WILEY FINANCE

DANGEROUS Markets

Managing in Financial Crises

DOMINIC BARTON
ROBERTO NEWELL
GREGORY WILSON

DANGEROUS MARKETS

Managing in Financial Crises

John Wiley & Sons, Inc.
New York • Chichester • Weinheim • Brisbane • Singapore • Toronto

Published by John Wiley & Sons, Inc., Hoboken, New Jersey
Published simultaneously in Canada

For general information on our other products and services, or technical support, please contact our Customer Care Department within the United States at 800-762-2974, outside the United States at 317-572-3993, or fax 317-572-4002.

Wiley also publishes its books in a variety of electronic formats. Some contents that appear in print may not be available in electronic books.

Library of Congress Cataloging-in-Publication Data

Barton, Dominic.
Dangerous markets : managing in financial crises / Dominic Barton, Roberto Newell, Gregory Wilson.
p. cm.—(Wiley finance series)
ISBN 0-471-22686-6 (cloth : alk. paper)
1. Crisis management. 2. Financial crises. I. Newell, Roberto. II. Wilson, Gregory. III. Title. IV. Series.
HD49.B367 2002
338.5'42—dc21

2002009965

Printed in the United States of America

10 9 8 7 6 5 4 3 2

Praise for *Dangerous Markets*

"Financial crises are hardly limited to the purview of central bankers and regulators. The authors skillfully demonstrate that financial crises offer both peril and promise. A 'must read' for top management of any global company, whether a financial or a nonfinancial institution."

Ronald P. O'Hanley
Vice Chairman, Mellon Financial Corp.

"Based on their vast experience in financial crises around the world during recent years, the authors have developed an impressive review of the origins of and solutions to financial crises. The cost of such crises can be minimized and the path to recovery established earlier if bankers, other corporate executives, and public finance officials take advantage of this effort and apply the lessons learned from their significant work."

Charles H. Dallara
Managing Director, Institute of International Finance, Inc.

"*Dangerous Markets* is a 'must read' in the current global environment for all serious investors and senior executives. The McKinsey authors bring a unique practitioners' perspective to the challenges of anticipating, managing, and succeeding in financial crises, and close with an intriguing call for leading private sector players to step up their role in promoting new market standards and structures to help avoid future financial crises and minimize their potential impact."

Robert R. Glauber
Chairman and CEO,
National Association of Securities Dealers, Inc.
former Under Secretary of the U.S. Treasury Department
former Harvard Business School professor

"The authors address an issue of enormous importance in today's volatile world. They emphasize the critical role that the management of financial institutions can play, not only in leading their own institutions through choppy waters, but in helping shape the development of more robust financial systems."

Peter Sands
Group Finance Director, Standard Chartered Bank

"Barton, Newell, and Wilson provide new and important insights into financial crises based on their extensive and successful work with private financial institutions and with governments. They offer clear and persuasive guidance on how best to avoid crises, how to see them coming, and what to do when they happen. This is best-practice counsel from three leaders in the field. They have worked in the trenches, and bring a vital private sector perspective."

Martin N. Baily
Senior Fellow, Institute for International Economics
former Chairman of the Council of Economic Advisers

"The book results from a fresh and imaginative approach to financial crises in the past few years, particularly from a corporation's standpoint. The insights are precious to top executives as well as to regulators and academics; in fact, the book provides a very skillful demonstration of the value of the dialogue between all interested parties on the issue of financial crises. Since the focus of such crises is now moving toward nonfinancial corporations, the book becomes even more timely and important."

Gustavo Franco
Partner, Rio Bravo Investimentos
Professor of Economics, Pontífica Universidade Católica
former Governor of the Central Bank of Brazil

"As a member of the private equity investment community, I recommend *Dangerous Markets* to all members of the world business community. Their insights provide valuable lessons which if applied can make the world markets much more efficient and stable."

Steven Lee
Partner, Lone Star Fund

"Based on their unparalleled experience consulting during financial crises, Barton, Newell, and Wilson offer a fresh perspective on such episodes. The microeconomic focus—as opposed to the conventional macro view—provides important new insights into the difficult art of forecasting and surviving these storms."

Dr. José A. Scheinkman
Chaire Blaise Pascal de l'État et de la Region Île de France
Theodore Wells '29 Professor of Economics,
Princeton University

To my wife, Sheila, and my children, Fraser and Jessica
Dominic

To my wife, Tamara, and my children, Laurence, DeNeen, and Tatiana
Roberto

To my wife, Beejay, my children, Sarah and Christopher, and in memory of my parents, Paul and Lorayne S. Wilson
Gregory

preface

WHY MANAGE FINANCIAL CRISES PROACTIVELY?

Financial crises are simply too important and too costly to shareholders and societies to leave unmanaged. There is no question that there are *real* dangers in financial crises: Companies go bankrupt, management teams are fired, investors lose their money, employees lose their jobs, pensions disappear, deposits are frozen in time, personal savings get depleted, civil unrest increases, public riots can break out, contagion spreads across political borders, secondary effects appear such as higher risk premiums in other unsuspecting countries, and, finally, governments fall—as they did in Indonesia, Ecuador, Russia, and Argentina in recent years.

Too often, we see companies and entire sectors of an economy that are consistently destroying shareholder value year after year, sowing the seeds of a future crisis. Too often, we find fundamentally weak banking systems, especially in emerging markets where the banks play a disproportionate role in the national economy compared to less volatile capital markets. Too often, these weak national systems are linked inefficiently to global capital markets, increasing the cost of capital locally to all borrowers—individual consumers, businesses, and governments alike. Too often, we see weak corporate governance or inadequate accounting and transparency. Invariably, we find weak financial regulators who lack both the needed skills and political independence to do their jobs adequately. Too often, weak national systems are hooked up to the global capital markets before they are ready, and a lot of money flows in under misguided assumptions, increasing the potential for crisis.

Consequently, financial crises are occurring more frequently, with costs that are measured by as much as one-quarter or one-half of a nation's GDP. They also have long time horizons, measured in years, not months. At different levels, contagion is now a fact of life in the world. Moreover, there is no end in sight. We believe firmly in the net benefits of dynamic market forces and globalization, but the collision of these forces with weak economies and weak financial systems exposes the rot lying below the surface in many countries and, in our view, will only increase the rate and intensity of crises in the future.

That's why financial crises need to be managed.

Yet, too many companies and too many countries fail to manage their crises proactively: Unfortunately for shareholders and taxpayers, they react day-to-day and usually lack a viable plan to navigate their way out of the financial storm that has engulfed them. Crises are often seen as random, catastrophic events, yet every client with whom we have worked regrets not having been prepared adequately. Crises are not going away.

From our global perspective, we see at least two major benefits to managing a crisis proactively. First, there are real financial savings by minimizing the crisis resolution costs imposed on these same shareholders and taxpayers. Second, there are real competitive benefits as well, if executives can act swiftly before or after a crisis hits to seize new opportunities and secure a winning position as economic growth returns in the post-crisis world. Consequently, both companies and nations have a huge economic self-interest in getting crisis management right. While some elements seem out of control, many are manageable with the proper planning and resources.

Managers in the midst of a financial crisis have an undeniable self-interest in survival and protecting their shareholders. Since financial crises can rob a country of years of needed economic development, policymakers have an equal self-interest in preserving GDP growth on behalf of the societies they represent. With the right combination of vision, leadership, strategy, courage, and operational and financial capabilities, however, executives can manage crises to optimize their competitive or national self-interest: Crisis resolution costs can be minimized; crisis durations can be shortened; corporate and national solvency can be restored more quickly; competitive positions can be enhanced; financial systems can be saved and reset for the global world in which we live; and economic growth can be restored and sustained. However, it takes commitment, skills, toughness, and hard work.

Just as executives have a clear self-interest in actively managing financial crises, they also have options that they can exercise.

For a moment, imagine two huge power stations supplying electricity to a neighborhood. Suppose you live in a house that receives power from one of these stations. If your house has up-to-date wiring, with the proper system of circuit breakers and controls, you can use all your appliances at the same time to cook your food, heat your home, and run your computer with little fear of electrical harm. Perhaps a light bulb will go out, or one circuit breaker will blow, but overall the house will not have major electrical problems and the risk of a major mishap is low.

If, however, the house's wiring is faulty or out-of-date with modern building codes, then you risk melting your entire electrical system, and perhaps even setting your house on fire. Of course, you can choose not to operate on the power grid, as have North Korea and Cuba, for example. In that case, however, you will not be able to obtain the electrical power you need to run your home.

In addition, your situation may be complicated by the fact that you can be affected directly by your neighbors if their wiring system isn't up to the proper code. If they overload the system or have faulty wiring, the entire neighborhood could be set on fire. Each house needs to have its wiring inspected regularly to manage power flows and surges, and the power stations in turn need to manage their systems effectively to ensure that they are delivering power safely and efficiently.

So it is with the modern global financial system. In this analogy, the power stations are predominantly the financial hubs in the United States and the United Kingdom, although national financial systems act as their own generators and substations that link end users to the ultimate providers. The electricity is the huge flows of capital and liquidity now available to individuals, companies, and governments from those financial centers. The houses with modern wiring that are up to current code are those companies, investor groups, pension funds, and nations equipped with strong economic and financial fundamentals to withstand sudden power surges or outages. Those houses with poor wiring operating under outdated codes are those companies and nations at risk during these times.

Globalization and market forces can either reduce or expand possible options, but executives still have options that they can exercise to influence the direction, depth, and pace of crisis resolution in their companies and reforms within their markets. They do not, however, have options that can stop financial evolution without negatively affecting their company's economic well-being. This is especially true in countries experiencing a financial crisis. In fact, the challenges in crisis countries may be more complex, and their solution space even more severely limited.

In our judgment, therefore, executives have at least three basic options to consider as they manage a crisis.

1. **Default to the pre-crisis status quo.** First, executives can default to the pre-crisis status quo. Some companies and countries do, but this step usually means reverting to the old ways of doing business and a mostly closed financial operating system that results in a high-cost, crisis-perpetuating, low economic growth model.
2. **Muddle through.** Second, executives can simply muddle through a financial crisis with reluctant strategy, operational, and policy adjustments. They typically commit only to marginal change, tinkering with broken ways of conducting business, smoothing over the underlying core issues, making some concessions to liberalizing markets and the emergence of the global operating system architecture. If they are lucky,

they may buy time. Yet they will most likely face unresolved issues that will come back to haunt them.

3. **Capture new strategic opportunities.** Finally, CEOs and other senior managers can opt to fundamentally challenge old assumptions and rebuild their companies and economies. While there are dangers and there are threats, fresh opportunities are also created as new market realities set in over time. This third option can maximize a company's economic effectiveness by linking directly with the world's most efficient financial operating systems and securing access to capital at the lowest possible cost. In turn, sustained real economic growth should be the long-term reward.

From our perspective, the executives who want to win and secure a sustainable position in the post-crisis endgame owe it to themselves, their shareholders, and other constituencies to choose option 3, just as policymakers owe it to taxpayers to choose option 3 in the name of restarting economic growth as soon as possible and safeguarding the financial system from further crisis. The costs of options 1 and 2 are simply too high to accept.

Regardless of the preferred option, neither CEOs nor policymakers can avoid responding immediately to crisis and longer-term market forces. *Dangerous Markets* is designed to assist all senior executives to manage in a national financial crisis while preparing to compete in a global marketplace. While policymakers often are forced to take the public lead when a crisis hits, the private sector—particularly those companies and institutions that see themselves as part of the backbone of the new economic system that emerges from the crisis—has an equally important stake in managing financial crises sooner rather than later.

Initially, both companies and countries are paralyzed, then CEOs and policymakers are overwhelmed with too much to accomplish, and typically there is no road map to help them manage a crisis and rebuild. Frankly, we found ourselves scrambling initially to pull together lessons learned from other crises and our own client work in other crisis countries, and wondering if we had all the right insights for clients and if we had the right countries to compare.

Dangerous Markets is our recommendation for that road map. It is written for all managers—CEOs, executive operating managers, investors of all kinds, public officials, and anyone else who has a self-interest in anticipating, weathering, and prospering in a financial crisis. There are certain general principles and action steps that we always recommend in the early days of a crisis, such as being better prepared, understanding and managing your cash position, minimizing your operational risk, conducting scenario planning, preparing to divest unproductive assets, and maintaining the confidence of key stakeholders. Next, corporations need to be prepared to reinvent themselves and to attain a new vision building on five strategic discontinuities: changes in regulatory regimes; competitor strengths; customer needs; organizational capacity for change; and changing social values. Finally, among other things, executives need to build specific skills and drive corporate governance practices to world-class standards. This road map, however, must be tailored to meet each unique set of national challenges and opportunities. We know that there is no single magic solution for each and every company or country.

WHY WE WROTE *DANGEROUS MARKETS*

This crisis management guidebook, *Dangerous Markets*, is written from a microeconomic and practitioner's perspective. It is drawn from McKinsey & Company's extensive client work globally and our significant Firm-funded research into the causes and impact of financial crises. It is not an academic treatise, nor does it necessarily address all crisis-related topics for all occasions.

Rather, we have drawn upon our practical crisis management work for the private and public sectors in numerous countries. Our journey together began with Dominic and Greg leading McKinsey's team that served the Canadian Task Force on the Future of the Canadian Financial System in 1996 and 1997. Greg then helped a McKinsey team serving the Thai government sort through the wreckage of that country's finance companies. Dominic happened to move to Korea on the eve of the Asian financial crisis, and he, Jungkiu Choi, and Greg led our work for the crisis-born Financial Supervisory Commission. Dominic also became heavily involved in several business turnaround situations as well as engagements helping stronger companies that were determined to use the crisis as an opportunity to leapfrog their competitors.

Later, they joined other McKinsey colleagues in Singapore, where McKinsey served the Monetary Authority of Singapore (MAS) and the Financial Sector Review Group, working beside private sector participants in the quest to turn Singapore into an Asian financial center. In Indonesia they were joined by Roberto, who helped other McKinsey colleagues serve the Indonesian Bank Restructuring Agency (IBRA) reset its strategy and organizational structure after the first two unproductive years of its existence. There, too, our practice was involved in serving several major Indonesian companies during the crisis.

Financial crises were unfortunately not confined to Asia. In 1998 Greg got a call from Roberto to join him in Jamaica where multiple McKinsey teams were assisting the Ministry of Finance and the Financial Institutions Asset Corporation (FINSAC), Jamaica's bank restructuring agency and asset management corporation, to implement solutions that Roberto and others had applied first in the United States, as part of the S&L crisis, and later in Mexico. Just as the crisis was breaking in Ecuador, Roberto and Greg traveled there to a series of meetings with the former president, Jamil Mahuad, to assist Ecuador's new Agencia de Garantía de Depósitos (AGD). They also later helped other colleagues in Colombia serve the Fondo de Garantías de Instituciones Financieras (Fogafín), the Colombian bank restructuring agency, by conducting a diagnostic and bank recapitalization program before a real crisis hit there. We have also served private and public sector clients, individually and collectively, in numerous other countries.

Our roles and the timing of our involvement have varied widely. In some financial crises, we had limited involvement in the early stages at the policy level, but we were always actively involved with our private sector clients. This was the case with Ecuador and Colombia, for example. In both of these situations, we assisted with the initial diagnostic work that allowed us to observe firsthand the responses that these two countries subsequently crafted. Despite our best efforts, Ecuador's embedded problems eventually turned into a systemic financial sector crisis, and thereafter we were involved with helping to pick up the pieces with the failed banking system. In Colombia, we were pleased to see that the government acted to prevent serious damage to the banking system, and while there were still significant costs to be paid, the government's preemptive action prevented a systemic crisis.

In most cases where we have played an advisory role, our involvement came later, but still early enough that the key assignments focused on minimizing the potential costs. This was the case in Korea, Jamaica, Colombia, Indonesia, Thailand, and Mexico, where we became involved after these countries already had suffered crises engulfing a significant proportion of the banking system and assets in the real economy.

In some cases, we helped countries create new financial sector visions after intense iterative processes involving all stakeholders. We also have assisted governments in devising performance contracts and investment guidelines that have been used when selecting specific institutions (alternatively called "backbone" banks or "anchor" banks) that were targeted to be part of the new financial system. In addition, we have crafted turnaround strategies for failing banks in Asia, South America, Europe, and the United States.

Moreover, we have spent considerable energy helping create new institutional capabilities to minimize the cost of financial crisis failures, both in the private and the public sector. Specifically, these capability-building engagements included: preparing turnaround programs for troubled banks; developing "bad banks" and/or capabilities to manage nonperforming loan portfolios; defining strategies to manage and dispose of other nonbanking assets; and preparing privatization programs to dispose of both bank and nonbank corporations.

Finally, we have done extensive work helping countries develop strategies and recommendations not only to stabilize their financial economy, but also to reset new financial systems that become linked efficiently with the larger global marketplace and therefore are better equipped to sustain stable economic growth. In these cases our roles generally have been centered around: creating new supervisory capabilities to oversee the performance of banks and other financial intermediaries; preparing policy recommendations for regulatory and legal change; helping to strengthen corporate governance structures; and developing capital markets to lower the overall cost of capital and improve financial market efficiency. We have drawn most of the lessons described in subsequent chapters from this real-world experience.

In contrast to the many academic studies or official reports from international financial institutions, our goal has been to use McKinsey's top management approach and frontline experience to offer some unique perspectives, case examples, and practical solutions, and an actionable, strategic blueprint that our clients can tailor to meet their specific needs. When we were first drawn into this important work—down in the trenches beside crisis management leaders—we found that few were fully prepared, including us. There were no textbooks to pick up and read.

We learned by doing—in at least twelve countries, many with similar problems, all different. We have been teargassed and forced in some cases to travel with armed guards. We have worked through bank holidays, been swept up in street demonstrations and riots, and forced at times to evacuate our client's work site. At still other times, we were the target of labor agitation and abuse due to our role in bank or company restructuring. Every day of a crisis has been a new adventure for us, some more exciting than others.

We also found several heroes who inspired us and encouraged us as we took this journey. In Korea, Hun Jae Lee, the first chairman of the new Financial Supervisory Commission, was the right man at the right time to guide Korea's early crisis response. Y.O. and Y. S. Park, the brothers running the Doosan Group, and Jung-Tae Kim, the CEO of Kookmin Bank, were also inspirations to us. In Singapore, Deputy Prime Minister Lee Hsieng Long, the head of the MAS, had the vision to seize the opportunities that the surrounding crisis in Asia offered to the city-state to become a leading financial center in the region. Brian Quinn, the former deputy governor of the Bank of England and head of bank supervision, has been an inspiration and valuable thought-partner.

From the United States, Frank Cahouet and Keith Smith, the former CEO and CFO respectively of Mellon Bank, have leveraged their considerable U.S.-based bank turnaround talents in Korea as well, lifting the aspirations and skills of banks there. In Chapter 6, they also kindly shared their full story of Mellon Bank's successful turnaround, which they led in the late 1980s after their equally successful turnaround of Crocker National Bank in California.

Timothy Hartman, the former vice chairman and CFO of NationsBank (formerly North Carolina National Bank) in the United States also shared his insights about NCNB's novel but successful entry into lucrative new markets in crisis conditions in the late 1980s under the leadership of former CEO Hugh McColl. We also learned from Robert Lehman at FAMCO during the U.S. Resolution Trust Corporation (RTC) cleanup of the S&L mess.

We assisted Jorge Castellano, head of Fogafín, to craft plans to turn around floundering institutions in a program that worked so well that a systemic crisis was avoided. In Mexico, we partnered with Guillermo Acedo of Bancomer, building a "bad bank" that was so successful that it became a model for work that we later carried out in Argentina, Brazil, Jamaica, and Colombia. In Jamaica, Patrick Hylton, FINSAC's managing director, faced extremely difficult and at times dangerous problems in that poor, crisis-wracked country, but managed to emerge as a guiding light and true public servant.

Moreover, we have also benefited from extensive McKinsey-funded research in a project we called the Future of the Global Financial System, led by two visionary Firm directors: Lowell Bryan and Ted Hall. We learned from several McKinsey teams who analyzed various aspects of the evolving structure and trends in the global financial system. We also developed twelve in-depth crisis country case studies that served as a helpful learning device to study past and current crises.

In the final analysis, we decided to capture our journey in writing for three reasons. First, we have a responsibility to our clients to deliver high-value consulting services, and the general lessons we have learned can be transferred to the direct benefit of other noncompetitive clients that we serve in the future. Second, we have a responsibility to our Firm to codify the deep knowledge that only practical experience and expertise can bring to the table. Finally, having lived through a number of these financially devastating crises that often destroy a generation of economic growth, we truly believe that there is a moral imperative to share our best thinking with a global audience in the hopes of helping to avoid financial crises in the future and reducing the frequency, duration, and costs of future financial storms wherever they may hit.

Dangerous Markets, therefore, should be considered a road map for those companies and those countries that either elect—or are forced—to take this journey. We present a practitioner's view based on real client work at the center of financial crises in numerous countries. While we offer our thoughts from a broad, deep, and current client perspective, we recognize that we certainly do not have all the answers. The nature of financial crises makes them continuous learning experiences.

Dominic Barton *Roberto Newell* *Gregory Wilson*

acknowledgments

Our journey has been a tremendous team effort. Many of our colleagues at McKinsey & Company and other experts outside our firm have played a valuable role in helping to make this project a reality.

We are indebted to the leadership of McKinsey's Global Strategy Practice, which has supported our efforts along the way. Our colleagues—Horst Beck, Lowell Bryan, Dick Foster, Ken Gibson, Ted Hall, and Peter Sidebottom—provided the initial overall support from McKinsey's Future of the Global Financial System project and encouraged us onward at every stage of this multi-year project. They deserve our sincere thanks for their encouragement.

In addition to the three of us, several former and current colleagues are also primary contributors to various sections or sidebar discussions, and they, too, deserve our highest gratitude for joining us on this adventure and for being true partners in our discovery process: Maria Blanco, Jungkiu Choi, René Fernández, George Nast, Emmanuel Pitsilis, Gervase Warner, and Mark Wiedman deserve a special thank you from each of us. A special thanks as well goes to Brian Quinn, the globally respected former head of bank supervision at the Bank of England, who has worked closely with us in several countries and added his thoughtful insights to our research and client work.

We also had the benefit of expert outside comments and suggestions along the way from some of the leading economists inside and outside McKinsey during the early stages. From McKinsey, we benefited from the advice and counsel of our McKinsey Global Institute (MGI) colleague Martin Baily, currently a senior fellow at the Institute of International Economics (IIE) in Washington, D.C., and a former Chairman of the U.S. Council of Economic Advisers. We also benefited greatly from the comments and suggestions on our early research by Professor Richard Cooper, the respected economics professor at Harvard University and noted author, and Professor José Scheinkman, a highly regarded author and economics professor at Princeton University. These three distinguished economists helped push our thinking throughout our research, and we have greatly valued the opportunity to learn from them. We also learned a great deal from Patrice Thys, an executive at Interbrew, who led much of its successful international expansion, often in countries that were in crisis. We also have benefited greatly from our discussions and work with David Scott at the World Bank, Jonathan Fiechter, formerly at the World Bank and now Senior Deputy Comptroller of the Currency for International and Economic Affairs, and Arne Berggren, formerly of the Swedish Finance Ministry, with whom we worked in Thailand and Korea. Dr. Heungsik Choe and Dr. Buhmsoo Choi, formerly of Korea's FSC, deserve our thanks for their assistance during the early days of the Korean crisis.

Other colleagues from around the world made valuable contributions based on their relevant client work and aided our analysis and understanding along the way: Luis Andrade, Rick Arney, Hugo Alfredo Baquerizo, Doug Beck, Larry Berger, Tab Bowers, Andrés Cadena, Mauricio Camargo, Michael Carpenter, Emre Deliveli, Didem Dincer, Goktekin Dincerler, Andrey Dutov, Diana Farrell, Gonzalo Fernández-Castro, Lisa Finneran, Alex Gouvea, Thomas Grant, Eliza Hammel, Cherry Hui, Aly Jeddy, Marcien Jenckes, Sanjay Kalpage, Yuko Kawamoto, Myunghee Kim, Peter Lee, Eberhard von Löhneysen, Jacqueline Luo, Antonio Martínez, Carl McCamish, Colin Meadows, Alan Morgan, Leo Puri, Jaana Remes, Daniel Reséndiz, Gonzalo Rios, Carlos Rodríguez-Porcel, Andrew Sellgren, Joydeep Sengupta, Simen Simensen, Hans-Martin Stockmeier, Katherine Switz, Charlie Taylor, Ben Tsen, Carlos Vara, Roland Villinger, and Mark Watson. We also owe a debt of gratitude to the hundreds of McKinsey associates who have been on our client service teams who have helped us in many countries in crisis.

In the final months, we were greatly assisted by two of McKinsey's truly outstanding business analysts, Sarah Fox in Washington, D.C., and Paul Lee in Seoul, who helped us get the facts right, checked all of our data, and contributed to our own thinking in our working sessions with them.

Finally, this book would not have been possible without the superb help of three outstanding individuals who excel at what they do: Susan Lund, Ph.D. in economics, a former McKinsey associate and now a *McKinsey Quarterly* editor, who has been a constant thought partner with us from the earliest days of this project; Juanita Allen, our trusted McKinsey assistant and enthusiastic supporter, who provided all of the logistical and technical support over several years and labored through multiple drafts in our collective pursuit of a high-impact book; and finally, our external editor, Erik Calonius, who has helped us to fulfill our aspirations and deliver the best book possible to our readers.

Everyone deserves our deepest gratitude and thanks for their significant individual contributions. While so many played a valuable role, the views expressed in this book are those of the authors; they do not represent the views of McKinsey & Company, Inc., or any of its partners.

contents