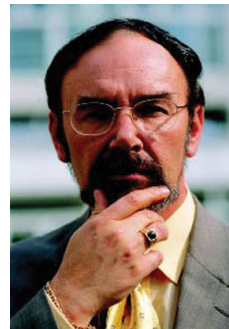


# Integrating Succession Planning with Ethics and Values

*By William J. Rothwell, Ph.D.*



William J. Rothwell, Ph.D. is recognized globally as an expert on succession planning and management, serving as the national thought leader for a best practices study of succession that examined 18 multinational corporations. Rothwell's publications include "Effective Succession Planning" and "The Competency Toolkit."

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The recent scandals on Wall Street—like the 2001 scandals at Enron, Worldcom, and Tycho—have again underscored the need for improved ethics in organizations. Tougher laws are not the answer. After the Enron scandal, the U.S. government legislated the Sarbanes-Oxley Act. It was tough. But it did little to avert the recent financial crisis.

The financial crisis was prompted, in no small part, by a failure of ethical leadership. That is especially true when it is considered that some CEOs, who nearly bankrupted their companies, were given lucrative “performance bonuses”—and cost employees their jobs (and were sometimes rewarded precisely because they saved money for their firms by casting off loyal employees without a moment’s thought). Consider: the senior executives at the seven largest financial firms received, since 2005, \$464 million in “performance pay.” The CEO of Merrill Lynch received \$83 million in 2007 and awarded \$3.6 billion in bonuses to other Merrill Lynch executives before the firm, days from bankruptcy, became part of Bank of America.

The greed and ethically-challenged behavior that seems to drive these problems seems to be uniquely American. According to David Moberg in “Give CEO Pay the Pink Slip” (see [http://www.inthesetimes.com/article/4306/give\\_ceo\\_pay\\_the\\_pink\\_slip/](http://www.inthesetimes.com/article/4306/give_ceo_pay_the_pink_slip/)), “from 2004-2006, top European CEOs received less than half of the \$13.3 million that their American counterparts made, on average; top Japanese CEOs received only \$1.5 million.” But was it worth it? No, according to Xavier Gabaix of MIT and Augustin Landier of NYU—who recorded a 0.016 percent performance difference between the top CEO and the 250th. And excessive executive pay was a major cause of the current financial crisis that afflicts the U.S.—and, in fact, the world economy.

But what is ethics, and how do ethics relate to values? How do ethics and values relate to performance? What should be the relationship between ethics, values and succession planning? This article addresses these simple yet profound questions.

## Defining Ethics and Values

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Ethics generally means moral philosophy. Business ethics has to do with morality as it affects business and its interactions with people—such as suppliers, distributors, customers, employees, and members of the society of which the business is part. In short, business ethics has to do with right and wrong. It thus differs from values, which have to do with considerations of what is good or bad. Business values have to do with what leaders of a business believe to be good or bad business practices.

Many leaders establish codes of conduct by which to operationalize the business ethics of their organizations. Codes of conduct usually set forth practices that should be avoided which may lead to impropriety or even the mere appearance of it. Examples of many such codes may be reviewed on the web. They become the basis for company policy and for company-sponsored training. Unfortunately, many such codes do not reflect the reality of the workplace. Written by lawyers, these codes protect the business from legal action but do not necessarily provide sufficient guidance to workers—and even to senior executives—in all aspects of their working lives. And there is also a reluctance in many businesses to police off-the-job conduct, even though individuals who are arrested and/or convicted are usually identified by employer in media attention they receive.

## Relating Ethics and Values to Performance

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Performance is usually understood to mean both results and the behaviors leading to those results. Ethics and values do relate to behavior. But they do not necessarily relate well to results. After all, if one is willing to break the law or moral codes, one may actually achieve better results. And that is exactly the dilemma that contributed to the current financial crisis. CEOs and others were rewarded on getting results. But the rules that bound their behaviors were not as strict as the rewards to be gained from achieving the greatest results. And therein lays the challenge to be overcome.

## How Should Ethics and Values Be Integrated with Succession Planning?

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In succession planning, the process of identifying who should be developed for possible future promotion, organizational leaders often categorize employees on a grid that relates how well they do their current jobs (performance) and how promotable they are perceived to be (potential). No rating is given to indicate how well individuals have adhered to the company's code of conduct or acted in line with behavioral descriptions of company values. That should change because of the problems identified in the recent financial crisis. It is just not enough to rate people on their job performance and promotion potential. They should also be objectively rated on their adherence to behaviorally-based codes of ethical conduct and company values. Only in that way will ethics and values be effectively integrated in the future with succession planning.

## Conclusion

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The stakes are high. As Baby Boomers near retirement, more individuals will be eligible to be promoted. It is not enough to consider their past and current job performance or their objectively-rated promotability. They should also be rated on their adherence to codes of conduct and company values.

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