Stumbling blocks for external executives

Interview with Martina Sandrock – advisor, NED and top executive

by Andreas von Specht

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Martina Sandrock is the Founder and CEO of connect & innovate, which advises on strategic corporate change processes. As a CEO, she worked for many years within international companies in the food industry before taking over the chairmanship of a medium-sized family business in 2017. She holds an MBA (USA), and has completed leadership trainings at Harvard Business School and the Center for Creative Leadership/Colorado Springs. In 2006, she was voted "Manager of the Year" and in 2010 was ranked as one of the "Top 10 Business Women" by the Financial Times Germany. Martina Sandrock has been an Advisory Board Member in B2C and B2B family businesses for many years.

AvS – International Trusted Advisors: Ms. Sandrock, you have experienced for yourself how challenging the transition of an external executive from a large company into a family business can be. Many successions even go wrong. Why?

Martina Sandrock: The reasons for this are of course different depending on the situation but in my experience when failures happen they cannot be attributed to one side alone. The most important rule for many entrepreneurs in this situation is that "it requires sufficient time for the individual steps of a succession to be thoroughly prepared and implemented in a structured manner". "Hold back, listen first, don't try to do everything differently" is the good advice that incoming executives should heed. Well-intentioned plans are made and projects are formulated, but often they do not prove themselves in reality. Usually, both sides contribute equally to the failure – the entrepreneur as well as their selected successor.

What should family entrepreneurs be aware of when they take the risk of hiring an external executive?

Entrepreneurs and shareholders often overestimate the future viability of their own companies – and are then surprised when a successor from the outside analyses matters with a fresh eye and sees the need for change. Usually, an entrepreneur decides to settle his/her own succession only when, in their opinion, their company seems sufficiently well positioned to make a handover. However, with the rapidly accelerating and ever more complex economic and social changes, a rosy self-assessment does not mean that the company is necessarily well equipped for the future, and that the successor simply has to "continue like before". Some entrepreneurs underestimate the value of the "external view", and also the proven experience and working methods of the chosen successor – the reasons for which an external manager was actually chosen.

So above all, the entrepreneur must be able to let go in favour of his/her successor?

Yes – and of course not only the entrepreneur has to be prepared to change. Another phenomenon concerns the importance of teamwork in top management: Frequently, the entrepreneur leaves behind "lone fighters" – individuals who have "served the boss" and who never really had to prove themselves as an executive team working constructively together. In addition, they have probably enjoyed extensive and direct contact with the owner, serving him/her with pride and great loyalty; they sometimes regard the requirement to cooperate with a new, external executive as a demotion. Incidentally, a new boss in the company is not only a great challenge for the entrepreneur, his successor and the management team, but also a decisive turning point for ALL employees. After all, they lose their most important reference person in the company – and with it they lose a sense of security, trust and routine. It is likely that they will be required to become used to new, unfamiliar ways of working. Without the entrepreneur in-situ, the management team will be more likely to take important decisions in the ExCom – and make greater demands in terms of numbers, data, facts, 'own initiatives' and accountability. More transparency, openness and togetherness will be required.

What do successors – and external executives in general – have to consider when integrating into a family business?

Successors sometimes overestimate their ability to decipher the particular 'code' of family shareholders, and tend to overestimate their own experiences and competencies. At the very beginning, external managers tend to underestimate the importance of a "professional coronation" by the entrepreneur. In many companies, all the responsibility was concentrated in the hands of the owner. All official communications, and relationships with key customers, business partners and employees revolved around a single person who will no longer be present. Why their successor was chosen, which experiences and competences he/she brings along, what mission they should accomplish – all these things often remain unspoken.

With what consequences?

In terms of internal and external communication, a personal presentation of the successor to the organisation is often not made. For example, an official public statement by the entrepreneur that he/she has chosen their successor thoroughly and according to professional criteria, and

that he/she has now been fully entrusted with wide-ranging responsibility for the business, is missing. In my opinion, this formal act of coronation should have at least the same importance in the handover communication as saying farewell to the entrepreneur. And successors should pay close attention to this.

Once the first weeks and months in the company are successfully navigated, many successors are inclined to focus more and more on the day-to-day issues: How do we set up projects; how do we implement them quickly; where can quick wins be achieved? Building and maintaining a good relationship to the owning family may be neglected in favour of the routine application of the experience and skills the executive has brought along. However, especially after the first 6 months – the "honeymoon phase" – this relationship is often put to a tough test.

Integration and onboarding can take more than 6 months?

Especially in the first few months, external managers sometimes overstep the mark or commit faux pas because they don't understand the unwritten rules in the company. The danger of misunderstandings and "stepping on toes" is high. Even after the first few months one should continue to be very careful in dealing with the different stakeholders. For example, external managers should use the regular exchange with the owning family to learn more – to understand what drives the entrepreneurs, what positive and negative experiences have shaped their predecessor, and what he/she is particularly proud of and values. External managers need to be conscious that in parallel with their attempt to master the challenges of leading the company, a painful separation process of the organisation from the entrepreneur may still be going on. In this case, and even if the new executive has self-confidence in their abilities and capacity to run the company, some show of humility before the task and loyalty to the entrepreneur must also be made visible.

What about making necessary changes to the company?

This is an important issue because the company situation often requires rapid and urgent changes. The pace and type of change is a fundamental issue and has many facets. First: the buy-in for change. At the beginning, external managers tend to underestimate the importance of a formal agreement on the change process they recommend. After the first 100 days in the company, the successor should present to the entrepreneur or the advisory board a written report on the perceived status of the business and on the planned change measures – and then demand a formal 'go'. Secondly: many people do not want change and would rather keep the proven and tested, the familiar. The momentum, the energy which is generated by the handover of leadership, must be used. Change must be initiated promptly. The more the team feels that everything will remain the same, the more difficult it will be to get something new off the ground. Thirdly: and this is always particularly important to me personally – change planning and implementation must not take place in secret! The entire team must be taken along, integrated, motivated and held accountable. This may require an enormous personal change for each individual, which must be closely supported by the new boss and his management team. Only in this way can such an important process succeed.

Is there any other advice just for successors of family businesses?

I'm sure there are many more pieces of advice. But one very important point in my opinion is not to underestimate the importance of the HR and communications department in the company. While many, more traditional entrepreneurs still regard these departments merely as 'administrative support', they can become vital for the new executive. If their start in the company is accompanied by a required restructuring or a change in the corporate and management culture, the personnel and communications departments must be given direct access to the ExCom. These managers are the organisers and coordinators of the change programme, so access to the top leadership is an absolute necessity for them!

Ms. Sandrock, we thank you for these insights!

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