

8.1: Chapter Introduction

International Monetary System

WHAT'S IN IT FOR ME?

1. What is the international monetary system?
2. What role do the International Monetary Fund (IMF) and the World Bank play?
3. How do the global monetary institutions impact global business?

Global trade depends on the smooth exchange of currencies between countries. Businesses rely on a predictable and stable mechanism. This chapter takes a look at the recent history of global monetary systems and how they have evolved over the past two centuries. While the current monetary system continues to evolve, lessons learned over the past fifty years help determine the best future options. As part of the post–World War II monetary environment, two institutions were created; these institutions have expanded to play an increasingly larger role in world economy. Understanding the role of the IMF and the World Bank provides insight into how governments in developing countries prioritize and fund projects and work with the private sector to implement these initiatives.

Opening Case: McKinsey & Company: Linking the Business World, Governments, and Global Institutions

Who Is McKinsey?

McKinsey & Company is a privately held global management-consulting firm that serves as a trusted adviser to the world's leading businesses, governments, and institutions. Recognized as a global leader, it has ranked first as the most prestigious firm in the management consulting industry by Vault.com. "McKinsey & Company," *Vault*, accessed February 9, 2011, [www.vault.com/wps/portal/usa/companies/company-profile?](http://www.vault.com/wps/portal/usa/companies/company-profile?WCM_GLOBAL_CONTEXT=/wps/wcm/connect/Vault_Content_Library/companies+site/companies/parent_mckinsey+_company/mckinsey+_company_0/mckinsey+_company_0&companyId=328)

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James O. "Mac" McKinsey, an accounting professor at the University of Chicago, founded McKinsey & Company in Chicago in 1926. Over the decades, McKinsey & Company has grown to global prominence by providing expert consulting services and garnering results for companies in a wide range of industries and governments.

Today, McKinsey has a revenue of \$6 billion and employs almost 17,000 people worldwide, with more than 9,000 at the director level. "The firm is among the *largest hirers of newly minted MBAs* in the United States." "America's Largest Private Companies: #54 McKinsey & Co.," *Forbes*, October 28, 2009, accessed February 9, 2011, http://www.forbes.com/lists/2009/21/private-companies-09_McKinsey-Co_IPPW.html (emphasis added). McKinsey's employees come from around the world, speaking over 120 languages and representing more than one hundred nationalities.

What Does the Firm Do?

As a management consultant firm, McKinsey is approached by its clients to analyze and solve complex problems. Its industry expertise ranges from media and entertainment to the automotive industry, chemicals, and manufacturing. Functional expertise includes all aspects of running a business, including, finance, technology, sales, marketing, risk, and operations. McKinsey has its own Global Institute whose "independent investigations combine McKinsey's microeconomic understanding of companies and industries with the rigor of leading macroeconomic thinking to derive perspectives on the global forces shaping business, government, and society." "McKinsey Global Institute," McKinsey & Company, accessed February 9, 2011, www.mckinsey.com/mgi.

The Global Institute is one of McKinsey's paths to assisting governments and global institutions with complex economic and business issues. "Twenty years of McKinsey Global Institute research shows that the mix of sectors within an economy explains very little of the difference in a country's GDP growth rate. In other words, dynamism doesn't turn on whether an economy has a large financial sector, or big manufacturers, or a semiconductor industry, but instead on whether the sectors are competitive or not. Instead of picking winners and funneling subsidies to them, countries must get the basics right. These include a solid rule of law, with patents and protections for intellectual property, enforceable contracts, and courts to resolve disputes; access to finance, particularly for startups; and an efficient physical and communications infrastructure." James Manyika, Susan Lund, and Byron Auguste, "From the Ashes," *Newsweek*, August 16, 2010, accessed February 9, 2011, www.newsweek.com/2010/08/16/mckinsey-institute-create-jobs-by-losing-them.html.

Why Does the Firm Matter to International Business?

This chapter discusses the international monetary system, the IMF and the World Bank. In learning about these critical parts of the global business environment, you may find yourself wondering how exactly these institutions and government-led monetary systems interact with the business world. Learning about the business of a management consulting firm like McKinsey helps to illustrate this link.

Over the decades, McKinsey has helped global businesses understand how to enter new markets around the world, how to compete more effectively against their global competitors, and how to harness efficiencies and make improvements in all levels of business. Simultaneously, McKinsey has discreetly been an advisor to governments around the world on diverse issues, including how to amend policy and regulation to encourage more trade and investment in their countries; developing and implementing processes for privatizing industries; and creating more efficiencies in the public sector. At the same time, McKinsey has helped the IMF and the World Bank craft policy to meet their evolving roles in the world economy. Given the often politically charged global environment, it's clear why a company like McKinsey prefers to remain out of the public eye. Much of the work that the firm is engaged in impacts the daily lives of people around the world. Businesses and governments are attracted to McKinsey not only for its sound analysis and advice but also for its discretion and long-term perspective.

McKinsey's consultants form an enviable global network that extends even to former employees. McKinsey operates under a practice of "up or out," meaning that consultants must either advance in their consulting careers within a predefined time frame or leave the firm. It's not uncommon to find that a consultant will leave McKinsey to join their clients in the private sector or work for a government or global institution. This network of "McKinsey-ites," as they are sometimes called, is evident in their influence on policy that could impact their business clients—either on a country basis or industry basis. This network helps attract some of the best business school graduates to the firm.

As noted on its website, people "who join McKinsey find themselves part of a unique culture, shaped by shared values and a desire to help clients make substantial improvements in their performance. When consultants leave, their connection to our firm and their former colleagues remains strong. Our alumni number nearly 23,000 and work in virtually every business sector in almost 120 countries. Through formal events and informal networking, former McKinsey consultants make and sustain professional relationships. This dynamic network is a lasting benefit of a career with McKinsey. Our firm provides support to alumni who want to stay in touch with us and with each other, sponsoring events worldwide." "Alumni," McKinsey & Company, accessed February 9, 2011, www.mckinsey.com/aboutus/alumni.

One of the more interesting aspects of McKinsey's business approach is its nonexclusivity. Consultants develop expertise and can work for direct competitors after short holding periods of one or two years. Other companies in the same industry often see this as an opportunity to learn more about their competitors' strategies—knowing that a competitor has hired McKinsey provides a strong impetus for companies to seek McKinsey's assistance themselves. However, McKinsey does keep its client list confidential, and consultants themselves are not allowed to discuss their work with other teams.

The McKinsey mystique is another interesting aspect of the firm that adds to the secrecy that surrounds it. Despite its size, the firm does not discuss specific client situations and maintains a carefully crafted and low-profile external image, which also protects it from public scrutiny. The McKinsey commitment to discretion has earned it global private and public-sector clients and respect.

Roundly considered to be the most prestigious company of its kind, it has achieved a level of renown so great as to be known even to laymen, despite shrouding details of its work—and its client list—in secrecy. In its practice areas, it addresses strategic, organizational, operational and technological issues, always with a focus—according to the firm—of doing what is right for the client's business, not what is best for McKinsey's bottom line. As for the range of those specialties, the list of industrial sectors the firm serves encompasses everything from commodities and natural resources to the worlds of media, entertainment and high tech. While it doesn't give up the names of its clients (even in case studies it refers to them with pseudonyms such as "BigBank") the firm does claim to serve more than 70 percent of Fortune's Most Admired Companies list, roughly 90 percent of the top-100 corporations worldwide and 80 percent of the 100 largest U.S.-based companies. "McKinsey & Company," *Vault*, accessed February 9, 2011, www.vault.com/wps/portal/usa/companies/company-profile?WCM_GLOBAL_CONTEXT=/wps/wcm/connect/Vault_Content_Library/companies+site/companies/parent_mckinsey+_company/mckinsey+_company_0/mckinsey+_company_0&companyId=328.

While it's hard to know exact details of its pricing, client base, success rate, and profitability, it's clear that the company continues to earn the trust and loyalty of many of the world's companies, governments, and global institutions.

Opening Case Exercises

(AACSB: Ethical Reasoning, Multiculturalism, Reflective Thinking, Analytical Skills)

1. How does the business of a management consultant illustrate the link between businesses, governments, and global institutions?
2. Discuss how a global consulting firm might assist a government client.
3. Why would a global business in the private sector want to hire McKinsey if McKinsey had already done consulting work for a competitor?

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