BusinessWeek
MANAGEMENT

CEO Lessons from McChrystal's Sacking

Serious breaches require firing and should not be balanced against an individual's worth to an organization, writes Ben W. Heineman, Jr.

June 30, 2010
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Chief executives often face questions of whether to separate a senior business leader from the company for serious misconduct, such as bribery, sexual harassment, phony accounting statements, ignoring safety rules, or misappropriation of company funds.

A recurring issue is whether the business leader's value to the company should be taken into account when making that separation decision. Should there be a balancing test that weighs the past and future value of the officer against a clear violation of the fundamental rules of the corporation?

For example, a very successful bicultural, bilingual business leader in an important emerging market, with 20 years of company experience, decided to switch his business division from direct distribution to customers to use of third parties without company-mandated due diligence. He was losing share, and he knew that if he looked the other way, the new third-party distributor would use improper payments to help his division regain that share. Should the CEO take that executive's success and experience into account in deciding whether to dismiss him—or just impose serious financial sanctions—for a significant breach that would otherwise mandate separation?

The McChrystal Case

In the case of General Stanley McChrystal, President Obama concluded that his Afghan commander had violated fundamental precepts in giving a *Rolling Stone* magazine reporter on-the-record access to the general and his top staff. In the subsequent article, McChrystal and his lieutenants aired personal disputes and dislikes relating to civilian authorities; made contemptuous comments about some of those authorities; and ignored the military chain of command in

unilaterally criticizing the Administration's policymaking apparatus, if not the Afghan policy itself.

Despite the critical, sarcastic comments intentionally allowed or made by General McChrystal, respected former military commanders, other commentators and analysts, and even Defense Secretary [Robert] Gates (according to news reports) argued that President Obama should retain General McChrystal because, as architect of the Afghan strategy, McChrystal was the best person to implement it, and its success was vital to the national interest.

President Obama, properly, did not analyze the issue before him as requiring a balancing test. Instead, in accepting General McChrystal's resignation, he said that "the conduct represented in the recently published article does not meet the standard that should be set by a commanding general. That includes adherence to a strict code of conduct. … That includes strict adherence to the military chain of command and respect for civilian control over that chain of command. And that's why, as Commander-in-Chief, I believe this decision is necessary to hold ourselves accountable to standards that are at the core of our democracy."

Because General McChrystal (who apologized and never denied the truth of the *Rolling Stone* article) had violated core principles of the American military (chain of command) and American democracy (civilian control of the military), President Obama concluded that, however great his value, he had to go.

Preserving a Culture of Integrity

This public-sector case is a dramatic reminder that the same basic reasoning should—and often does—apply in business settings as well. Despite the temptation to save valued leaders or employees: no balancing tests. Business organizations must have certain bedrock principles, rules, and norms that no person, however valuable, can be allowed to violate. No business issue is so important; no person is so indispensable that violation of these principles, rules, and norms can be ignored. They constrain—are not to be weighed against—the need to "make the numbers." If they are ignored or just become part of a balancing test, then a culture of integrity—which I believe is so central to trust in business and to a corporation's sustainability—is fatally compromised.

When a fundamental line is crossed, the individual must go, whether a corporate leader or a shop floor worker, whether a general or a private.

I was part of the management team that considered the case of the emerging-market business leader who hired the third-party distributors without conducting appropriate due diligence. He was asked to leave without that team considering his importance to the company. He had crossed a crucial line that he was supposed to defend. Game over.

In my nearly 20 years in business dealing with difficult disciplinary issues, there were always questions about the facts. These questions had to be treated with great care, often by giving the suspect leader or employee a chance to rebut what our own internal investigation had found. But if the facts were established and the critical principle, rule, or norm was violated, that was the end of the inquiry. Separation would follow.

Values Over Individuals

Whether we were dealing with brilliant young lawyers who lied on their expense accounts, valued midlevel managers who siphoned off money in flow financial transactions for themselves, or senior leaders who made improper advances to women, the result was always the same: separation without consideration of their worth to the company. This was true for even more senior leaders who failed to create a culture of integrity by not taking principles, rules, and norms seriously and who presided over scandals that went on for far too long and involved far too many people, even if they were not directly involved and had no direct knowledge of the problem. The primacy of core values—embodied in the principles, rules, and norms—was of far greater importance than any single person.

Of course, once the facts were clear and separation deemed appropriate, there were always questions of how to structure the separation. On that issue, a balancing of factors was appropriate. Depending on the issue, the individual's history, and the damage to the company, there are a variety of separation options.

At one extreme was the young, high-potential but short-term employee who lied on expense accounts and who was fired summarily. At the other end was a highly valued officer with 30 years of unblemished service who made inappropriate advances to a woman subordinate. He was forced to retire, losing future cash and equity compensation, but he was allowed to have all existing benefits vest. This second case is analogous to General McChrystal's exit. Some argued that he had directly violated the Uniform Code of Military Justice (one provision prohibits contemptuous comments about certain named officials, including the Vice-President). As of this writing, however, it appears as if, given his long service and difficult assignments, he will simply retire as a four-star general with no further action against him.

New Clawback Rules

The question of how to structure a separation is now limited and made more complex by rules relating to "clawbacks"—stemming either from by-laws at a growing number of companies or from legal requirements. Certain types of fraudulent or other intentional misconduct (from accounting offenses to violations of company ethics) can trigger a company action—which may be mandatory or discretionary—to recover different types of compensation (equity gains, annual

bonuses, other) over different periods. (The new financial service legislation has a provision, building on one in Sarbanes-Oxley that requires a clawback for material financial misstatements.) Thus the issues about how to structure a separation as modified by the emerging clawback provisions may require careful balancing of competing factors.

But as the McChrystal affair illustrates, when a senior leader violates a fundamental corporate principle, rule, or norm—whether in the military or in a corporate context—the proper practice is clear: separation, not a balancing of value to the company. It was a vivid and dramatic teaching moment.

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