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ACHIEVING EXCELLENCE

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Chapter 1

Mission

An Inspiring Long-Term Purpose

"No, Herb. *No!*" exclaimed a rasping, nearly cracking voice from the back of the large room in Florida where 500 McKinsey & Co. partners were gathered for the firm's 1996 global leaders conference. They had been listening to Herbert Henzler, the architect of McKinsey's great success in Germany.

Henzler's talk—backed up as usual with slides on a giant screen—focused on a series of key words representing the bold actions he felt were needed to ensure McKinsey's future. Each word was a screen-dominator: INNOVATE. IMPROVE. MODERNIZE. REFORM. The last one-word slide had been followed by a four-word slide: REFORM OUR BUSINESS SYSTEM.

"Herb! *No!* There's something wrong with your slide!" The elderly, hunched man was now almost jogging up the middle aisle between row after row of chairs that filled the meeting room. "We are *not* a

business. We are a *professional* firm! We have a professional system, but never a . . . a . . . *business* system!"

The agitated interrupter was McKinsey's former managing partner, Marvin Bower. Despite his 93 years, Bower exuded such assured authority that the room went silent. Henzler's face flushed as he froze at the speaker's podium. Attention centered on Bower. He had devoted his long career to making McKinsey a *professional* firm—never "just a business"—and on this vital distinction he felt he had to be right at all times. As he had done again and again over his 60 years of service, Bower reminded the group: "If there is the shadow of a doubt on something being good for business but not truly professional, *do not do it!*"

Having made his declaration, Bower returned to his seat near the rear of the room. Ken Ohmae, McKinsey's storied leader in Japan, was the conference's next speaker—and the next to be stopped cold in his tracks by Marvin Bower. Ohmae began by lamenting the hierarchical rigidity of Japan's *zaibatsu* corporate complexes and their consequent resistance to all consultants, including McKinsey. As usual, Ohmae had a bold, creative solution: At least some of the people in the inner core of Japan's largest corporate organizations would have to be replaced by open-minded new executives who would be interested in outside ideas and new ways of thinking. The solution, he said, was clear: McKinsey should get into executive search. Implied in Ohmae's strategy, of course, was that McKinsey would have preferential access to consulting assignments through those new executives McKinsey would place through its executive search: *We helped you get your job, so now why don't you help us get some consulting work with your company?*

Back on his feet, Bower was calling out as he again hurried to the front so he could be seen and heard by everyone: "Ken! Ken! We do *not* do headhunting. It would not be *professional* to go around pinching the best people from our clients. That would be a clear-cut conflict of interest." Once again the elderly man stopped any discussion of McKinsey's being a business. Bower was living another chapter in his lifelong commitment to McKinsey's being a truly professional firm in which every professional had an individual obligation to dissent.

True to that core value, Bower was leading by dissent, and as so often before, he prevailed. "Marvin took a central role at Florida, lambasting the 'innovators' when any of their ideas conflicted with the

firm's priority drive for professionalism and so must be opposed," recalled Charles Shaw, a longtime senior partner. "He carried the day. Looking back to that day years later, I'm convinced that his argument—both emotionally and intellectually—made a valuable contribution to our long-term success as a professional firm. It clarified *for* McKinsey what *was* McKinsey."

Every great firm has a clear, long-term purpose—an inspiring, engaging mission. This North Star provides the firm's professionals with extra confidence in the meaning, value, and significance of their work and justifies the intensity of their engagement beyond "making a living" to making a purpose-driven life. In an old story, a pilgrim came to the construction site for what would become Chartres Cathedral and asked the stonecutters what they were doing. One tersely said, "Squaring this stone." Another proudly said, "Squaring this stone to build a strong wall for a major building." And the third, with joy in his heart, said with a wide smile, "Building a great cathedral to honor the glory of God!" With which stonecutter would you want to work?

Most young men and women coming out of the leading graduate schools—each with wide-ranging freedom of choice—will take the upper-middle pathway of a good job with a good firm, knowing they will earn more than enough to enjoy their time on earth. But a few of the best will choose a more demanding path. Wanting their careers to be more than just a series of high-paying jobs, they will seek employers with a truly compelling mission. For the most capable few who want to make a significant difference, good is not nearly good enough. And these purpose-driven people are as indispensable to each great organization's achieving its mission as being part of a great firm is essential to them. Only mission-driven organizations can consistently attract, inspire, and engage exceptional professionals in the continuously demanding work of producing superb service for the most interesting clients. And only mission-driven organizations can attract and keep important clients dealing with important challenges. That's why only organizations with a compelling mission can achieve and sustain excellence.

Marvin Bower's seminal contribution to McKinsey was understanding and articulating the value to the firm and its people of living for and with a higher purpose or mission: being not just a business but a *profession* and all that that implied. As a young man Bower had graduated from Brown University and gone on to Harvard Law School because he wanted to join Cleveland's leading law firm, the firm that eventually became Jones Day. But he failed to make the top 5 percent in his class and the *Harvard Law Review*, so he was rejected. Determined as always, Bower decided to return to Harvard, this time to the business school, and try again. He made the top 5 percent at Harvard Business School and was a student editor of the *Harvard Business Review.* This time the Jones Day firm admitted him.

Determined to understand what had made that firm great, Bower did what he would so often do during his later years at McKinsey: He made a list of the key factors. Client interests were always put first and clearly ahead of the firm's; confidences were always maintained; no assignment was taken unless it was really necessary and could not be handled by the client company's in-house counsel; partners always felt both the freedom and the responsibility to disagree with clients if that was in the client's interest; and partners consistently took time to coach associates on ways their work could be improved and on how they could keep their fees relatively low by being more creative than other firms in solving problems.

As a young lawyer serving as secretary to numerous bondholder committees organized to work out defaulted bond issues, Bower saw a pattern. The CEOs of the failed companies had needed information for sound decisions, but their employees, deferring to hierarchy, hadn't dared tell the insulated CEO what was really going on. Bower estimated that the managers could have saved 10 of the 11 companies if only frontline knowledge had been taken to the CEO. He became convinced that top management of corporations needed the same quality of independent, expert professional advice on *business* problems as his law firm was giving on *legal* matters. He began discussing with his wife, Helen, the great opportunities—and the risks—of switching from law to business consulting.

Early in 1933, Bower was working for a bondholders committee during a corporate reorganization in Chicago. Also on the committee was James O. McKinsey, the son of an Ozarks farmer, who had started a relatively small accounting and management engineering firm. McKinsey, impressed by a paper Bower had written on clothing manufacturing, asked about his career plans and offered to interview him. Bower was reluctant at first because his wife feared moving near "Chicago gangsters." But when Jones Day cut all staff salaries by 25 percent, Bower decided to interview with "Mac" McKinsey. As McKinsey explained his firm, Bower sensed that aside from its work in accounting it was becoming just the kind of professional firm he was interested in—working on business and management problems the same way law firms worked on legal problems.

Bower joined McKinsey in late 1933 as one of the world's first "career consultants." This was a change from the norm of experienced industrial executives becoming consultants for stints of a few years and then either "returning to industry" or retiring. Bower went into McKinsey determined to do as much as he could to help it develop into the kind of firm he envisioned.

James O. McKinsey's success in consulting peaked at Marshall Field & Co., the big Chicago retailer, where he directed a major study in 1935. He charged what was then considered a substantial fee: $50 a day. At Marshall Field, McKinsey's shocking report—delivered orally after just four months—recommended selling the 24 Fieldcrest mills in the South, as well as the Chicago Merchandise Mart, the nation's largest dry goods business, and the wholesale division, which had been the traditional core of Marshall Field's business but was a long-term money loser.

Having reported losses for five straight years, directors of Marshall Field urged McKinsey to become chairman and CEO and implement his comprehensive overhaul. Recognizing that advising was not doing, McKinsey, who had an incorrigibly high need for achievement—his work was his life—and a desire for real wealth, decided to take this challenge, test theory with practice, and try to prove that he could implement his concepts.

The work at Marshall Field—cutting off whole divisions, closing departments, firing hundreds of old-timers, and restructuring

every part of the business—was exhausting and produced a dozen threats on Mac McKinsey's life. He saved Marshall Field but ruined his health: he caught a cold that became pneumonia before penicillin was available and died suddenly at age 48 in 1937. As Bower lamented, "My personal loss was that the man I admired most—my hero—was gone. My career loss was that I had had less than two years to learn from my mentor."

Although his firm had specialists in functional areas, McKinsey always preferred to take the generalist point of view required of top management. His holistic diagnostic approach centered on major policies and the strategies needed to implement them. Basic to McKinsey's concept of management consulting was not just figuring out how to produce more efficiently, but deciding whether to be in a particular business at all. "Mac McKinsey's greatest contribution to consulting, as well as to business," Bower believed, "was his concept of the integrated nature of managing a business and the process of management as [organizational] components interacting. Mac's second contribution to consulting was his demonstration of independence by thought and deed and his willingness to tell the client the truth just as he saw it. From Mac, I learned basic concepts and ways of managing. Most important is the concept that making major improvements in a business can best be achieved when tackled as a whole. Mac also thought managing should be kept as simple as possible."

With the foundation laid by Mac McKinsey, Marvin Bower became the architect and chief builder of what would become the world's largest and most admired firm of top-management consultants. Monthly Saturday training sessions with everyone coming provided Bower with the pulpit from which he would preach the policies and unifying practices he traced back to Mac McKinsey, particularly devotion to the "professional approach." The firm moved deliberately away from overtly selling its professional services; Mac McKinsey had believed that if clients were well served, McKinsey's services would sell themselves. (Others would argue that, while not calling it "sales," once it gets started the firm is accomplished at persuading clients to enlarge or extend engagements and is exceptionally successful at developing regularly repeating clients.) This belief in the importance of serving clients well led naturally to the view that each client is a client of the

whole firm, not just of an individual consultant, and so must have full access to all the firm's resources. Mac McKinsey made another enduring impact on the firm through his conviction that a professional firm should invest in its reputation by having its offices well located and attractively furnished.

An effective mission has to resonate both within the firm and outside. Bower insisted on the term *management consulting* to get away from such alternatives as *efficiency experts* or *management engineering*, which he found unprofessional. He insisted that consulting should be recognized as a profession and as a career. Training would be rigorous and continuous. Since major prospective corporate clients operated nationally, Bower saw that the firm must also be nationwide, with offices in major cities, and that those offices must all be identifiably part of a "one-firm firm:" Policies and procedures would be the same in all offices. A series of consulting guides—leaving room for judgment where unusual circumstances warranted some variation—were carefully prepared on such topics as manufacturing, organization, and management information and control.

Descriptive terms and phrases matter in defining a firm's mission. When others proposed a marketing brochure for the firm, Bower's first impulse was to condemn the idea as unprofessional. However, he changed to hearty agreement when he saw that creating the brochure—with himself leading the process—could be an effective device for getting internal agreement on values even before any external distribution. The result was a 42-page hardcover booklet titled *Supplementing Successful Management*. Bower made sure it explicitly committed McKinsey to becoming a truly professional firm.

Advocating the professional approach at every opportunity, Bower led the firm from 1950 to 1967, finally stepping down at age 64. During this period McKinsey decided to concentrate on consulting and get entirely away from accounting and actuarial services—and from executive recruiting, which had brought conflicts of interest, little professional satisfaction, and inadequate compensation. (In his proposal at the Florida conference, Ken Ohmae had touched an old nerve.) Bower gave talks, wrote memos, and frequently admonished his associates until two colleagues took him aside and said that while they agreed with him on McKinsey's mission, he was hurting

his own cause with so much repetition. Bower accepted their advice on method and promptly began what he called "persuasion through pointing up success," watching for opportunities to commend others for taking the professional approach and leading from behind rather than from the front. But it was still Marvin Bower persisting with the same message.

As the unrelenting advocate of the professional approach—and making it stick and flourish—Bower put McKinsey on a different pathway. Booz Allen Hamilton, then its major competitor, helped unintentionally by proudly emphasizing that it was a *business*. Bower's commitment to professionalism eventually—he would have preferred the word *inevitably*—led to McKinsey's having a substantially stronger business. Today's partners believe this is a direct consequence of subordinating the firm's business to the higher disciplines of the profession, which, of course, put clients' interests first.

As Bower once explained,

> By applying the professional approach broadly, rigorously, and consistently, we have developed a "secret" strength in attracting, serving and maintaining relations with clients. This strength also serves firm interests in other ways and distinguishes McKinsey from most consulting firms. Yet there is really nothing secret about this strength. All we have done is to instill in our consultants the standards of the older professions, which are well known and to which most management consultants now subscribe. Our strength comes from a deeper understanding of the great values of the professional approach to clients *and* to the firm—and from a broader, more rigorous, and more consistent application of that approach so that it comes naturally in our thoughts and actions.

The quest for professionalism in a field where that had not been the norm led to two allied goals: Help clients make substantial, lasting, positive improvements in their performance; and build a great firm that can attract, develop, excite, and retain exceptional people. The persistence established the enduring value of an inspiring mission that has given a compelling answer to the question every potential

client and every potential consultant will ask and must answer: Why McKinsey?

Without the determination to define and ensure the firm's commitment to being always a professional firm, McKinsey would never have become the world's finest firm in consulting. It couldn't have served clients so well or provided such great working and learning experiences for the many consultants who have so enjoyed their years at McKinsey. Similar clarity of mission and overarching purpose is the essential foundation of superb organizations in every field.

For insiders, a firm's mission is the big idea about why we are here and why we care so much and work so hard. Sometimes the mission emerges as a way of reconciling conflicting influences. At Capital Group Companies, a world-leading investment group that now manages well over a trillion dollars for millions of investors, the mission is a balance of three seemingly conflicting goals. The conflict was beginning to surface in the early sixties. In 1961, and again in 1963, the firm's reluctant leader-in-waiting, Jon Lovelace, got seriously ill and was away from Capital for many weeks. Recovering from adversity can be a good time for extended reflection and personal decision. During his second convalescence, several of Capital's mutual fund directors visited Lovelace to say that his future role was on their minds. His father, the firm's founder, Jonathan Bell Lovelace, was 67 and still had not stated any plans to step down. Young Lovelace resolved to overcome his diffidence and take up leadership, provided the other key people would join him in a novel three-way commitment to the organization's purpose or mission.

Two camps had been developing within Capital concerning the organization's primary purpose. Some in the firm emphasized service to *investors*; others emphasized returns to Capital's *owners*—akin to the professionalism versus business debate that so aroused Bower at McKinsey. At Capital, instead of choosing between "investors first" and "owners first"—in those days the conventional choice was "owners first"—Lovelace proposed that Capital would aim as fully and continuously as possible to balance achievement for *three* groups: investors,

owners, and the firm's professionals, always focusing first on the investors. The proposal carried special weight because Jon Lovelace, through share purchases, had made himself a significant owner of the then only marginally profitable firm.

Jon met with his father and other principals in 1963 to gain agreement on this corporate objective. Shortly afterward, his father announced the selection of his son as his expected successor. The unusual three-way balance came to be seen in and beyond the firm as a seminal contribution to Capital's long-term success both by preempting a potentially divisive internal debate and by providing a meaningful organizational purpose or mission: always doing what's really right for investors. Over the long term, the interests of all three groups come together, because if investors do well, so will Capital's associates and owners.

Capital Group is unusual in its industry. While most mutual fund groups focus on "asset gathering" (sales), Capital focuses on *investing*—achieving superior risk-adjusted long-term investment returns for clients. The most important policy questions at Capital *always* center on serving the long-term interests of long-term investors. With its own kind of benevolent paternalism and self-discipline, Capital puts investors' interests first most strikingly in the unusual way it introduces new mutual funds. The strongest test of a professional firm's principles comes when it deliberately does *not* do something that is being done by competitors and would be highly profitable. The mutual fund industry norm is to "sell what's selling" by introducing new funds of a particular type whenever investor interest indicates an opportunity for more sales. Capital goes the other way with, eventually, favorable long-term results for its investors. At Capital, unlike most fund families, no new mutual fund will be launched unless the firm's investment professionals say, "Over the long run, investing in this fund *now* will prove to be a good idea for investors." For example, Capital was the clear leader in emerging-markets investing for institutional investors in the eighties when the emerging markets enjoyed a multiyear run-up. By the early nineties, retail investor interest was high. Many other fund families, often with far less experience or capability, were offering mutual funds that specialized in emerging markets. Brokers pleaded with Capital to offer an emerging-markets fund to individual investors, knowing

it could be a big seller. But Capital refused. It wouldn't offer such a fund because it would sell *too well* to retail investors who wouldn't understand the real risks of investing in less developed countries, especially the risk of sudden major changes in valuation that would inevitably result in investor disappointment.

Then in 1999, *after* the average emerging-markets mutual fund had lost half its value since 1993 and retail demand was consequently low, Capital was ready to roll out a retail fund that would invest in emerging markets. With financial crises in Southeast Asia and Russia and the collapse of the Long-Term Capital Management hedge fund having substantially reduced investors' expectations, and with most competitors' emerging-market mutual funds experiencing net redemptions, Capital launched New World Fund. It would invest, near the market bottom, in a carefully composed portfolio of emerging-market sovereign debt and the shares of international companies headquartered in developed countries but doing substantial business in emerging markets—*not* companies headquartered in emerging-market countries where regulation and accounting practices might be questionable and corruption rife. Starting when it did, the fund has performed well. Similarly, Capital introduced the American High-Income Municipal Bond fund in 1994—at the very bottom of the municipal bond market. Riding the recovery in fixed income, that fund later ranked in the top 3 percent of its fund category.

Over and over again, Capital's mission of serving the real interests of long-term investors provides the True North for all sorts of operational decisions as well as the galvanizing purpose of the organization's investment professionals.

Powerful missions are often easy to summarize but never easy to achieve. At Mayo Clinic, True North is even clearer than at Capital Group. Mayo has no shareholders and no profit-seeking professionals. It is controlled by a foundation and staffed by salaried employees. Even as medical science has advanced rapidly, Mayo's mission continues to be defined by one simple, clear, and compelling statement: The needs of the patient come first. All the rest, complex and costly

as health care can so often be, is implementation. Of numerous examples, here's one: When some patients complained that they were not sleeping well, a few interns stayed up all night to see if they could discover causes. In that single night, they learned why patients were not sleeping well: There were lots of noises. Phones rang, doors slammed, metal clipboards snapped back into place, and x-ray machines were noisy when wheeled down the hall. Among the many solutions: Phones were connected to lights so no ringing was needed, soft pads were put on clipboards, and the time at which x-rays were taken was changed. As a result, patients could rest more peacefully and this accelerated their recovery.

The founding Mayo brothers—William J. Mayo and Charles H. Mayo, widely known as Dr. Will and Dr. Charlie—were inspired by their father, Dr. William Worrall Mayo. As Dr. Charlie once said, "If we excel at anything, it is in our capacity for translating idealism into action." Dr. Will specified three factors as crucial to the long-term success of Mayo Clinic: continuing pursuit of the ideal of service, not profit; continuing primary concern for the care and well-being of each individual patient; and continuing interest by every staff member in the professional progress of every other staff member. More recently, three additional implicit factors have been made explicit: willingness to change in response to changing needs, striving for excellence in everything undertaken, and conducting all activities with absolute integrity. The primary focus at Mayo Clinic is always on the original core commitment: The needs of the patient come first.

"It has to do with a value system," said Robert Waller, the clinic's CEO from 1988 to 1998. "Mayo was very fortunate to have founders who were just uncanny in setting down a set of values that have served us so well for so many years. We're taking the best care of patients we can. And I think we've always tried to stay focused on a common mission: meeting the needs of our patients. We try very hard to send home a happy patient."

Contemporary health care in a large organization that centers on patient care and also emphasizes medical education and research is clearly a complex undertaking. Because each patient is unique, healthcare services are unusually personal, but are delivered when the "customer" or patient is most dependent, anxious, and vulnerable, wearing an anonymous hospital gown and often feeling depersonalized. This

reality is why Mayo Clinic's service-centered culture is so treasured by patients. They experience the clinic's many deliberate expressions of care at times when they most need to know they can trust and rely on the care. "Mayo Clinic is an idea," explained one Mayo physician. "It's the concept that the patient is the center of what we do. And we've built everything else around the patient with this idea in mind."

Great missions are long-term in perspective and known to insiders and clients as a commitment to be trusted. In the late 1970s, Goldman Sachs's co-chairman, John Whitehead, was becoming increasingly concerned that the firm's great successes might unintentionally weaken its strong commitment to its chosen mission. For 40 years, the firm had worked to rebuild after the 1929 market crash and the dramatic failure of its investment flagship, Goldman Sachs Trading Corporation. During the sixties and seventies, Goldman Sachs had made itself Wall Street's most profitable firm. At least as important to Whitehead, it was on its way to becoming Wall Street's best firm because it was admired for being the firm corporate executives could trust. (Decades later, Whitehead's concerns would be dramatized by the heavy blows to Goldman Sachs's reputation following the financial collapse of 2008.)

Even with unusually low turnover, the firm's steady growth meant that 8 to 9 percent of its people were new each year—so over three years, one out of four of its people would be new. Thinking through the implications, Whitehead worried that the firm could lose some of its treasured qualities. He needed an answer to a gnawing question: "How could we get the message to all those individuals who were new to Goldman Sachs in such a way that they would understand our core values, come to believe in them, and make the firm's values *their* values in everything they did every day?"

Whitehead collected what he thought were the unwritten principles of Goldman Sachs, thought about them for a few weeks, and then spent a Sunday afternoon writing them out longhand. The list began with 10 major statements, but his partner, George Doty, a devout Catholic, said that that seemed sacrilegious—too close to the Ten Commandments. So the list was expanded, eventually to 14. With a few

changes by other partners, "Our Business Principles" was set in type and copies sent to all employees and their families at their homes, carefully addressed to John Smith & *Family*. "I was simply putting down on paper the things that we had really lived for as long as I could remember," said Whitehead. The first three numbered maxims were these:

1. Our clients' interests always come first. Our experience shows that if we serve our clients well, our own success will follow.
2. Our assets are people, capital, and reputation. If any of these is ever lost, the last is the most difficult to regain.
3. We take great pride in the professional quality of our work. We have an uncompromising determination to achieve excellence in everything we undertake. Though we may be involved in a wide variety and heavy volume of activity, we would, if it came to a choice, rather be best than biggest.

These principles rang true to the people of Goldman and, during its great growth years, they defined the firm's mission in a way that resonated with clients and set the firm apart. "My commitment to the traditional corporate mission at Goldman Sachs was certainly not religious," said partner Gene Fife. "It's because it's a very smart way to do very good business."

Never willing to be seen as a one-trick pony, Whitehead put out another set of guidelines or tactics for business development—and these *were* 10 commandments:

1. Don't waste your time going after business we don't really want.
2. The boss usually decides—not the assistant treasurer. Do you know the boss?
3. It's just as easy to get a first-rate piece of business as a second-rate one.
4. You never learn anything when you're talking.
5. The client's objective is more important than yours.
6. The respect of one person is worth more than acquaintance with 100.
7. When there's business to be done, get it!
8. Important people like to deal with other important people. Are you one?
9. There's nothing worse than an unhappy client.
10. If you get the business, it's up to you to see that it's well handled.

The firm's precepts didn't stop with the written ones. Nothing was ever done for prestige, and prestigious clients were often charged the most. Every banker was always expected to succeed on two top-priority standards: Serve the client *and* make money. If you must cut fees to win or keep business, do *not* cut fees. Making money—always and no exceptions—has been the principal principle of Goldman Sachs. But there has been an important change away from the traditional two-step of making money through service to clients to an aggressively direct focus on making money.

While some professional firms still try to manage and control their employees with top-down rules, a rules-based management cannot keep up with the speed of change in most professions and the need to address a wide variety of specific situations where values-based decisions are suddenly called for. Hard decisions come up for action much too quickly for gathering all the facts or for leisurely deliberation, and difficult decisions about doing the right thing are always in the gray zone of uncertainty. But action must be swift—so values must be unambiguous. With a principles-based management, responsibility for decisions can be pushed down to the men and women on the firing line. Since they should know their firm's culture and values and they must know the detailed realities of their specific business, they can be held accountable for knowing and doing the right things in the right way.

In contrast to Goldman Sachs's Business Principles, some enormously powerful mission statements are brief. Cravath, Swaine & Moore strives to be the most effective law firm on the most difficult cases involving U.S. law. The statement is succinct, but the execution it inspires can require herculean commitments.

The greatest commitment that Cravath or any law firm ever made began on January 17, 1969, the final Friday of Lyndon Johnson's presidency, when Attorney General Ramsey Clark filed suit charging IBM with monopolizing the general-purpose computer market. According to the filing, IBM had committed that offense by bundling together hardware, software, and support services; by introducing new computers at unfairly low prices; by announcing new models far in advance

when it knew it was unlikely to be able to deliver the models on the announced schedule; and by giving educational institutions unreasonably large discriminatory price discounts. The Justice Department asked that IBM be broken up into "several discrete, separate, independent, and competitively balanced entities." Thus began the case that would drag on for no less than 13 years and attract numerous other litigants along the way.

"When IBM, one of America's most admired companies, turned to Cravath, we were awfully proud of the firm being asked to undertake the assignment and were determined to demonstrate the capacity to handle it," recalled Samuel Butler, who later became presiding partner. "IBM was at the time an unbelievable undertaking for Cravath. Afterwards, the firm knew if we could do IBM, we could do *anything*." The history of the IBM case would illustrate Cravath's commitment to its chosen mission.

Cravath had done relatively little recent work for IBM, the most important company in one of the most important industries in America. But a key link was senior partner Bruce Bromley, who had defended IBM in another antitrust suit back in 1952. Bromley reached over several other partners to select 38-year-old Thomas D. Barr to lead the Cravath legal team—committing virtually all its litigators—and take overall responsibility for what would become and remain the firm's largest client. Bromley, then in his eighties, read the trial transcript every day and made strong comments. Recalls partner John R. Hupper, "When push came to shove, we all pitched in."

Barr's strategy for IBM was massive, costly, complicated—and eventually successful. The case led to 2,500 depositions, 60 million pages of documents, 726 trial days, 856 witnesses for the defense, 12,280 exhibits, and 104,000 pages of transcripts. Over its 13 years, the case cost the Justice Department at least $15 million. IBM paid Cravath fees of $50 million, plus over $25 million of costs.

In early October 1972, the *New York Times* reported that IBM and the Department of Justice would meet in Washington "in a major attempt to work out a settlement of an antitrust suit filed against the giant computer maker almost four years ago." Just one week previously, tough, aggressive T. Vincent Learson, IBM's chairman and CEO, had made a surprise announcement that he would step down

at 60, after only 18 months in office, in favor of the more conciliatory Frank T. Cary. Later that month, Cravath's Barr met with the Department of Justice in an unsuccessful attempt to work out a resolution and a consent decree.

Barr then requested postponement of the trial until after the 1972 presidential election, contending that "pressure from the press and the election might lead the Justice Department to present nonnegotiable demands and an ultimatum which would force us to defend our good name." During the 90-minute hearing, exchanges between Barr and Raymond M. Carlson, the government's lead attorney, became so acrimonious that Judge David N. Edelstein urged both men "not to get too personally involved." This instruction from the bench would soon prove ironic.

Edelstein, chief federal judge for the Southern District of New York, denied Cravath's request for postponement in the first of a long series of decisions unusually hostile to IBM—and Cravath. Judge Edelstein became an active and partisan participant in the long trial proceedings, regularly helping the government lawyers and making life difficult for Cravath lawyers, particularly Barr. Combative exchanges and maneuvers by Barr and Edelstein provided an increasingly contentious sideshow to the trial.

Barr presented evidence that IBM's share of data processing was considerably less than the Justice Department's six-year-old estimates. He argued that while IBM had grown substantially, the industry had grown even faster, and that the business was not just equipment but complex systems requiring total engagement by supplier and customer working as partners to solve complex customer problems. The appropriate definition of the relevant market was critical. IBM had installed over 70 percent of the 84,000 computer systems in the United States and over 50 percent of the 58,000 in other countries. The government argued for a narrow definition of the market, contending that the industry included only eight companies selling computer systems. IBM argued that the industry included thousands of diverse competitors.

In January 1974, Cravath opened a "temporary" office near IBM's Armonk, New York, headquarters. Over the next 10 years, it would become the center of a firm within the firm. Casual dress and $10,000 hazardous-duty bonuses were in; Cravath's traditional

18-month training rotations for associates were out. So were free evenings and weekends. While associates on the IBM case were nominally free to move elsewhere after two-year stints, many believed asking to do so would wreck their partnership prospects. "Most of us never had the guts to ask for a transfer," said one associate involved in the litigation. One associate, Joseph Sahid, billed 24 hours in a single day, only to be topped by another, Ronald S. Rolfe, who worked on a plane to California and, thanks to the three-hour time difference, billed 27 hours in a single day! (Both later became partners.) In contrast to Cravath's thorough, tightly disciplined, persistent pressing forward, the government lawyers were almost never prepared and often had to ask for delays.

For IBM, Cravath created a massive system of document retrieval—the first that worked on anything like such a scale—so documents could quickly be assembled by key words. Page after page of document after document were put on punch cards by keyboard operators typing out every word. And, to be certain of accuracy, every card was typed twice. This belt-and-suspenders duplicated work was done for the unheard-of volume of *one million* documents.

The IBM team, with just 20 percent of the firm's lawyers, was providing 35 percent of the firm's billings. Even with 30 to 40 lawyers in White Plains, Barr needed more help as he built up Cravath's litigation practice for the IBM cases. George Gillespie, a career specialist in the trusts and estates practice, was declared an expert on investing and therefore on the way capital markets really work. He helped figure out one of the main constraints on the several peripheral equipment makers that were suing IBM: They couldn't raise the capital needed to finance accelerated expansion. Gillespie also identified two expert witnesses: Arjay Miller, president of Ford, and Warren Buffett of Berkshire Hathaway. "Warren," said Gillespie, "was absolutely spectacular as a witness and key to IBM's case. He blew the government away!" Miller, like Barr, got a taste of Edelstein's hostility, recalling: "At no time in my life have I felt so abused and demeaned as I did at the hands of Judge Edelstein."

Cravath's aggressiveness and tenacity came to the fore in dispatching numerous "peripheral" suits by other companies. During discovery in the Control Data case, Barr created a decisive strategic advantage

by a tactic perfectly suited to one of Cravath's unusual self-disciplines. The firm had produced an enormous volume of IBM documents and demanded as much from Control Data. Cravath being Cravath, before delivering IBM's documents its lawyers took the substantial time to read every one to be *sure* they knew all their contents. In contrast, counsel for Control Data relied on paralegals to review more than two dozen boxes of papers. This was a fatal blunder. Cravath lawyers found hard evidence of Control Data's plans to join a conspiracy to allocate markets and fix prices. Barr promptly filed a counterclaim that could have bankrupted Control Data and that did compel its lawyers to take him to lunch and plead: "Let's settle."

Government lawyers were excited by the idea that they could take advantage of the homework being done for the lawsuits by the private corporations, particularly Control Data's computerized database of the facts in the extensive documents IBM had provided. When Control Data informed the Justice Department on a Sunday evening of its settlement with IBM, the government's lead lawyer quickly moved to acquire the vital database. It was already too late. As part of the settlement, Cravath partners George Turner and John Hunt not only had negotiated the destruction of the database, they had spent that weekend supervising the shredding. Once again, Cravath had created a decisive strategic advantage for its client.

The other major ancillary lawsuits against IBM were also overcome. For the suit brought by Greyhound Corp., Barr's team was so small that for a time he had to concentrate entirely on this one case. His first action was to seek and win a transfer from Chicago to Phoenix, which meant that, like the Cravath team, Greyhound's Chicago lawyers were also out-of-towners. After two intensive months of brilliant cross-examination and well before IBM's own case was even presented, Barr moved for a directed verdict in favor of IBM. Barr won.

Telex was next. The long-working Cravath associate Joseph Sahid, suspicious that the personnel files provided by Telex were too thin, insisted on going to Telex's offices in Oklahoma. There, in the office of a former IBMer, he found a folder marked "IBM Confidential," containing corporate information improperly removed from IBM. With the aid of other Cravath lawyers, he filled a grocery cart with incriminating evidence. Even so, Judge Sherman Christiansen found IBM

guilty of violating the Sherman Antitrust Act and fined IBM a record $259 million in damages. This put Barr, a former U.S. Marine, and his team on war footing. Telex's victory was reversed on appeal and IBM was awarded $18.5 million in damages. Telex appealed to the Supreme Court, but then agreed to settle.

For the suit brought by California Computer Products, Barr stepped back; he was needed in New York for the federal case. A leading Los Angeles firm was retained and supervised by David Boies, 34 and a third-year Cravath partner, who was summoned back from Bombay where he had been trying a case against the Indian government. Boies flew 11 hours to Tokyo and then took a 12-hour flight to JFK, arriving on a Sunday morning. In another illustration of Cravath intensity, he immediately received a huge pile of CalComp papers to study before meeting with Barr on Monday. Boies moved his family to California and organized over a dozen Cravath lawyers there in a pattern of 8:00 A.M. to 2:00 A.M. workdays. Every day throughout the trial, the day's transcript was obtained at about 10:00 P.M. by a team of Cravath lawyers, who took it apart and reorganized the contents into proposed findings of fact to support the series of propositions Cravath sought to prove for IBM. Each was cross-referenced to specific pages in the original transcript. If any proposition needed more documentation, Boies was quickly told so he could pursue it in court the next day.

CalComp's lawyers were stunned by the enormous effort expended on a simple motion to dismiss. The transcript Boies worked from had more than a thousand cross-references. "I had never encountered anything like that in my life," recalled CalComp's lead attorney, Max Blecher.

> The sheer manpower that took—the *cost*—I just felt overwhelmed. I've often wondered how they could operate if the client imposed any cost control at all. Everything showed this attitude. They buried us with paper. They produced reams of paper in futile endeavors. They made requests for admissions of fact that were ridiculous. We stacked up the paper—it was five or six feet tall!*

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*Some thoughtful observers believe Cravath's forcefulness and virtually unlimited spending distorted the judicial process.

In court, Boies performed remarkably effectively. Memorably, he had CalComp's CEO read the text of his own recent speech, saying, "I really don't characterize IBM as competition" and "Our real competitor isn't IBM." Boies concluded by making an oral motion for a directed verdict at the close of the plaintiff's case. In just two hours, Cravath's motion was granted.

On June 1, 1981, Cravath rested its case in the main suit brought by the government. Barr had stated in court a willingness to negotiate with Ronald Reagan's new head of antitrust, Stanford University professor William Baxter, who held a conservative view on antitrust enforcement. In mid-July Baxter called Barr and explained that he felt insufficiently conversant with the IBM case to enter into negotiations, but was open to resolving either specific matters or the whole case before October 1. Barr proposed a series of weekly informational meetings. Baxter agreed. The Justice Department lawyers indignantly argued that they could and should provide any requisite "education" themselves; but Professor Baxter wanted to hear both sides, so eight all-day Saturday briefings were scheduled. In briefing after briefing, Cravath overwhelmed the Antitrust Division lawyers on facts, concepts, and every aspect of thoroughness.

On January 6, 1982, the Saturday briefings were stopped and the government lawyers agreed that the longest-ever antitrust suit should be dismissed as without merit. Two days later, IBM gave a celebratory party for all its lawyers at an expensive Manhattan discotheque called Regine's. "We lost only one of the twenty-one cases," recalled Evan R. Chesler, who in 2007 became Cravath's presiding partner, "and that loss was reversed on appeal." IBM had not been a regular Cravath client before the case, but ever since, IBM has averaged nearly 10 percent of Cravath's annual billings. "After the Department of Justice dropped the charges, we found that clients were lining up for our services. And they haven't stopped."

For Boies, as for other partners working on the IBM case, this was one of the formative experiences of a lifetime. "It was not only the biggest antitrust case going but the biggest trial," he said, "and we were into the guts of one of the most exciting companies in the most exciting industry. It's too simple to say if it hadn't been for this case there would have been another one. Without IBM, we'd be different lawyers

and we'd be different people." But one thing would never be different: the mission of Cravath—to be the most effective law firm on the most difficult cases.

Every great firm has differentiated itself from other strong firms in its profession by committing itself to a challenging and inspiring purpose with compelling value for its professionals *and* its clients. The long-term mission needs to be translated into everyday practice, providing the unusually capable and ambitious people with the guidance and discipline necessary to ensure constancy. Aligning culture with mission is a central responsibility of leader-managers at all levels.