Managers from different sectors double the likelihood of success

a white paper of Senior Management Worldwide

2020

seniormanagementworldwide
leading global provider of interim executives

Sectoral knowledge

When it comes to recruiting new managers, the greatest challenge is to identify those skills that will guarantee the greatest possible success. And while it is commonplace to value experience in the industry, our experience at QMT leads us to very a different conclusion – which is backed by research.

These studies conclude that it is better and safer to hire managers from outside the industry. Indeed, the likelihood of success is doubled by hiring managers who do not come from the same sector – while that of failure is more than double for executives from the same sector. In short, the result is the exact opposite of what we would normally expect.

At QMT we have wide-ranging experience working with managers who do not have a professional track record in the industry in which the client operates. And looking at their success rate, it’s safe to conclude that sectoral knowledge is not important in the vast majority of projects. This knowledge, when needed, can usually be very quickly acquired. Indeed, clients often do not even require that the manager comes from the same sector. Ultimately, they usually opt for successful executives, with a demonstrated capacity for management. The projects they oversee almost invariably end in success.

Even in projects in the areas of general management, sales or marketing, we have had highly positive experiences using executives from outside the industry. It may intuitively seem that experience in the sector would be key, but results confirm that this is not a determining factor. One rare exception might be in the area of operations in the automotive sector, where experience in the same sector is actually preferable. This is likely due to the highly sophisticated nature of operations in this sector. Interestingly, though perhaps not surprisingly, operations managers from the automotive sector tend to be very successful in other sectors too.

Wary of change

The experience outlined above contrasts with common practice when it comes to recruiting managers. Many companies continue to do precisely the opposite. They are wary of change. They cannot shake off the feeling that it might be better to look for someone who comes from the sector. When writing the job profile, they will frequently require experience in the sector. But is there any evidence that experience in the sector is required for success? Is it really best to recruit someone from a competitor company, in the same sector? Or might someone from outside the sector be a better fit?

In many cases, companies err on the side of caution and opt to hire someone from the sector. But is this sectoral experience really so important? Is it really a good idea to recruit someone from the competition? There are many articles with arguments for and against. But what is really missing is a reliable and quantifiable test.

Conclusive empirical evidence

Some time ago, the prestigious Fortune magazine published the results of a study carried out on this very subject. Two samples were studied with 600 newly hired managers in each. The first group consisted of professionals who had been recruited by other companies in the same sector, among them the competition. The second group consisted of managers who came from totally different sectors. Success or failure was defined with the criterion that the manager had to still be working at the company 12 months after recruitment.

The result of the study was surprising. Of the group of managers that came from the same sector, 35% remained after one year. Of the group of managers that came from other sectors, 68% remained after one year. This result beat all pre-established notions. Because the difference was so great, the researchers set out to explore why.
The executives and the companies that hired them were interviewed. The result was a range of different reasons, explaining either failure or success. These reasons completely coincide with what we have seen with our candidates and with interim managers with whom we have worked at QMT.

The reasons why managers who came from outside the sector were much more successful were:

- Logically there are more good managers in the sum of all other sectors, than there are available in just one specific sector.
- The manager from outside the sector knows that he or she has to learn. This often means they have a more open attitude and are therefore more adaptable.
- In order to learn, the manager relied on his or her team, valued it, and this increases the motivation of its members. These managers were respectful and collaborative. Their efforts to get to know the company often resulted in finding new opportunities for change and improvement that no one had seen until now.
- These managers also provided a fresh vision, looked at things from new angles and brought with them a spirit of positive critique. This helped the team rethink issues that were previously taken for granted.
- Questions were asked that never before had been considered. This fostered

continuous and rapid learning. The team learned to leave their comfort zones in a controlled way and with a minimum of stress.

- In rapidly changing environments as we find today, yesterday's ideas and practices are often quickly rendered obsolete.
- The manager contributed his or her know-how, which created value in the team.
- The diversity of ideas and experience enriches the company's work.

This diversity and contribution of new ideas and experiences had the effect of creating a virtuous circle.

Reasons for the failure of managers from within the sector:

- In many cases, these managers sought to replicate a copy of their old company in the new one. They were under the illusion that the market, customers, business and other factors for success would be the same across all companies. They assumed that how things are done should be the same as well. This clashed with the culture of the company, with the teams and with how the company did business. Teamwork with direct collaborators and with the rest of the company suffered as a result. Companies have their own individual idiosyncrasies: they all work differently. By using a dogmatic approach, the managers quickly became isolated, discredited – and their management all too frequently failed.
- Their vision of the company and the sector was influenced and conditioned by an experience that was similar at a surface level only, not in the business fundamentals. They accepted certain ideas as valid without critically questioning them.
- Few new ideas were brought to the table, nor was there any fresh vision.
- The skills and experiences they brought were, in many cases, not especially different from those already available in the company.
- Today, the world and many business sectors are changing so rapidly that knowledge of a sector can quickly become obsolete, anyway. Managers who believe themselves to be knowledgeable of a sector can often even prove detrimental to finding out what a company really needs.

In short, continuity and the lack of contribution of new ideas created a vicious circle.

History

In support of this study, there are a range of very interesting case studies from the history of leading companies. Louis Gerstner was president of American Express (finance), then CEO of RJR Nabisco (FMCG) and finally CEO of IBM. In this last position he halted the decline and relaunched the company's fortunes. The case of Pablo Isla, general secretary of Banco Popular, CEO of Altadis (tobacco) and later CEO of Inditex is another case in point.
These conclusions are in complete agreement with our experience at QMT, both from the point of view of the interim managers and the managers of the contracting companies.

Conclusion

Clients often argue that they are looking for a manager from within the sector because they seek to limit risk. This reasoning is based more on ignorance and prejudice, than on solid arguments. In the above mentioned study, there was a 65% failure rate for managers from the same sector, with the success rate a mere 35%. In contrast, the success rate for managers from a different sector was 68%, with just 32% failing.

Thus, executives with experience in other sectors have twice the chance of success as someone from the same sector. In other words, recruiting someone from the same sector is highly inadvisable. These numbers will offer undeniable evidence that should dispel the prejudices of those who seek to reduce risks.

International cooperation

This white paper is a contribution of SMW's partner QMT (Dirk Kremer) from Spain.

Senior Management Worldwide (SMW) regularly publishes best practice examples from its partners. SMW is an international group of like-minded specialists of interim management providers. They operate in partnership under common principles and standards of excellence. Each partner helps organizations solve critical management issues and influence business outcomes. SMW offers the strongest and deepest network of leading interim executives available anywhere in the world. They combine global reach with local knowledge. With their combined reach and experience, the 21 partner countries offer a wide pool of interim and independent executive professionals across the world.

Wondering how we can help your company? Contact the SMW partners in your region: smw-interim.com.