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Exploring the P&L Leadership Shortage

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Fewer than 1 in 5 companies are well-positioned to provide effective leadership development for the next generation of global leaders – that’s according to the latest [Deloitte Human Capital Report](#). Yet, not surprisingly, 85% of those companies rate leadership planning as the most urgent issue facing organizations around the world.

It’s an unsettling disconnect, but one we’re seeing the impact of in the marketplace every day. In the past 24 months alone, we’ve worked on more [P&L leadership searches](#) than in the previous 10 years combined. Clearly, the current demand for **top tier** full P&L leadership is massive – both for mid-market private equity firms and for global, diversified industrial companies.

Unfortunately, it’s a demand that far outweighs the supply, causing a significant leadership shortage on a global scale. This shortage is a concerning barrier to growth – both for the divisions and business units lacking these leaders as well as for the entire enterprise itself. How did this happen? And is there a solution?

Why Is There a P&L Leadership Shortage?

Today’s market environment is shaped by global expansion, digital disruption, shifting customer expectations, evolving regulations, heightened competition, and increasingly complex supply chains. Given the rapid pace of change and expanding industrial economies, company leadership requirements have changed. These requirements have elevated expectations of the caliber of talent required to do the job; hence the need for **top tier** full P&L leadership. Did you hear me say, **top tier**?

A decade ago, in the depths of the US recession, many organizations chose to scale back their workforce in order to stay above water. Many people, from the frontlines to middle management, were laid off, while others simply left or retired. Equally consequential were the cutbacks made to investments in succession planning and recruitment efforts. Ten years later, in an era of strong economic recovery and growth, the impact of these cuts is sorely felt. Most notably, there’s a minimal bench of talent waiting to take the helm.

Part of the reason behind the profound need for that bench is the growing number of [retiring Baby Boomer executives](#). Just [20% of Baby Boomers](#) are left in the workforce – and while that’s double the rate that it was 30 years ago, it’s still not enough to fill the gap. Generation X, a significantly smaller generation, can’t fill it either, and though [2019 is the year](#) that Millennials are expected to surpass Boomers in number, they aren’t yet prepared to take over.

These generational shifts are clearly perpetuating the P&L leadership shortage.

Also contributing to this challenge has been the momentous surge in companies moving to matrix organizational structures. Many companies that had historically been organized with direct P&L leadership roles have evolved into centralized functional organizations with hopes of creating more efficiencies and allowing for greater internal coordination. Although this may be a cyclical trend occurring, the fact is that there are fewer full P&L roles today, and hence, fewer leaders with the experience of a true P&L leader. In particular, these executives may lack the core experience of being directly accountable for manufacturing and commercial.

In short, there are a variety of seemingly unrelated root causes behind the P&L leadership shortage, but they have collided to create the perfect storm, leaving organizations unprepared and desperate for talent.

What We Need in Today's P&L Leader

We are finding that most client organizations are very narrow in their requirements. For example, they want a thriving division president whose core role is P&L and who brings a 360-degree perspective on what makes the division or product successful. This is a professional who has extensive cross-functional experience, particularly in driving revenue, managing costs and margins, forecasting budgets, and collaborating with stakeholders. These are often wildly intelligent individuals who aren't afraid to challenge the status quo and are strong operational problem-solvers and decision-makers.

Clearly, that's already a challenging profile to fulfill. But there's more. In today's business landscape, the right individual is often one who helps an organization diversify its workforce. The issue of diversity is becoming a greater focus for many companies, particularly ones impacted by state laws regarding board diversity or driven by the public relations aspect. However, many others have more altruistic motivations to diversify in addition to recognizing that diversity is an avenue to greater creativity, improved performance, and reduced "groupthink." That said, looking for gender- and ethnically-diverse P&L leaders narrows the talent pool even further.

Another common requirement is finding those who have upside potential to take on larger roles within the organization. Succession requirements are seemingly always a must, particularly with the global diversified industrial companies. We all know that some executives have that ability while many others do not, even further reducing the talent pool.

Finally, in order to get past inflexible non-competes, many organizations are looking for P&L leaders who are able to relocate from other cities. While this approach can initially widen the talent pool, most candidates' willingness to move their careers, families, and lives is limited.

Thus, we have a profile of a P&L leader that is extremely difficult to find, let alone recruit.

Overcoming the P&L Leadership Shortage

There's no one-size-fits-all answer to the P&L talent shortage. But looking at the causes of this dilemma gives rise to some clear solutions.

First, let's reinvest in professional development for up-and-coming leaders. This is a direct response to the fall-off in hiring and leadership development during the recessionary years. However, let's not sugarcoat it: leadership development is a huge investment. A [Deloitte report](#) claims that an effective program requires a spend of \$2,000-\$10,000 per leader per year. That's not to mention the years it can take to build a leadership pipeline. Truthfully, there are a handful of companies who actually do this very well. Some claim to, but are merely average. Many, simply fail miserably.

Thus, an organization needs to be readily committed, with the full support of current leaders and executives. It requires an understanding of the [evolution of 21st-century leadership skills](#) as well as the depth and quality of experience required to align divisional P&L with enterprise-wide business goals (growth, market expansion, acquisitions, etc.).

A key element to leadership development should be knowledge transfer from existing leaders who are set to retire in the next 5-10 years. This is of particular importance in the quest to [prepare Millennials for leadership roles](#), who are thirsty for professional development opportunities.

Having an effective program in place should help to partially combat the challenge of finding individuals who meet that stringent list of requirements for the perfect P&L leader. However, as mentioned, building this initiative – and actually seeing the fruit of it – is going to take time.

In addition to developing your own talent, identifying and building relationships with outside top talent for future needs is also becoming more prominent. Often referred to as “pipelining”, “talent funnels”, or “external succession planning”, more and more internal talent acquisition teams, whether within a PE Firm or a hiring company, are either managing the pipeline of

talent on their own or teaming with search firms to identify future leaders. This is a highly strategic approach which requires time, effort, dollars, and most importantly patience because the return on investment may take months or longer.

Of course, in the scenario of immediate need for leadership talent, often the best solution is partnering with an [external search partner](#). The right partner will have a deep network to mine for talent and understands the nuances of P&L leadership. They know the challenges of the landscape and have a specific understanding of those organizations that could yield the relevant executives.

At the end of the day, overcoming the P&L leadership shortage is no small feat. It requires a proactive approach, strategic direction, and confident buy-in from existing leaders.

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