the Australia managing partner, John Lydon, spoke about how, at a minimum, McKinsey should not work with clients who harm or kill people or cheat their customers.

Just before his death in 1968, the firm’s chairman, Gilbert Clee, reflected on the importance of those values. He wrote, “Regardless of an individual’s field of interest or what he wants to do with his life, I believe the firm offers two other great satisfactions: the ability to look yourself in the mirror every morning and to say, There’s nothing I need to be ashamed of.”

Those are the words of a proud McKinsey leader from another era. But there are others, many in fact, who looked and did not like what they saw. In recent years, the firm’s actions often seemed to betray its vaunted value system. Beginning in 2018, as one media exposé followed another, McKinsey managers scrambled to counter what had become the gravest threat to the firm’s reputation in its long and proud history. Emergency meetings were held, apologies issued, a new managing director took over, and risk management policies were strengthened.

As the firm searched for the reasons behind these problems, one explanation sat front and center, so obvious it was easy to overlook. And it just happened to be the very foundation upon which Marvin Bower had built the firm.

Until recently, McKinsey’s website listed fifteen specific values that “inform both our long-term strategy as a firm and the way we serve our clients on a daily basis.” Many of those values are routine and obvious, such as “build enduring relationships based on trust” and “bring innovations in management practice to all clients.”

Some are directed toward creating a hospitable environment for

consultants to thrive, such as “sustain a caring meritocracy.” One encourages freethinking: “Uphold the obligation to dissent.”

Over time, these values have been updated in small ways, but the first and foremost value—number one on the list—has never really changed: “Put client interests ahead of the firm’s.” McKinsey had once embraced a more expansive statement where clients came first, the firm second, money third, and personal interest fourth. In time, the money reference disappeared, perhaps because in a place obsessed with professionalism that word appeared unseemly.

Clients felt comfortable with McKinsey’s values. And, from their perspective, that’s as it should be, since McKinsey charges a premium for its services. When a telecom needed help several years ago, the firm billed the company more than \$120 million in two years. For that kind of money, clients should get what they want.

Rosenthal, the consultant who started in McKinsey’s Houston office, said the dictum to prioritize client interests sounds selfless but should not be mistaken as public service. “The language around client service makes it seem like serving a client, in and of itself, is valuable without regard for what that company is doing,” Rosenthal said. “I found it jarring that client service is so high at the top without any qualifications.”

Karma, the podcast editor, sees a difference between working for a manufacturing company and working for McKinsey. At a company, he said, “you are also going to have an allegiance to the product, and an allegiance to the people. You have some sort of other values.” At McKinsey, “your entire job is to make shareholders more money.”

All this brings into play McKinsey’s second value, the imperative to “observe high ethical standards.” Does that suggest that consultants, among other things, shouldn’t work for clients who engage in harmful behavior or who overemphasize profits to the detriment of their employees? This is no small issue for a consultancy that has often said its main asset aside from its people is its reputation.

What happens if a client sells addictive products known to cause death, or denies immigrants compassionate treatment, or supports corrupt and undemocratic governments? These are not hypothetical