
The New Leadership Dynamic

Today's global competition and a volatile economy have overhauled the traditional view of leadership and created a new leadership dynamic.

Michael Useem, management professor at The Wharton School of the University of Pennsylvania and director of the school's Center for Leadership and Change Management, argues that leadership is no longer limited to the company's top executives. Rather, the changing marketplace dictates a need for leaders who can think strategically and act decisively at all levels of the organization.

Good leaders must be able to "lead out and then up;" they must be able to lead coworkers, their bosses, customers, as well as subordinates, writes Useem in his book *Leading Up: How to Lead Your Boss So You Both Win*. "Leading up is needed when a superior is micromanaging rather than macrothinking... "[It] is called for when a division president offers clear directives but can't see the future, or when investors demand instant gain but need long-term growth."

Why the New Dynamic?

Demographics are contributing to the new leadership dynamic. With the first round of baby-boomers nearing retirement in the next 5 to 10 years, companies are realizing that their more senior, experienced leaders will soon retire. "The obvious response is to begin now to identify people early in their careers who can fill these leadership positions," notes Tom Thomson, Senior Vice President of Aon Management Consulting.

The nature of work also has changed, altering the kinds of leaders needed, Thomson adds. With more cross-functional teamwork and less organizational structure, the leaders of tomorrow need highly developed social and communication skills, a capacity to deal with ambiguity, and the ability to change in response to shifting circumstances, he notes. "Leaders who rose to prominence in the old command-and-control structure may now be ill-equipped to succeed in today's flatter hierarchies. They may need training in how to motivate, build coalitions, and influence others when there's no rigid authority – just moral suasion. It's different from 20 years ago, when you were the director of a department and could just tell people what to do."

A case in point is David Pottruck, now co-CEO at Charles Schwab & Company. In the mid-1990s, when he was the brokerage's COO, he came up with a radical plan to transform the company's business model and overtake the competition. His risky idea: To turn away from the company's main source of revenue and become a full-service online brokerage. The hard pill to swallow was that the plan was expensive and couldn't be undone if it failed, institutional investors were likely to jump ship, and revenues would fall for a number of quarters before the online business took off – assuming it did.

Convincing the CEO, other executives and the board of directors that the venture was worth the risk required great skill in upward leadership. "[Pottruck's] capacity to transform the Internet threat into a business opportunity, and to do so on a dime before the window closed, depended on groundwork he had been painstakingly – and at times painfully – building for years," writes Useem. The CEO and another senior executive with whom Pottruck frequently butted heads helped Pottruck collaborate with other decision-makers to build the case for online trading. Today Charles Schwab is still a leading online brokerage, although its online business has plunged dramatically from the days of the dot-com bubble. The company is now taking on other Wall Street firms by aggressively advertising the fact that unlike most of its rivals, it doesn't have an investment banking operation.

Another example of upward leadership is Peter Pace, now the vice chairman of the Joint Chiefs of Staff. When Useem profiled him for his book, Pace was the Marine Corps' lieutenant general, reporting to six bosses, all of whom were four-star generals or admirals (Pace is a three star-general). Dealing with competing missions and goals pulled Pace in different directions, but he managed to win the trust and allegiance of his supervisors by straightforward and advanced disclosure of his overlapping projects.

Useem points out that emergencies and crises sometimes reveal upward leadership more forcefully than routine times might. A case in point: eBay, the online auction company. When the terrorist attacks occurred last year on September 11, eBay's CEO Meg Whitman was abroad. Still, says Useem, the company's management team

carried out measures on Whitman's behalf. These actions included first and foremost making certain that the company's 2,500 employees were safe; securing the company's website; and launching the Auction for America, a fund to aid victims of the terrorist attacks. "In slower times, you may want to check with your CEO before devoting company resources to something like the Auction for America," Useem notes, "but September 11 wasn't a slow moving time. [eBay] needed to act decisively, and they did."

In fact every example of upward leadership cited by Useem hinges on effective communication and feedback. These traits have become increasingly important to companies in recent years. Traditionally employees were groomed for high office if they achieved their quotas and a managerial "superior" considered them worthy of promotion. Now, subordinates and even customers judge a manager's abilities and performance. "If you're not able to inspire your subordinates or excite your customers," says Useem, "you're not as likely to be groomed for top leadership positions as you would have been 10 years ago."

Identifying the Leaders of Tomorrow

As important as identifying leaders is, it is no easy task. Each company has its own HR mandate and system of "talent identification," whether structured or informal. But few companies are satisfied with their ability to identify and develop leaders.

In *The War for Talent* (Harvard Business School Press, 2001), Ed Michaels, Helen Handfield-Jones and Beth Axelrod note that companies frequently recognize their deficiencies. Their research, based on surveys of 13,000 executives at more than 120 companies and two-dozen studies, showed that 9% of respondents were confident that their actions to develop leaders would lead to a stronger talent pool. At the same time, only 26% said that increasing the talent pool was one of the company's top three priorities. "Few companies have consciously made the linkage between better talent management and business performance," observe the authors.

The authors make the case that high-performing companies display a "talent mindset." They note that companies scoring high in their ability to manage talent earned, on average, 22% higher returns to shareholders than their industry peers. The data provide compelling evidence that better talent management results in better business performance.

Some companies are overhauling the way they identify and nurture leaders to align with their business goals and corporate culture. The pharmaceutical company Pfizer, for example, has a highly relational culture, notes Thomson. There's a premium at Pfizer on developing leaders who are able to network, maintain relationships and keep those connections alive – because that's how work gets done at the company.

Rewards and Performance Management

A company's rewards structure – including compensation, benefits, rate of advancement and new opportunities – must encourage leadership behavior and reward leadership potential. In addition, its performance evaluation system must identify the leadership traits and qualities sought, not just measure skills.

The new leadership dynamic points to a comprehensive performance appraisal process that evaluates whether employees meet their goals as well as how. For example, did the employee meet his or her annual financial targets by making everyone work late for weeks on end? Did the employee meet his or her individual goals but ignore joint goals with other departments?

The rationale is clear. Candid evaluations highlight an individual's strengths and weaknesses to chart the best course of action for the employee and optimize his or her contributions. At Aon Services Group, the specialty brokerage and insurance services arm of Aon Corporation, training is geared toward providing employees with tools to better service customers. This includes cross-training across Aon's five divisions. "Cross-training gives our service team a broader understanding of our business and our customers," says Mike Rice, Chairman and CEO of Aon Services Group. "Exposing them to different disciplines is part of their leadership development."

Useem notes that comprehensive employee evaluations also provide qualitative information about performance, including coworker perceptions. Not surprisingly, employees can react with ambivalence to appraisals of their work and their ability to meet challenges – particularly if the assessment system is new, not clearly understood,

or instituted inconsistently. Class-action lawsuits have recently been filed against several companies because their evaluation systems were perceived as biased toward demographic groups such as older white males.

For corporate employee evaluation programs to work, says Useem, the CEO and upper management must be fully committed to the program. The company must have reasonable metrics and know what it is measuring. It also must ensure fairness so that employees don't perceive that they're being evaluated for factors beyond their control. Most importantly, he adds, the company must have a firm-wide culture or value system that stresses performance over seniority and that de-emphasizes a sense of entitlement.

Assessing Future Leaders

While many large companies have multidimensional evaluation systems, there are other ways to identify and assess talent. One is a more sophisticated version of the old-fashioned assessment center. Years ago, a firm might have sent its up-and-comers to a training site, put them through a set of work-related exercises, perhaps even observed them through a glass window to see how they fared. Today this kind of skills assessment can be simulated online – often more efficiently and cost effectively. One such tool at Aon is a web-based management assessment and development program called LEADeR that identifies mid-level and higher management talent.

LEADeR was developed through a partnership with Motorola and has been implemented at a number of other Fortune 500 companies, including American Express, Toyota, and Wendy's. Aon also has a related development program called Horizons that includes a strong assessment center component, immediate development feedback, and a significant action-learning component. Approximately 1,000 managers a year go through the LEADeR and Horizons programs.

The LEADeR process begins with the user facing a computer and being given a role and job function at a fictitious company. Over the course of a day, he or she is barraged with tasks to perform, e-mails to respond to, crises and brushfires to stamp out, demands from a (simulated) boss, and the like. The results are used to surface strengths as well as identify how the user relates to authority figures, disgruntled customers, colleagues, and so on.

Another way to hone in on talent – and to try to bridge the gap between theory and practice – involves action-learning projects, says Useem. In this model, a team is formed of managers or others with leadership potential, typically from several functions across the company, and is asked to identify a problem and find a solution over a set period of time. For example, the team may be asked to identify new markets for a product or figure out when and where to build a manufacturing plant in an industry that's rapidly deregulating.

Common Mistakes in Leadership Development

One of the judgment errors managers habitually make is promoting employees with outstanding talent to the next level without proper training. Rice notes that making your best salesperson a manager, for example, could mean you lose twice: "You lose in sales production, and you lose again if the employee is not qualified to be a good manager," he warns.

A related problem is that people who take on broader responsibilities sometimes do not leave their old jobs behind. "Not giving potential leaders the tools they need to lead is a grave mistake," argues Rice. "Skills education is critical, especially as the job evolves."

A structured and interactive approach to leadership development can get around a manager's ingrained biases. "People who think of themselves as successful and capable are likely to think others like them are that way too," says Useem. Another mistake is the tendency to replicate oneself in those who follow. That's not always wrong, he notes, "but it's certainly a good way to make a mistake if that's the only thing you do."

The business of leadership development is clearly complex. Developing leaders has to do with forming a certain kind of person – someone who is trustworthy and willing to go out on a limb. It is a function, says Thomson, of "how people are managed and led, the way they're rewarded and what they're rewarded for, and the values that the organization espouses and actually supports."

Written by Knowledge@Wharton (<http://knowledge.wharton.upenn.edu>) in collaboration with Aon Corporation (www.aon.com).