

FINANCIAL TIMES

MASTERING PEOPLE MANAGEMENT:

THE UPS AND DOWNS OF LEADING PEOPLE

Managers have to be ready to take up the reins of leadership, says Michael Useem, and that includes calculating risks, voicing concerns and guiding uncertain superiors.

By **Michael Useem**

An unexplored yet critical side of leadership is upward leadership, or getting results by helping to guide your boss. Rather than undermining authority or seizing power from superiors, upward leadership means stepping in when senior managers need help and support in a way that benefits everyone.

Leading up is a matter of offering a superior your strategic insights or persuading a boss to change directions before it is too late. It requires an ability to work in two directions at once, of stepping into the breach when nobody above you is doing so — and of listening to those below you before you step off a cliff yourself.

Upward leadership is not always welcomed. Many managers have worked for a supervisor who ran the office with a fine level of detail or misjudged the future. To come forward when a superior does not encourage it can be risky but if the upward leadership works — whether welcomed or not — it can help transform decline into growth and, occasionally, turn disaster into triumph.

Upward leadership is not a natural skill but it can be mastered and there are few better ways to appreciate its exercise than to study those who have had to apply it. Watching their efforts can provide lessons for leading up when it really counts.

Bold subordinates

Last year, the then-US vice-president Al Gore defeated Bill Bradley in the campaign for the Democratic presidential nomination. Many factors contributed to the defeat but among them was Bradley's reluctance to reply to stinging attacks by his opponent. His instinct had been to run his campaign above the fray — less as "a 21st century politician," said The New York Times, "than as an Old Testament prophet."

Although his campaign suffered defeat after defeat in the early stages, Bradley might have recovered his momentum had he hit back hard. To do that, though, the candidate needed to be led into the fray, a form of leading up that no one working for him proved willing to risk.

Bradley tended to take his own counsel more than that of campaign advisers. For their part, they did not always say what he needed to hear. An aide summed up the problem just after Bradley withdrew from the campaign in March following defeats in two states: "These people were always concerned about what their relationship with Bill should be, as opposed to just doing what it takes to win."

The apparent inability of Bradley's staff to distinguish between leading up and currying favor may have contributed to the aspirant's decline. However, the cause goes back to the man who had created such a mindset in the first place. Had Bradley pressed those who worked for him to do their best by him, even if it meant voicing criticism, they might have bolstered his run for the party's nomination.

Leading up can require fortitude and perseverance. Managers might fear how superiors will respond and doubt their right to lead up, but all carry a responsibility to do what they can when it will make a difference, and to tell a superior what he or she ought to hear. Many strategies and more than a few organizations have failed when the middle ranks could see the problems but hesitated to challenge their command.

From the other point of view, there is also an obligation on managers to encourage people below to speak up and tell them what they need to know, to fill in for their shortcomings when future success is threatened.

A culture of upward leadership is built, not born. For that, managers should regularly insist that more junior staff examine proposals and challenge errors. Asking those of lesser rank to say what they candidly think and complimenting them for doing so are among the small measures that can make for a big improvement in attitude.

Risk and reward

Some individuals begin with a head start but everybody can improve their ability for upward service. In 1997, David Pottruck, chief operating officer of broker Charles Schwab, faced a critical decision in his career, in which the outcome depended greatly on his upward leadership skills. Could he convince his chief executive and company directors to make a radical move into internet-based client trading? It would be expensive and risky but it could also be highly advantageous.

Founded in 1974, Schwab's annual revenue exceeded \$29 billion by 1997. Through its thousands of customer service representatives, the company bought and sold shares for a million clients and in the astounding bull market of the 1990s everyone seemed to benefit. The rise of the internet, however, threatened to undo all that, undermining a rich network of relationships painstakingly assembled over many years. The web furnished free and fast access to company information that had long been the brokers' province and it opened a way to trade stock at a fraction of the time and cost required to call a broker.

For those willing to forgo personal contact, Schwab had built an electronic trading service, charging just \$29.95 a trade. Many customers, however, still wanted real dialogue with real people and it was from these people that the serious money came — as much as \$80 a transaction. For how long, though, would these clients continue to pay \$80 when they knew other clients were trading for just \$29.95?

One solution would be to bundle full-service and online trading into one offering and so give all customers the combination that many increasingly wanted. In the spring of 1997, Pottruck decided that the two-tier system had to go, even though he was personally responsible for building much of it. In its place, he would create a single full-service offering with internet trading and he reasoned that it could cost no more than \$29.95 a trade.

Pottruck turned to his boss, Charles Schwab, for approval. Charles Schwab had already embraced the internet. He had appreciated the power of the web early and had pushed the company to move online in 1995. The founder was known to have a feel for market trends and as Pottruck explained his thinking, Charles Schwab immediately affirmed his interest in the proposed move. However, he also posed hard questions: how much would it cost, how would it affect the organization and how soon could benefits be expected? Charles Schwab was willing to take large risks and place big bets when the odds were known, and he pressed Pottruck to nail them down.

Pottruck instructed his staff to assess the effect of slashing the full service commission of \$80 and providing full service to everybody at \$29.95 a trade, including 1.2 million customers using the limited-service internet option. The strategists came back with a shocking conclusion. If the company allowed account holders to migrate, it would depress the company's revenue in 1998 by \$125 million and its earnings by \$100 million, more than a fifth of its projected pre-tax profits. Stock markets would be likely to drive down Schwab's share price with a vengeance.

Although he was sure of the long-term chances of the new offering, Pottruck was less sure if returns would arrive quickly enough to avert financial disaster. The plan would require vigorous support from the chief executive and board members if it were to succeed. Pottruck himself was in the best position to make the case.

He gave Charles Schwab the financial implications of the low-price full service and warned of the effect on profits in the short term. Following weeks of discussion, Schwab endorsed the plan. The founder always insisted on putting customer service first and Pottruck had made that his guiding principle; Schwab had consistently stressed careful analysis, which Pottruck had done; Schwab had delegated much to those he trusted and Pottruck had already earned his confidence.

The next stop for Pottruck was the company directors, without whose wholehearted approval it would be foolish to proceed. Pottruck brought his plan to the board in September 1997. Some directors wondered why any change was needed since the year was already proving to be the best in company history. After-tax profits were approaching \$27 million, and what Pottruck was now proposing would slash them by a third or more. Others wondered if the options had been thoroughly studied. Still others asked if the downside could be weathered. Pottruck's confident response was: "It will be fine but it will take some time", possibly a year and a half or more. The directors duly agreed on what would be the company's most fateful decision of the era.

On January 15 1998, Schwab announced it was offering web trading for \$29.95 a time and was extending all services to all customers — consultations at branches and by telephone, and personal advice.

The first quarter's results — as Pottruck had forecast — were devastated. Schwab was indeed cannibalizing its full-service, high-priced accounts. Quarterly revenues had been growing at 6.5 per cent per quarter in 1997; now they declined by 3 per cent. Pre-tax income had been rising by 8 per cent per quarter in 1997; now it dropped by 16 per cent.

Yet the expectation that the world was moving to the web proved prescient. By the end of 1998, the number of Schwab customers with online accounts nearly doubled and Schwab finished the year with 20 per cent growth in revenue and 29 per cent rise in profit.

Meeting the internet challenge at Schwab required keen insight and a reasoned capacity to risk much when others doubted the proposed path. It also depended on a boss ready to be persuaded and a board ready to be moved. However, that readiness was not automatic. Rather, it was the product of steps that Pottruck had earlier taken to establish a relationship of confidence with those above him.

Learning to lead up is a lifelong endeavor and it is greatly helped by a willingness to learn from past mistakes and superiors who are willing to suggest how it is done.

Taking risks is a defining element of any leadership and calculated management of risk is essential. To succeed as a risk-taker on behalf of superiors, decisions need to be taken quickly and accurately. In spite of the uncertainties and large stakes that may be involved, if decisions are for managers to take, it is essential for them to do so rather than kick the responsibility upstairs.

The first step in winning the support of superiors and the board is ensure accuracy. The second is to communicate carefully why the proposed course of action is necessary and how it can be accomplished with the minimum upheaval.

The cost of failure

When organizations foster upward leadership, the benefits can be great. Conversely, the costs of ignoring or discouraging it can be enormous. Consider a recent example.

In February this year, the nuclear submarine USS Greenville suddenly surfaced and collided with a Japanese fishing boat, the Ehime Maru. The boat overturned and nine passengers were killed. A navy investigator reported that a visiting officer on the Greenville had sensed that Commander Scott D. Waddle was rushing preparations and cutting corners to give a demonstration to 16 civilians on board — but the visiting officer had said nothing to the commander about his concerns.

Similarly, Waddle's second-ranking officer, who carried the most explicit obligation to challenge questionable procedures, had failed to voice his own doubts about his commander's pace, including an abbreviated periscope inspection of the horizon just before the surfacing. The subordinate officer, the investigator found, "was thinking these things, but did not articulate them to the commanding officer."

The investigator concluded that the crew members so respected their captain that they were reluctant to challenge him. Commanding officer Waddle, he found, "doesn't get a lot of corrective input from subordinates because he's very busy giving directions and the ship has experienced a lot of success when he does." Had the institution more effectively stressed its principle of upward challenge, had the visiting officer and the commander's subordinates been emboldened to question their commander's actions, the fatal event may have never happened.

Even short of the loss of life, the cost of failure for upward leadership can be huge. Consider the price of such an error for the chairman of Samsung Group, Lee Kun Hee. In 1994, he decreed that Samsung should invest \$13 billion to become a car producer, aiming to make 1.5 million vehicles by 2010. Car manufacture was already a crowded field, plagued by global over-capacity, but Lee was a powerful chieftain and a passionate car buff, and none of his subordinates questioned his strategy.

A year after the first cars rolled off the line in 1999, however, Samsung Motors sold its assets to Renault. Many of Samsung's top managers had silently opposed the investment and Lee later told them he was puzzled why none had openly expressed their reservations. By then, though, Lee had reached into his own pocket for \$2 billion to placate his irate creditors.

Courage to lead up

A common element among those who successfully lead up is a driving urge to make things happen on high, an unflinching willingness to take charge when not fully in command.

The exercise of upward leadership has been made easier by contemporary expectations in many companies that managers learn not just from their superiors but from all points of the compass. The phrase "360-degree feedback" has come to mean a manager's annual task of gathering reaction from direct subordinates and immediate bosses. So it is with leading up: instead of just motivating those below, managers must also muster those above; instead of just learning from those above, managers need listen to those below.

Such leadership can be inspired when executives are willing to take the time to create the right culture. Once established, a company-wide emphasis on leading upwards serves as a kind of inertial guidance system, continually reminding everybody that they are obliged to stand up without the need for superiors to ask for them to do so.

Principles of leading up: For the company manager

- Building superiors' confidence in you requires giving them your confidence.
- The bond between manager and executive should be a relationship based on an open flow of information and respect.
- The more uncertain or irresolute your superiors are about achieving a goal, the more clear-minded and determined you must be in formulating and executing your strategy.
- If your superiors do not appreciate a grave threat, transcend the normal channels of communication to drive home the message.
- Persistence often pays but it requires determination to stay on a rocky path when you have persuaded those above and below you to follow.
- However hostile your superior, however harsh your message, the well-being of those in your hands must remain foremost.

For the chief executive

- If you want subordinates to offer their best advice, you must value and make use of it.
- Stay tuned to what your subordinates are implying or communicating through other means. Because their personal stake in you and the company is large, they may appreciate your situation better than you do yourself.
- If you expect those below to support your leadership and step into the breach when needed, they will need to understand your strategy, methods and rules. That requires repeated restatements of your principles and consistent adherence to them.
- Downward leadership and upward leadership reinforce one another; if you are effective at the former, it will encourage the latter; if you are adept at the latter, it can inspire the former.

Further reading:

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