

# 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.

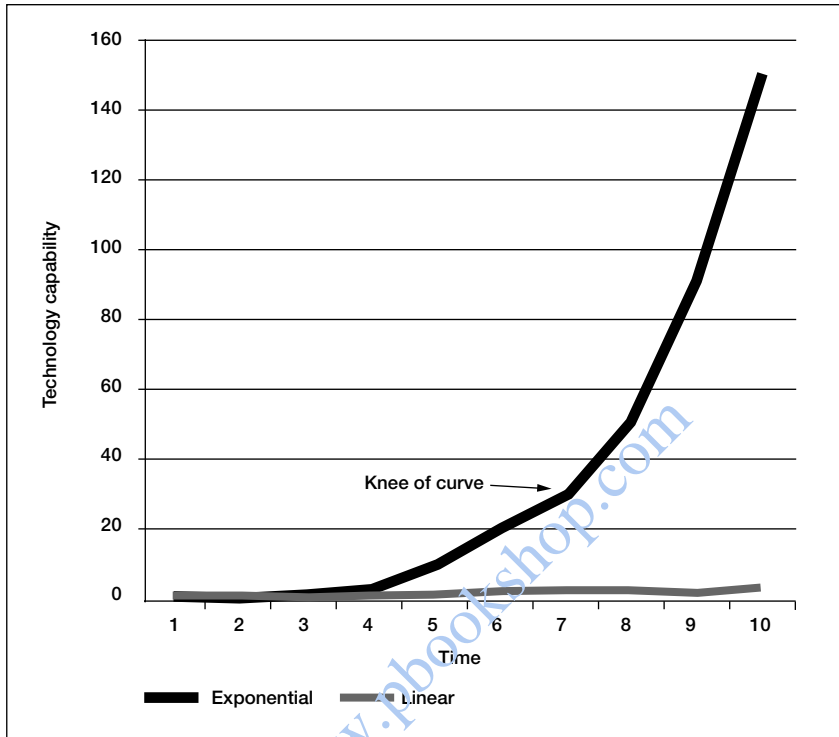
Today, we can no longer predict a return to stability. Furthermore, we have not completely grasped the full implications of exponential change and interdependency as they currently exist. As indicated in Figure 1 below, we are at the so-called "knee" of the change curve, which measures the combined rate 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. 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

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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](http://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.<sup>2</sup>

*This is an extract from the chapter ‘Awareness and action: transforming a family business via family enterprise and vertical leadership’ by Greg McCann in Sustaining Family Enterprise: Meeting the Challenges of Continuity, Control and Competitiveness, published by Globe Life and Business.*

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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.