

18 December 2023

Mr. Patrick Hodder,
Committee Secretary,
Finance and Public Administration References Committee

Dear Mr. Hodder,

Re: Senate Finance and Public Administration Committee (the “Committee”) Inquiry into the Management and Assurance of Integrity by Consulting Services – Answers to Questions on Notice received on 27 November 2023

We refer to the questions on notice received on 27 November 2023 and provide our answers below.

Unless otherwise specified, the information provided in this submission pertains to the Australian offices of McKinsey Pacific Rim Inc. (“**McKinsey Australia**”) only. We interpret any reference to “McKinsey” in the questions on notice as referring to McKinsey Australia.

1. **On page 63 of the 26 September 2023 Hansard transcript Ms. Petherick stated that Ombuds do not have Australian citizenship or security clearances, and that there is the capacity for McKinsey employees staffed to Australian Government contracts to engage OMBUDS and disclose facts related to their work?**

- a. **Has the Ombud Program been disclosed to AGSVA or DISP?**

No.

- b. **If so, when did McKinsey disclose the Ombud program to AGSVA and/or DISP? Please provide any correspondence related to these disclosures.**

Not applicable.

- c. **If not, why was such a disclosure not made?**

As noted in our answers dated 19 October 2023, our Ombuds deal with “*work-related concerns like tensions, respect, and alleged bias as well as personal issues like stress, burnout, mental health, and relationships.*” Our Ombud Program is not intended to be used for the discussion of confidential client information or information subject to security clearances or data localisation requirements. Nor is any disclosure of information subject to security clearances or data localisation requirements permitted to our Ombuds.

All McKinsey Australia colleagues holding a security clearance are subject to stringent confidentiality obligations specific to the level of clearance granted. Those confidentiality obligations prescribe in detail how colleagues are to handle information that is disclosed to them. All McKinsey Australia colleagues with security clearances are aware of and are subject to training in relation to the confidentiality obligations that accompany such clearances. Those obligations and restrictions expressly preclude the disclosure of confidential information subject to security clearances or data localisation requirements to

any person, including an Ombud, who is not specifically authorised to receive that information.

As such, the existence of the Ombud Program was not relevant to or required to be disclosed by McKinsey Australia: (1) in response to any questions set out in our DISP application or by any related DISP membership obligations; or (2) in any materials provided to the AGSVA or by related AGSVA disclosure requirements.

d. What country are the Ombuds who serve Australian McKinsey employees based in?

Our Ombuds serve colleagues in all geographies. Our Ombuds are currently based in the United States, United Kingdom, France, and Germany. We note that we referred in our answers dated 19 October 2023 to one of our Ombuds being based in South Africa; for completeness, we wish to note that our South Africa-based Ombud has recently gone on extended leave for personal reasons and does not serve McKinsey Australia colleagues at present.

2. McKinsey's response to questions on notice stated "Our Ombuds have checked the records of inquiries from McKinsey Australia employees and have confirmed that no inquiries made to our Ombuds in the last two years have concerned Australian Government work."

a. Is it possible for an Ombud to receive a disclosure relating to Australian Government work, and not to record it?

Our Ombuds retain records of all inquiries made for a two-year period from the date of the inquiry.

For the avoidance of doubt, our Ombud Program is not a channel or reporting mechanism for McKinsey Australia colleagues to make actionable complaints or disclosures. As noted in our answers dated 19 October 2023, our Ombuds deal with *"work-related concerns like tensions, respect, and alleged bias as well as personal issues like stress, burnout, mental health, and relationships."* Our Ombud Program is not intended to be used for the discussion of confidential client information or information subject to security clearances or data localisation requirements. Nor is any disclosure of information subject to security clearances or data localisation requirements permitted to our Ombuds. In the event that an inquirer were to make a disclosure or to state a claim, complaint or grievance to one of our Ombuds, the Ombud would refer the inquirer to the appropriate channel, which would depend on the specific circumstances involved.

b. Is it standard practice for Ombud's records to state the entity/company to which disclosures relate?

No, our Ombuds maintain de-identified records of inquiries (i.e., no nominative information is retained), as noted in our answers dated 19 October 2023. We can confirm that no inquiries concerning Australian Government work were made to our Ombuds in the last two years because our Ombuds' records show that none of the inquiries received from McKinsey Australia employees concerned client-related issues. The themes raised by McKinsey Australia inquirers to our Ombuds in the last two years concerned employee careers and wellbeing.

- c. Given that the Ombud service is confidential, is it possible that the fact an employee is staffed to an Australian Government project may not be recorded, as a necessary step to maintain the confidentiality of the reportee? If such a thing happened, would McKinsey have knowledge of it?**

It is possible that an Ombud may not be aware that an inquirer is staffed to an Australian Government project if that fact is not relevant to the inquirer's concern. Our Ombud Program is not intended to be used for the discussion of confidential client information or information subject to security clearances or data localisation requirements. Nor is any disclosure of information subject to security clearances or data localisation requirements permitted to our Ombuds.

- 3. On page 67 of the 26 September 2023 Hansard transcript Ms. Petherick responded to Senator O'Neill's question of whether the practice commonly known as 'up or out' was undertaken in McKinsey Australia by stating "for all of our roles we clearly outline the expectations of those roles. That includes expectations about people's skill development over time".**

- a. Are specific "expectations about people's skill development over time" included in McKinsey employment contracts, or workplace policies referred to in employees' employment contracts?**

Our employment contracts do not state specific skill development expectations or refer to workplace policies on skill development expectations. However, we do communicate our high-performance environment and rapid development expectations to applicants at multiple points throughout the interview process.

Once onboarded, colleagues are expected to progress in accordance with our Leadership Development Model ("**LDM**"), as mentioned by Mr. Wesley Walden during his testimony to the Committee on 26 September 2023. The LDM is available to our colleagues through our intranet. Our LDM sets out clearly defined standards for the roles that our consultants are expected to matriculate through and against which the development of our consultants is regularly discussed and assessed. Our LDM identifies four key skills areas or "pillars." For each of these pillars, we offer a combination of digital and in-person training tools and programs to assist our colleagues with skill development.

- b. If so, can de-identified or sample copies please be provided?**

Not applicable.

- c. If not, how are these growth expectations recorded and measured?**

All our feedback and evaluation processes are structured around the four pillars defined in the LDM (as described in our answer to Question 3(a) above), creating a coherent and consistent environment for development. Feedback is provided in 'real time' throughout projects, to enable rapid growth. It is also provided in written form at the end of every project, structured around the four pillars of the LDM. At the mid-year point, a formal development conversation is held with each colleague to help them take stock of their progress and identify priority areas for focus over the coming six months. At end of year, we undertake a formal evaluation of each consultant, taking into account all of his/her work over the previous

year, and provide specific advice on growth and development structured around the four pillars defined in our LDM. We document the evaluation outcomes to ensure clarity.

d. When employees fail to demonstrate “appropriate skill development over time”, what is the usual process of termination for such employees?

In the event that a colleague fails to demonstrate appropriate skill development over time, we place such colleagues on a performance improvement plan, typically for a period of 6-12 months. During this period, managers continue to have regular check-ins to ensure the colleague has adequate guidance and support to navigate and successfully complete the performance improvement plan.

If, however, the colleague fails to successfully complete the performance improvement plan and there still are performance concerns, McKinsey Australia considers cessation of employment in accordance with their employment contract.

e. In the 2021 – 2022 financial year what percentage of staff loss (by termination, redundancy, mutually agreed termination, resignation or other) was the result of failure of staff failure to demonstrate “appropriate skill development over time.” Please provide an overall breakdown of this percentage, as well as a breakdown specific to staff level (associate consultant, consultant etc). Please also state the total number of staff exits from McKinsey (for any reason) within each respective group.

We did not ask any colleagues to leave during Financial Year 2022 for performance-based reasons.

A small number of colleagues received feedback that they were falling below expectations and chose to depart McKinsey Australia during Financial Year 2022 while still within their timeframe for demonstrating improvement. This group represented approximately 2% of our total headcount in Financial Year 2022.

For data on departure rates by career level, we refer to our answer submitted to the Committee on 22 September 2023.

f. Has McKinsey considered the stress and anxiety that a demanding human resource policy may have on its employees, specifically its younger employees?

We are mindful of the challenges associated with working in a high-performance environment and invest in skill development and in offering world-class resources to support our people to thrive. This includes a comprehensive program for wellbeing called Mind Matters, which includes 1-1 coaching and learning programs focused on wellbeing management; a comprehensive set of digital wellness tools and resources; online communities for wellbeing support; regular forums and speakers to foster open ongoing conversations about well-being; and 24/7 access to mental health counselling by video, phone, chat, as well as in-person support for such needs. We also build a focus on wellbeing into our day-to-day work, with all

our teams having fortnightly discussions ('retros') to reflect on the team working environment and identify opportunities for improvement.

- g. Is McKinsey considerate of extenuating circumstances, including health, and caring responsibilities, on an employee's abilities to continue to try and move 'up'? If so, how are such considerations built into contracts?**

We understand that our people have requirements for different kinds of flexibility at different points in their careers and that demands outside of work, as well as health needs or caring responsibilities, play an important role in shaping those flexibility requirements. We offer multiple different forms of flexibility to support this, including options to press 'pause' or 'slow down' on developmental expectations for agreed periods of time (or, in some roles, indefinitely), options to work part-time, options to take extended leave or leaves of absence, as well as programs to help people 'ramp off' or 'ramp on' to and from extended periods of leave. These programs change from time to time and are typically not included in our contracts.

- h. Employees earning an income of over \$167, 500 are not covered by unfair dismissal laws. Given that most staff earn above this threshold, is McKinsey enabled to place significant and extraneous stress, in addition unreasonable expectations, upon its workers?**

Attracting, developing and retaining highly talented individuals is core to our success, and part of our mission is to create an 'unrivalled environment' for our people. We do have high-performance expectations of our people, but we are also deeply invested in supporting them to thrive.

- i. At what level (Associate Consultant, Consultant etc) do McKinsey staff (based on current pay rates) exceed the \$167,500 unfair dismissal threshold? Does this correspond with an increase the rate of employee exits for reasons related to "lack of appropriate skill development over time."**

We consider the remuneration of our employees to be private information that is personally, competitively, and commercially sensitive. As such, we are not able to share the requested information.

Thank you for the opportunity to continue to assist the Committee.

Yours faithfully,

McKinsey Pacific Rim Inc.