

Awareness and action: transforming a family business via family enterprise and vertical leadership

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1. **Introduction**

Family enterprise, by its very nature, is among the most complex and integrated of systems in contemporary society. Now, more than ever, families who work together need agile leaders who can navigate this complexity within the context of exponential change and diverse stakeholder interests.

As the culture, society and technology in which business operates evolve, the nature of family enterprises also must evolve. I believe that as this process unfolds, two new perspectives can be employed to fundamentally reshape family business and ensure long-term viability: vertical leadership development and the family enterprise model.

Vertical leadership development is a process of leadership development that, rather than focusing on the knowledge necessary to manage a changing business, improves the leader's skills in making use of that knowledge by addressing how the leader thinks and acts. The resulting increase in emotional intelligence and self-awareness endows the leader with the increased agility necessary for navigating family and business dynamics within the context of rapid global change.

At the same time, evolving toward the family enterprise concept shifts the pre-eminent identity away from business activity and toward family. This evolution redefines the notion of stakeholder value, broadens the scope of influence, and implicitly requires the family to take a proactive role in defining both its purpose and how that purpose translates into sustained competitive strength, continued family control and enhanced harmony in the family shareholder control group.

In this chapter I will discuss how some family businesses are adapting to today's changing world through vertical leadership development, and demonstrate how the resulting agility of leaders trained in and effectively using vertical leadership development creates the values-based emotional capital that is a hallmark of sustainable family controlled enterprises. I hope that business consultants and advisers will see the merit in integrating these concepts into their practice as well as bringing it to their clients, thus greatly increasing their positive impact on the family businesses they serve.

2. A case study

Haws Corporation, based in Nevada in the United States, is a family business that is transitioning its leadership from the third to the fourth generation, and it epitomises many of the trends and challenges facing family businesses globally. Its adoption of both vertical leadership development and the family enterprise model offers a compelling study of how these two concepts can enhance family businesses outcomes.

Stephanie Kilroy and Tom White are agile leaders in this family enterprise. Each views the family's involvement as both a cultural and strategic advantage to the enterprise; simultaneously, each sees the enterprise as beneficial to the family in ways that are financially and non-financially rewarding.

Stephanie is a fourth-generation family member, daughter of the retiring patriarch, sister of the other majority fourth-generation owner, head of the family council, and a newly elected member of the board of directors. She plays multiple concurrent roles and represents a variety of stakeholder interests and perspectives. Stephanie recently transitioned from the firm's director of human resources to the newly created position of family governance director. The job description for this new position includes the task of ensuring that the family's involvement becomes, and remains, of greater strategic advantage for the enterprise.

Tom is Stephanie's brother-in-law. Married to the other major fourth-generation owner and chief executive officer, he also serves on both the board of directors and the family council. Tom has been leading the effort to help diversify the family enterprise holdings. In the process, he has added more independent directors with experience in acquisitions and start-ups to the board, encouraged additional education for family members, and made innovation a main focus of all groups of stakeholders.

Tom and Stephanie – with the family council, management team and board of directors – have struggled in the last decade with the challenges of buying out another branch of the family, preparing for an eight-member upcoming generation, diversifying the company's holdings and professionalising their corporate governance. They face a tough, highly complex task: to confront these challenges while honouring their heritage, building on the family's purpose, navigating global trends and creating an effective group of leaders.

Their leadership has reframed Haws Corporation into part of Traynor Family Enterprise (TFE). This was not just a legal change nor a branding initiative; it was a complete shift in their identity and thinking. The TFE identity statement reads:

Traynor Family Enterprise is a family-owned business that dates back to 1906 and our founder, Luther Haws. Now in our fourth generation of family ownership, our focus is on the future rather than short-term financial results. We are a family enterprise – not simply a business – that fully leverages the competitive advantage of our family ownership. We are driven foremost by our values, which serve as a compass for our enterprise. And while values remain constant, how we create value changes over time and will continue to do so. We give equal emphasis to education and governance, business development and vision, employee growth and achievement, and financial performance. We value family, so our legacy is important to us. We conduct ourselves

with honesty and integrity. We value leadership, education, innovation, and fairness and we understand the importance of investing in relationships. We have fun. We accept responsibility for our actions. We recognise that much of our success comes from attracting and retaining the best available talent and then supporting their efforts to build and deepen our desired core competencies. We provide a safe, open, and collaborative environment that fosters candid, respectful dialog and a willingness to challenge the status quo.

Given the complexity of this leadership challenge, it is clear that increasing leadership agility is absolutely imperative for that leader's own development, for their family, and for their enterprise.

3. Overview of vertical leadership within a family enterprise

The fates lead those that will follow; those who won't, they drag. (Seneca)

The more complex, interdependent, and rapidly changing an organisation, the more agility is required from its leadership. This is especially true for firms adopting the family enterprise model. Family enterprise is a mindset that requires more agile leaders who don't just know more, but who also cultivate the higher levels of awareness that lead to more informed action. In other words, it's not just what they do that matters, but also how they do it. Given the world of today, it is clear that integrating vertical leadership into the family enterprise model may be less of an option for cutting-edge family enterprises and more a requirement for success.

The term 'VUCA', frequently used in the US military, is an acronym for 'volatile, uncertain, complex and ambivalent'. It is used to frame strategy within contexts such as World War Two, the sixties, and other periods of sustained instability and change throughout history. While each of these periods left a significant impact, they were generally followed by a return to greater stability and predictability, along with more conventional approaches to strategic decision-making.

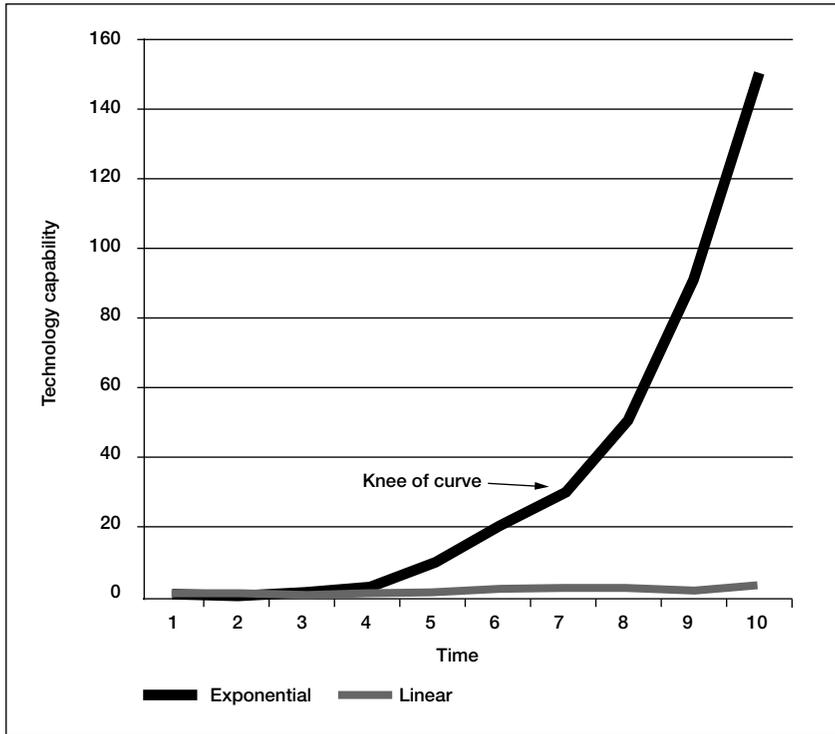
Today, we can no longer predict a return to stability. Furthermore, we have not completely grasped the full implications of exponential change and interdependency as they currently exist. As indicated in Figure 1 below, we are at the so-called "knee" of the change curve, which measures the combined rate and complexity of change over a period of time. The overriding message here is that there is no return to normal. Change and complexity will continue to increase exponentially.

Given the current rate of change, 'normal' and 'conventional' thinking are obsolete concepts. To rely on them for a family business is dangerous. We need new, innovative approaches to leadership that incorporate and integrate five major trends that affect family business:

- exponential change;
- globalisation and interdependency;
- entrepreneurship;
- family and generational differences; and
- technology.

All these trends interrelate and create an alchemy of change in the world we

Figure 1: Exponential change through technological capability



inhabit, and thus will require leaders to adapt and think differently. Agile leaders will need to become ever-increasingly aware of when and how to use the innovation that technology offers in order to improve effectiveness and profitability without eroding the necessary intimacy of key relationships.

3.1 Exponential change

As the rate of change itself increases, this momentum builds on itself. In his book entitled *The Singularity is Near*, futurist Ray Kurzweil posits two profound ideas:

- In this century alone, we will experience 20,000 years of change as measured at today's rate of acceleration. This is incredibly hard to grasp. Though not mathematically precise, I use this metaphor with families to convey the general idea: "What would you do if you knew that your industry was going to change as much in the next three to five years as it did in the last century?"
- Kurzweil also contends that humans tend to think in terms of a constant rate of change rather than in exponential terms. This may be at least in part why there is so much resistance, denial and avoidance of the reality and magnitude of this systemic change. One may liken it to trying to make a family's Blockbuster video store more efficient as opposed to creating a more effective and technologically relevant system such as Netflix.

Today's leaders have to deal with change at a much faster rate than their forebears. While a software update that previously took 180 days now takes a few hours, for instance, breakthrough and disruptive innovations occur at similarly increasing rates.

Consider knowing with certainty that a family's industry would be obsolete in five years. Agile leaders must realise that exponential change is happening at an ever-increasing rate and their industry, family and individual perspectives will undergo systemic shifts with greater frequency.

3.2 Globalisation and interdependency

Any business that has a website – which is virtually all businesses – is global in its visibility and vulnerability. Couple exponential change with global interdependency and it is clear that not only mobile phones and computers change at mind-boggling speeds, but business cycles are shorter, valuation models are less reliable, regulations can't keep up, and we all are at risk of mistaking a frantic pace of activity for productivity. A flight out of London can be impacted by a terrorist attack in Mumbai; a supply chain in Ohio can be interrupted by a tsunami in Malaysia; and a bitcoin crisis can affect contracts in South Africa.

Awareness of this interdependency is critically important. A leader cannot merely continue doing things the same way. However, at the same time, keeping too narrow a focus is dangerous. Since everything that happens in business affects everything else, the complexity and rapid change means leaders must be constantly and continually developing themselves. Leaders must focus as much beyond their business as they do on their business.

3.3 Entrepreneurship

With shortening business cycles, ever-accelerating change and global competition, there is pressure for every organisation and every business leader to be more entrepreneurial. In family enterprises, that entrepreneurial energy often comes from within the family.¹ Additionally, from the family perspective, entrepreneurship may be one of the best ways to counteract a sense of entitlement or low credibility in the rising generation within wealthy families.

For leaders, this may require a shift in mindset from 'being the hero' to cultivating talent in each member of the organisation. For both enterprise and family reasons, everyone must be entrepreneurial, especially the next generation.

3.4 Family and generational differences

The very concept of 'family' is being redefined legally and socially, and this is also relevant in how it relates to enterprise. Although a full discussion of this topic lies outside the scope of this chapter, I will assert that the trend toward having four generations working together in a family enterprise is more common than ever.

The millennial generation (known as Generation Y) may have the audacity

1 See Babson College's STEP (Successful Transgenerational Entrepreneurial Program) website at www.babson.edu/Academics/centers/blank-center/global-research/step/Pages/home.aspx.

required to bring about the needed change, perhaps tempered by the hard-earned wisdom of senior generations. Meanwhile, retirement for the senior generations may be less likely than in the past. To have senior family members move into roles that value their experience and wisdom while acknowledging their different life stages is a challenge for many families.

In my firm, we encourage families to see these generational differences with the open-minded curiosity one would bring to visiting a new country. One client led his family business through transitions into three different industries in just over a decade. He said it was indeed hard work and the family dynamics were like “playing three dimensional chess”.

Leaders must see that managing family dynamics, even more than managing the business, requires increasing agility and emotional intelligence. Family cohesiveness, especially across the generations that follow the founder of a family firm, cannot be taken for granted. Families must be intentional, take the initiative, and be explicitly committed to the enterprises they undertake.

3.5 Technology

Technology is the arena in which we are most likely to notice and appreciate exponential change. As the cost of accessing information becomes exponentially cheaper, businesses face unforeseen consequences. Among those consequences I predict that future generations may have a greater ability to innovate, but also a concurrent decrease in social skills and intimacy. Research on emotional intelligence indicates that Generation Y is superior at adapting to change but inferior in self-awareness and empathy than previous generations at the same age.²

4. Vertical leadership

The #1 reason people leave a job is due to a bad boss. (Gallup Poll findings)

[M]ature business families understand the value of embracing multiple perspectives of thought and balance the contradictions while seeking synergistic insights. (John Ward)

In previous generations, leadership development was horizontal: it focused on increasing a leader's bank of knowledge. Vertical leadership development, however, involves changing how thinking is structured, not simply how much is known. Reading a book or taking a course on accounting is an example of horizontal leadership development, whereas developing the insight necessary to understand how brainstorming creates chaos when used at the wrong time is vertical leadership development. That is to say, through vertical leadership development, one becomes more self-aware about when introducing a new skill is relevant and useful, and thus tailors one's actions accordingly. Vertical leadership development focuses on cultivating more innovative and multifaceted leaders.

2 See Travis Bradberry and Jean Greaves, *Emotional Intelligence 2.0*, San Diego, CA: TalentSmart, 2009, pp236–240; and Greg McCann and Leah Sullivan, “Gen Y: Engaging or enraging?”, *Family Business* magazine, Autumn 2010.

Leadership agility can be thought of in comparison with gears in a manual-transmission car. One might be expert at driving in second gear. However, if the car has five gears plus reverse, an agile driver is mindfully aware of how and when to switch gears to make the best decisions and progress. This will happen based on changing terrain and the actions of other drivers. In a business, an agile leader will ‘switch gears’ based on greater interdependency and faster rates of change.

The idea behind leadership agility grew out of research that Bill Joiner and Stephen Josephs did with approximately 800 leaders.³ They found, as have other noted researchers, that we evolve through stages of leadership. This is similar to the stages identified by childhood development theorist Jean Piaget and ethicist Lawrence Kohlberg. In a nutshell, as we live, learn and adapt to the challenges of life, our level of awareness naturally evolves.

Horizontal leadership development is essential as well as interdependent with vertical development. My experience as a teacher, consultant and practitioner also shows that vertical leadership can be accelerated. For example, providing someone with a roadmap for their leadership development will increase their rate of development.

My colleague, Rich Morris says, “It may have been true in the past that one good business idea might last three generations; now, each generation may need three good business ideas.”⁴ Without vertical leadership, effectively responsive innovation is simply impossible in today’s environment. It is essential, then, that advisers and consultants offer clients this roadmap to vertical leadership development. This roadmap essentially consists of the four agilities and stages outlined later in this chapter.

5. Why the family enterprise model is emerging

*The family is keeper of its values and culture. If the goal is to succeed across generations, the family must take responsibility for deciding the future of the family and the business.*⁵

Family business may be older than civilisation itself, but as a field of study and professional practice it is incredibly young. Although scholars could debate the exact dates and events, the field began emerging over the last 30–40 years (since the 1970s and 1980s) as family business-focused practitioners, scholars and university programmes began to emerge.

Many people see the idea of a family enterprise as a stage in the evolution of a family business.⁶ However, family enterprise can also be described as more of a mindset than an evolutionary stage.

3 See Bill Joiner and Stephen Josephs, *Leadership Agility: Five Levels of Mastery for Anticipating and Initiating Change*, Jossey-Bass, 2007.

4 See my article with Rich Morris, “Economy Next”, *Family Business* magazine, Summer 2011.

5 See my article with Andrew Keyt, “Managing the family/business overlap”, *Family Business* magazine, July/August 2013, p13.

6 See my article with Andrew Keyt, “Managing the family/business overlap”, *Family Business* magazine, July/August 2013. See also Sara Hamilton (founder and CEO of the Family Office Exchange), White Paper entitled “Taking the Long Term View of the Family Enterprise”, Southeastern Family Office Forum, September 2014.

Since its early days, the field of family business has relied extensively on an iconic study of succession to frame family business theory and practice, namely John Ward's study of one industry (manufacturing) in one state (Illinois), which focused on how family-owned businesses survived.⁷ Even though an innovative and groundbreaking study, it framed success in terms of whether the business continued with family ownership – it was a business-centric approach. Indeed, many of the field's practitioners and scholars, and even university-based family business centres, defined 'success' with great, if not sole, emphasis on the perpetuation of the business by the family. Ward's study is perhaps the most often cited in the field of family business but may warrant reconsideration.

Only those core businesses continuing under family ownership contributed to the overall measure of success in Ward's study. Families who sold the core business and reinvested their wealth in new ventures, for example, were not seen as successful. Under that model, the purpose of the family was to serve the business; no aspect of the family's well-being was directly addressed – hence my use of the term 'business-centric' above. As my colleague Dennis Jaffe says, "'Family' was merely an adjective that described the business." 'Family' then becomes just a modifier like 'agri-' or 'retail', not a co-equal subsystem with the corporate endeavour.

In 2011, the Family Firm Institute (FFI) and accountant Joe Goodman commissioned research to reframe the notion of successful family business outcomes. The study examined family-owned businesses in their second generation and older across the US and across multiple industries, and made some astonishing discoveries:

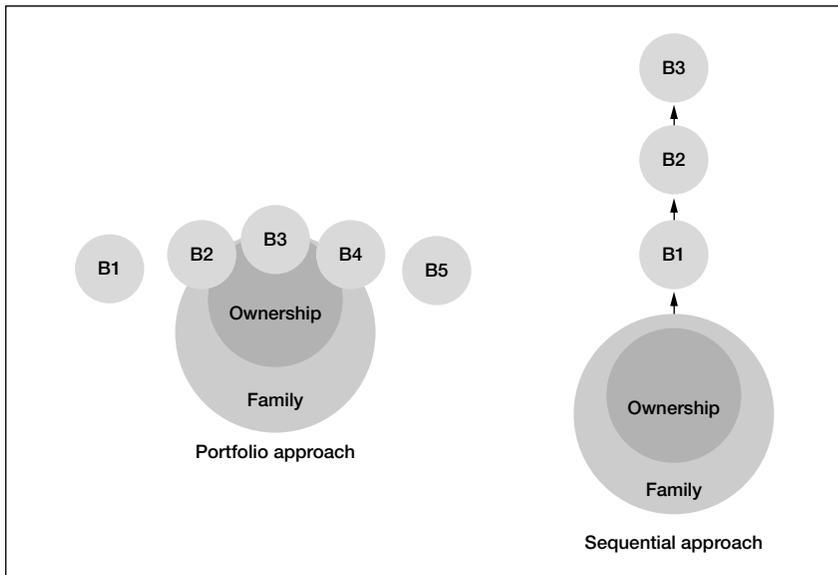
- Approximately 90% of the respondents own more than one business.
- Approximately 20% of the respondents own five or more businesses.
- The average respondent had changed its core business more than twice.

The FFI/Goodman study targeted only for-profit businesses that had actual sales. It did not count family foundations, family offices or social entrepreneurship activities. The study also reinforced the notion that family business leadership can be cultivated not just within the ranks of management, but also in the family council, board functions, the family office and the family's philanthropic activities. See Figure 2 for two ways of thinking about a family enterprise. One notable additional piece of validation for placing greater emphasis on family outcomes as well as business outcomes is worth mentioning here. The STEP research project started at Babson College and focuses on the entrepreneurial activity of the family in multigenerational enterprises.

Two key conclusions have emerged from these recent studies on family business: the family should be seen as the primary vehicle for wealth transfer; and families will own a number of enterprises. Reflecting this change in emphasis, a family enterprise should be considered as having shifted its focus to the family as the anchor, and the values and purpose of the family then define value. Building on concepts outlined

⁷ See John Ward, *Keeping the Family Business Healthy*, Jossey-Bass, 1987. It should be noted here that John Ward has done as much to influence, define and lead the field of family business as anyone, and my critique of the field's use of his study is merely that.

Figure 2: Two constructs of family enterprise



by James Hughes in his seminal book,⁸ it is clear that the notion of ‘value’ in family enterprises is being defined more holistically than in the pioneering days of family business research, incorporating broader terms for stakeholder value that include human (talent), financial (assets), and social (relationships) capital.

For example, one family business that I profiled in an article in *Catalyst* magazine worked this way. The article describes the family values – “We care about people” – influencing business values, specifically towards its employees, suppliers and customers. The family leadership set up measurable metrics, such as what it called ‘regrettable turnover’, as a way of operationalising stakeholder values and making the family’s values and culture a business advantage. As a result, Mark Johnson, the non-family president and chief executive officer (CEO) at Bird Technologies, said that the biggest advantage of this process was to enable him to create a culture of trust where he and the managers could clearly see the goal and where ‘out of bounds’ lay.

Connecting this back to Traynor Family Enterprise (TFE; see section 2 above), that company’s identity statement says that the purpose of TFE is as a values-based family enterprise. In essence, the firm communicates the idea that how it does things is as important as what it does. It has clearly defined its purpose and is defining stakeholder value in broader terms that include, but are not inclusively focused on, financial value. TFE brings the family’s values to all its enterprises, be it the family council or a for-profit business – see the ‘portfolio’ approach in Figure 2. TFE’s values

8 See James E Hughes Jr, *Family Wealth: Keeping It in the Family – How Family Members and Their Advisers Preserve Human, Intellectual, and Financial Assets for Generations*, 2nd edn, Wiley, 2004.

as listed in their identity statement are: family, honesty, integrity, leadership, education, innovation, fairness, fun, accountability and empowerment.

This evolution reflects the values that so many family enterprises nowadays embrace, and it resonates with the famous Peter Drucker quote:

Profit for a company is like oxygen for a person. If you don't have enough of it, you're out of the game. But if you think your life is about breathing, you're really missing something.

In this case, the family has to be more proactive – not just about its core business, but about aligning all its enterprises with its values and purpose. To accomplish this, the family needs to develop a proactive practice so that the talent – the human capital – is developed towards becoming agile enough to handle the exponential change, complex interdependency and diverse stakeholders.

As a starting point, each adult family member has to develop a practice that encourages thinking like an owner as well as a leader, both personally and professionally. This approach broadens the notions of management succession and ownership transition as well. The former once-per-generation leadership transition is now seen as too narrow and too late – analogous to changing captains on Titanic after it's hit the iceberg. To effectively manage an entrepreneurial family enterprise requires leadership agility, and thus a programme of vertical leadership development.

6. Vertical leadership development and leadership agility

We cannot solve our problems with the same level of thinking that created them. (Albert Einstein)

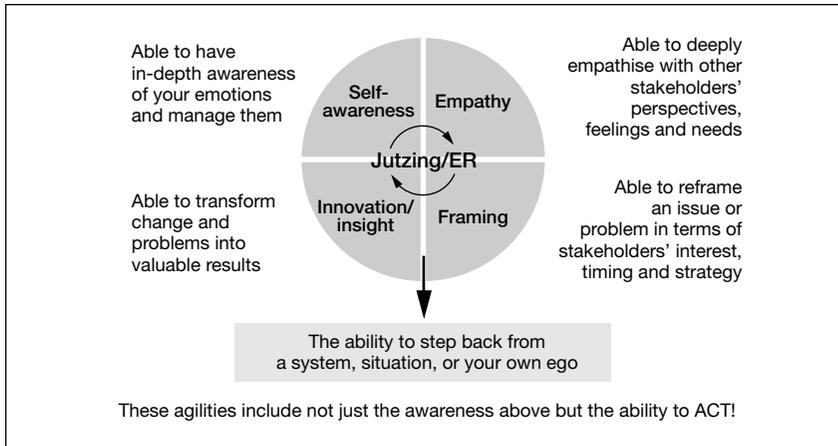
As discussed above, vertical leadership development involves changing the leader's level of thinking or overall awareness. It is less about knowledge and more about deepening awareness of thoughts and feelings (of one's self and others). At its core is the ability to step outside a system ('jutzing' is a term that I coined, and I have used it in my writing, teaching and consulting for more than 20 years), whether that system is family, organisation, culture or even one's own ego. From this place of great awareness, a leader is able to take action that is far more informed and therefore more effective. Cultivating this ability is the backbone of vertical leadership development. This greater awareness is crucial to more effectively lead complex and interdependent systems – ie, every family enterprise – through exponential change.

The world's premier leadership organisations, including the Center for Creative Leadership, Harvard University and Cambridge University, all state that vertical leadership development is the number-one leadership development trend today. Leadership agility is the specific model of vertical leadership that I have used with clients, executives in our EMBA program and with my own leadership practice. In this model there are four key agilities, and I have paraphrased them here for simplicity. All involve greater awareness coupled with action. According to the research conducted by Joiner and Josephs, the top 5% of leaders are likely to have three relevant things in their life: a daily reflective practice; a workout regime; and a creative practice outside work. We will discuss this finding further in section 7.1 below.

6.1 The four agilities

Figure 3 shows the four agilities – self-awareness, empathy, framing and innovation – and they are described further below. All four revolve around an axle of cultivating awareness by stepping back and looking at the system from outside (ie, jutzung).

Figure 3: The four agilities needed in vertical leadership



(a) *Self-awareness*

In my interpretation of this model, self-awareness ('self-leadership agility' in the leadership agility model) is the first and most important agility to cultivate. Awareness changes everything, and a leader who does not cultivate self-awareness will not evolve vertically regardless of the credentials he or she earns. Self-awareness is the ability to see oneself, including not only one's strengths but also one's weaknesses and blind spots. It includes the willingness to appropriately reveal more of one's self. A meditation teacher I practised with years ago referred to meditation as "solvent for the ego" and I think that is an apt description of self-awareness.

Leading a family enterprise requires an awareness of one's multiple roles, the roles of others, how one is perceived, and how one presents one's self. Tom White, for example, is a former naval officer, family member, business leader and board member. He is aware of who he is, how he presents himself and how the stakeholders perceive him.

(b) *Empathy*

Empathy (or 'stakeholder agility', as the leadership agility model terms it) is the second agility and can be seen as the other side of self-awareness. In my coaching, I see a very strong correlation between self-awareness and empathy. Does a leader see other people as merely resources, or can they place themselves in another's shoes and imagine what that person might think and feel? I worked with one leader who could viscerally experience what others felt as they came into his office. That is pretty evolved.

In a family enterprise, the importance of process often trumps the utility of a particular solution. If the relationship is important, empathy is crucial. When people feel heard, understood and validated they are more open to compromise, especially when the family is involved, since family ties are so profound. Expert advisers often have a blind spot when it comes to this reality, but it is critically important to recognise. This is precisely what makes advising family enterprises fundamentally different from advising other kinds of enterprise. Stephanie and Tom of TFE (see section 2 above) both invest a great deal of energy in not only cultivating their own self-awareness but also reflecting on what the other stakeholders think and feel, given their unique roles and perspectives. Thus, members of the family, the management team, and the board of TFE not only respect them but also feel heard and understood by them.

(c) ***Framing***

The third agility, framing (or stakeholder awareness), describes the ability of a leader to take on an issue, challenge or circumstance and see beyond a narrow foreground, such as one's own department within a company. Incorporating self-awareness and empathy for the relevant stakeholder concerns broadens one's view in a family and culture-encompassing context.

(d) ***Innovation***

The fourth agility is innovation (or, in terms of the leadership agility model, 'creative agility'). This requires the individual leader to spearhead and support innovation throughout the company, such as the management team and family council. In TFE, the way in which Tom and Stephanie led the effort to reframe the initiative to make the family a cultural and strategic advantage for all its enterprises led to the creation of Stephanie's position as family governance officer, as well as the innovative reframing of the entire organisation as TFE.

(e) ***All four agilities together***

At higher levels of leadership agility (see section 6.2 below) – ie, the post-heroic stages, where the leader isn't attached to being the person who comes up with the solution – the four agilities are particularly relevant and can be wielded together by a leader in the same way that a champion athlete uses a combination of strength, flexibility, endurance and speed to develop his/her overall performance. When all four agilities are accessible simultaneously and in the moment, an alchemy can arise that drives truly great leadership.

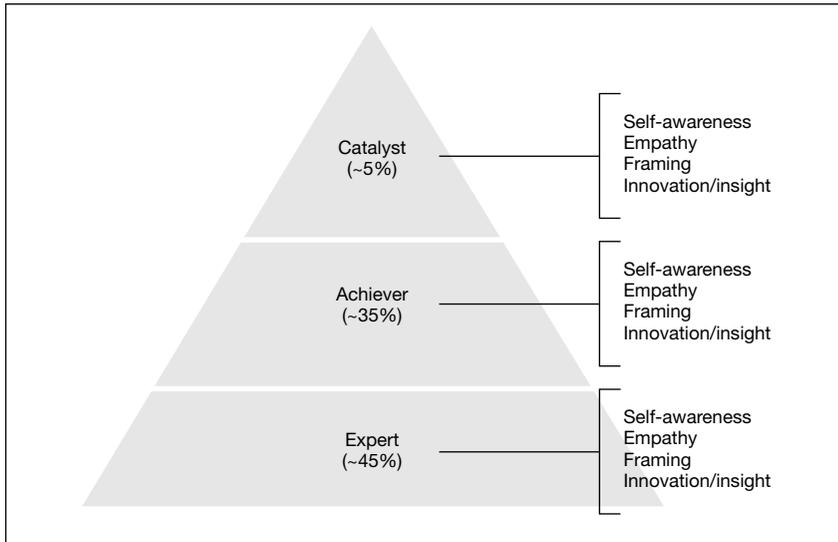
6.2 The stages of leadership agility

There are six stages of leadership agility. However, since most leaders fall into one of only three stages, we will mainly discuss those: experts, achievers and catalysts (see Figure 4).

(a) ***Experts***

Experts comprise approximately 45% of leaders. At this stage, leaders feel pressure to

Figure 4: The three levels of leadership



Adapted from Leadership Agility by Bill Joiner and Stephen Josephs.

Note: There are three levels of leaders above or below these levels that are ~15% of leaders. For simplicity, the above three levels will be discussed.

be the smartest person in the room. They often see problems, and thus tend to see people relative to their utility in addressing these problems. This need to 'be the hero' can be draining; it can also create a resistance to feedback and blind spots when it comes to mistaking perception for facts. Without deeper self-awareness and empathy for others, the expert can feel heavily burdened by pressure to solve all problems personally.

In terms of the four agilities, the expert begins to develop all four. However, he or she might resist the tools available for cultivating self-awareness, because the suggestion may seem like criticism or a threat to their identity, which is anchored to the need to be right from the outset.

Framing a problem and its solution typically focuses more on the problem than the stakeholders, and empathy tends to take a back seat to intellect. As a result, innovation is likely to be incremental, more focused on the organisation and more likely to arise from their own efforts. The expert's vision tends to focus narrowly, from his/her personal perspective of the organisation.

(b) Achievers

Achievers account for approximately 35% of leaders. This type of leader begins to see things from a systems perspective and to develop all four agilities. With this shift in awareness, the leader can shift focus from the problem at hand to view the broader system and develop a strategy, as opposed to merely solving the presenting problem. He or she might still be the hero, but is more defined by a penchant for strategy than

problem solving – they realise they need to get buy-in from everyone involved in the situation and that others may have some experience or expertise that could inform their strategy.

The achiever is in the midst of developing all four agilities, though more often after the fact rather than in the moment. He or she might reflect on a meeting during the weekend while jogging, or realise that Mary, a single mother in the accounting department, is very worried about job security and will likely view most ideas through that lens. This leader uses empathy as a tool to help get buy-in and tweak a plan. Framing a solution to a problem is derivative of strategy, so innovation occurs within that broader vision. Such innovation is therefore more likely to be linked to industry developments or best practices.

(c) **Catalysts**

Only about 5% of leaders are at the catalyst level, the first of the post-heroic stages. (Note that there are two stages above the catalyst stage, which comprise another roughly 5% of leaders.) The catalyst leader is no longer concerned with being right all of the time, or with being the hero – although he or she can step into that role when needed. Catalysts mainly focus on developing the people whom they are leading.

At this stage, the four agilities interact, often in the moment. The catalyst can jump in a discussion and realise that he or she is feeling defensive, identify it, and ask the participants in the discussion to help him work through it. Catalysts empathise with the people they lead so that when they are emotionally stuck, they sense it and can address the issue of their being stuck rather than failing to progress.

For example, Mary, the single mother described above who fears risks, may argue about a new investment based less on her accounting concerns than on the emotional issues arising from her personal situation that may be absorbing much of her psychic energy. While the expert may try to get her buy-in based on the merits of the investment – which largely ignores her true, personal concerns – the catalyst is more likely to see her resistance to the merits of an investment in light of the bigger picture and see not just the organisation or the industry, but the social issues. So at this stage social responsibility begins to play a role in the leader's choices, and she or he might try to target their personal concerns as a way of enhancing the effectiveness of a potentially important contributor to the enterprise.

7. Why family enterprises need vertical leadership

Success is not counted by how high you have climbed but by how many people you brought with you. (Dr Wil Rose, late CEO of the American Indian Heritage Foundation)

For a family shareholder control group endeavouring to turn a family firm into a family enterprise, developing agile leaders is the most important initiative it can undertake. Any enterprise that involves a family becomes more complex than any non-family controlled competitor. Merging two business systems or business cultures in the context of an acquisition is complex, and the reason why such a high proportion of corporate mergers fail. Managing and leading a family shareholder

control group and the enterprise it controls is vastly more complex than merging two corporate enterprises because family enterprises merge two different types of cultures: the family culture and the corporate culture.

Families have permanent, unconditional relationships – a leader is less likely to fire a family member because of a slow quarter – and positions are determined by relationship. Harmony is often a core value. In most enterprises, however, relationships are temporary and conditional: a CEO does not usually retain a poorly performing sales manager just because he or she loves him. Positions are defined by function, and performance is the core value that drives the outcome of whether an employee retains a job, gets promoted or is terminated.

Consequently, leading any family enterprise is a more complex undertaking than leading a non-family controlled competitor, all other variables being equal. There is greater interdependency between the family and business system and thus a greater need for the leaders to be fluent not only in the language of business but also in the dialect of the controlling family – and at the same time they must switch easily from one tongue to the other and back again.

7.1 **How to cultivate leadership development: it has to be a practice**

In some ways, leadership development is analogous to athletic training. Although some people are born with great natural talent, even those individuals have to develop that talent if they want to excel at the highest and most competitive levels in their field of endeavour. And just like an athletic training regime, leadership is a practice. If company leaders merely read best-selling books on relevant subjects and attend seminars to cultivate their leadership, and do not implement real change in their daily practice at the organisation, they will not have success.

In my experience, too few managers and owners have a well-defined vision of what leadership is or can be. However, we know a roadmap for leadership development will accelerate skill improvement. And while horizontal leadership development is important, it is all the more valuable if it is supported by vertical leadership development.

Vertical leadership development should begin with reflection and jutzung. The top 5% of leaders are likely to have a daily reflective or meditative practice. One thought leader in this field interviewed a group of these top leaders and found that all of them write in a journal, another reflective practice. Therapy and coaching are other modalities to help leaders explore their purpose, their presentation and their blind spots.

Many leaders are exploring the field of emotional intelligence, which is where a leader can identify emotions as they arise, label them and regulate how they want to act on them, causing them to be far more effective leaders.⁹ In an exercise we do in our EMBA course, executives are required to get three words from ten people on how they present themselves on a good day and on a bad day. Almost everyone is very surprised to hear that most stakeholders very accurately perceive how they are perceived on a bad day. As one colleague put it, “We are all professional boss

9 See Daniel Goleman, *Emotional Intelligence*, Bantam, 1995.

watchers.” As to the good-day feedback, people generally find it validating and occasionally discover a strength that others see in them that they may have overlooked.

This leads to another essential tool that all leadership models highly recommend: seeking feedback. The Center for Creative Leadership posits that as one moves upwards in any organisation, the lack of objective feedback is the number-one factor than can derail effectiveness as a leader, and even a whole career. If this is true for a police officer, professor or politician, then it is even truer in a family business where that core value of harmony will often constrain the truth from coming out.

Given the dual dynamics of resentment and fear, a family member may be justified in being cautious with feedback: Does the sender resent me? Is it because of who I am in the family, or are they sucking up to me? Feedback is also essential to the work of aligning a person’s self-perception with how others in a company perceive that person’s leadership – which is an ongoing, and profoundly meaningful, endeavour.

Finally, and more specific to vertical leadership development, tools for growth include a basic personal commitment on the part of a leader to development. This involves taking time to have new and complex experiences, such as immersing oneself in other cultures and connecting with people who are also engaged in business practice, as well as remaining endlessly curious.

7.2 A peek at the potential

In my experience, vertical leadership development, especially within the intimate, complex, inspiring and occasionally humbling world of family enterprise, can dramatically transform people and the family enterprises they lead. At the top levels where leadership abilities combine, some truly amazing things occur. We see leaders helping to change estate laws in their states, as Jim Ethier has done in his role as former chair of Bush Brothers and board member of the Beacon Center (a think tank that has led the effort to eliminate inheritance tax in Tennessee). We see the reframing of business into so-called ‘conscious capitalism’, as John Mackey, co-founder of Whole Foods, has done. And we see social entrepreneurial programmes that require no government funds and become models for the future, as Mark Peters, CEO of Butterball Farms, has done.

Enterprises need inspiring leadership if, as Rich Morris said, businesses must “go from having one good business idea that lasts three generations to each generation needing three good ideas”. I believe it is crucial that today’s leaders develop the agilities suited to the values-based, patient, emotional capital inherent in the family enterprise mindset.

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