The ethics of resignation

Leaders must offer to step down in the event of a failure on their watch

Abstract

When there is a failure within an organisation the person at the top may not be to blame, but they are accountable and should offer to stand down.

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Foreword

*When Brutus is defeated at the Battle of Philippi in 42 BC, two years after orchestrating the assassination of Julius Caesar, rather than run away he takes his own life. As Shakespeare has him say: "*Hold then my sword and turn away thy face/ While I do run upon it*." Finding his body, the victor Octavian says: "*Within my tent his bones tonight shall lie/ Most like a soldier, order'd honourably.*"[1] From this tale and many others from Roman times we take the phrase to fall on one's sword as accepting responsibility for a calamity.*

While this sounds like an archaic act of chivalry, the reason that the phrase is still with us more than two millennia later is that there is an expectation that the person at the top of an organisation is accountable and will take responsibility for a collective failure – even if they are not personally to blame. While there have been some honourable examples of this, they are outnumbered by the occasions when those at the top have hung on.

At a time when chief executives, presidents, and managing directors are remarkably well paid, it is especially important that when something goes wrong under their command, they accept that the buck stops with them and that they do not try to pass the blame on, or hang on — on the basis that they are "best-placed to clean up the mess" but instead offer to resign. The offer may not be accepted — but all the more reason to offer it before it is demanded.

— **Jonathan Harris CBE, FRICS**

Executive Summary

Recent times have seen many examples where the leader of an organisation hit by a crisis has rejected calls to quit usually on the grounds that they are the best person to sort out the mess. In the wake of a series of financial scandals in the UK, there have been a series of voluntary codes setting out principles of good corporate governance. But despite the welter of such documents, but there is little discussion of how leaders should behave when things go wrong.

Experts in ethics, however, are clear that executives have a duty of care to look after the welfare of their employees based on the fact that they hold the power and responsibility for the success and survival of business organisations. The role of leader incurs a collective obligation to the employees of a business organisation to manage that business successfully.

So, what steps should an executive take when they find out that a major failure has taken place under their watch? Here are three:

1. Come clean about the fact that something has gone wrong. Do not try to conceal it or cover it up.
2. Do not then try to pass the blame onto others within the organisation, neither those within your own boardroom, nor especially those in lower positions.
3. Offer to resign in the full expectation that it will be accepted. If the board of directors refuses to accept the resignation, then the leader can continue in their job in the knowledge that their peers have given them the opportunity to clean up the mess.

[1] Shakespeare, W. Julius Caesar. Act V, Scenes iv & v.

Introduction

Like Eskimos and snow, the British have an array of words to describe the noble self-sacrifice by the leader who decides to quit their role for a failure under his or her watch. Some of them come from Latin, reflecting Britain's imperial past, such as "to fall on one's sword" — the practice of some Roman generals, who would commit suicide following a devastating defeat by literally falling on the tip of their sword. Others echo Britain's erstwhile naval power such as the idea that the "Captain goes down with his (sic) ship". Yet more come from a general feeling of that being the right thing to do. Critics will call for leaders to "do the decent thing" or "take the honourable route" and resign. Americans have the more prosaic phrase that "the buck stops here", made famous by President Harry S. Truman

Yet, at least in the modern era, there has been a decreasingly small number of occasions when the person at the top offers to resign after a general failure beneath them. One of the most famous examples from recent British history was the decision by Lord (Peter) Carrington, who resigned as Foreign Secretary in 1982 to take full responsibility for the failure of the Foreign and Commonwealth Office to foresee the invasion by Argentina of the Falkland Islands. As he told Prime Minister Margaret Thatcher at the time: "I have been responsible for the conduct of that policy and I think it right that I should resign." She in response acknowledged his decision to leave the Government "in honour".

There have been many resignations by senior political figures since, but almost all of those have been due to personal failure or a disagreement over a decision made by the government. There have, however, been many examples where some calamity has led to calls from the media and others for a minister or a business leader to quit, but the individual has not resigned usually on the grounds that they are the best person to sort out the error and ensure that it does not happen again. For many observers this creates the feeling they are "toughing it out" to preserve their elevated position and the pay and benefits that come with it. The "honourable thing" therefore would be to quit.

Guidance from a moral compass

Perhaps the idea of honourable resignations was just a feature of a bygone era, from which the world has moved on. It may be a sign that people, especially within business and commercial organisations have embraced a more mercantilist culture where they will hang on to what they have until forcibly removed. For many that trend is emblematic of a shift in emphasis towards the individual and away from collective responsibility that was seen under Thatcherism in the UK and in the United States in the same decade under Ronald Reagan's administration. This has been accompanied by an escalation in the remuneration packages offered to senior executives, that makes stepping down harder to do. Of course, they often will receive chunky severance payments, but might it be harder for them to get another well-paid position?

This came to a head in 1991 after a string of financial scandals in one year, 1991, finally prompted business leaders to embark on the creation of a codified description of ethics within business. The collapse of the textile company Polly Peck with debts of £1.3 billion amid falsified financial reports, the liquidation of the bank BCCI, and the collapse of the business empire of media tycoon Robert Maxwell after his death combined to necessitate new rules — or at least some guidance.

In 1992 Cadbury Report led to the appendage of a number of principles to the listing rules of the London Stock Exchange (LSE) but without any obligation on companies to comply. It took another seven reviews (Greenbury, Hampel, Turnbull, Higgs, Myners [two], and Walker) to finally end up with the UK Corporate Governance Code[2]. This is a set of principles of good corporate governance aimed at companies listed on the LSE. It is overseen by the Financial Reporting Council and its importance derives from the Financial Conduct Authority's Listing Rules, which are given statutory authority under the Financial Services and Markets Act 2000.

The FRC is quite clear that the code does not set out a rigid set of rules. Instead it offers flexibility through the application of principles and through so-called "comply or explain" provisions as well as supporting guidance. "It is the responsibility of boards to use this flexibility wisely and of investors and their advisors to assess differing company approaches thoughtfully," it says. In a way this is useful for our examination of the ethics of an honourable resignation, as the code focuses on the principles that should apply to behaviours as opposed to setting out a statutory flowchart to decide whether or not someone should resign. It gives businesspeople a moral compass to follow.

At its heart are 18 principles in areas such as board leadership and company purpose; division of responsibilities; composition, succession and evaluation; audit, risk and internal control; and remuneration. Much of it looks at technical "City of London" issues such as annual reports, non-executive directors, and remuneration policies. They are mainly aimed at the ethical operation of a successful company, rather than even envisaging any sort of serious failure.

However, there are some clues. The second provision recommends that where the board is not satisfied that policy, practices or behaviour across the business are aligned with the company's purpose, values and strategy, it should seek assurance that management has taken corrective action. "The annual report should explain the board's activities and any action taken," it says. But there is silence on who is accountable and should take responsibility for any failures.

In a crowded field for advisory codes of conduct, the Institute of Directors has 12 articles that Chartered Directors should follow[3]. The first one says that a director should recognise that, as a member of the board, they all have individual and collective responsibility for enterprise and the exercise of commercial judgement in their company. A director should endeavour to

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[2] Financial reporting Council. THE UK Corporate Governance Code. July 2018

[3] Institute of Directors. Chartered Director Code of Professional Conduct. May 2019

ensure, acting as a member of the board, that the company is financially viable, and properly managed so as to protect and enhance the interests of the company and its shareholders over time.

In other words, there are many codes that set out how directors and other people in positions of responsibility should behave to help their organisations grow, but there is little discussion of how they should behave when things go wrong.

Moral ecology of the self

Instead one needs to look to discussions about ethics within academia to help gain a deeper contextual understanding of when a resignation — or at least an offer to resign — is the morally correct course of action. According to an analysis of the ethics of resigning written more than 20 years ago by a leading US academic, resigning from office is a critical ethical decision for individuals. Resignation also remains one of the basic moral resources for individuals of integrity. Although the analysis focused on resignation from public office, its conclusions would apply to any organisation that has stakeholders rather than voters, such as a corporation or a third sector organisation.

In his essay, Professor Patrick Dobel, now Professor Emeritus in Public Service at the University of Washington's Evans School of Public Policy & Governance, lays out a moral theory of resignation that accounts for the moral complexity of life in office that he says can help guide individuals in their deliberations.[4] He says firstly that resignation has a profound role in what he calls the "moral ecology of the self". This is because taking a reflective look at one's actions or omissions is a key element of personal integrity.

A second reason is that resignation is an affirmation of the moral responsibility a leader has for failures within an institution. This is because they must bear responsibility for institutional outcomes to which they have made a material contribution because of their role as leader. Professor Dobel faults people for offering excuses such as "following orders" or having "no choice". The fact that they have the option to resign means those self-exculpatory reasons make no sense. "The knowledge of this option means that a person cannot escape knowledge of his or her responsibility by pretending that he or she had no choice," he concludes.

This perhaps flows into another excuse leaders offer which is that they are the "best person to clear up the mess". While immediately attractive as it has a hint of wishing to make things better and that the leader involved is competent as well as a hint of accepting the blame, it is not convincing. The fact that they are seen both within and outside the organisation as having been implicated in the failure yet have not taken responsibility for it means they are in a weakened position. They are unlikely to get support from below them from those who believe that their failure to quit is an act of buck-passing. Ultimately, they continue to play a role and hang onto the trappings of office but lose influence and so are unlikely to succeed in cleaning up the mess without significant damage to the organisation and its staff.

[4] Dobel, P. *The Ethics of Resigning*. Journal of Policy Analysis and Management, Vol. 18, No. 2, 245-263. 1999

Furthermore, a lack of willingness to offer their resignation can in fact weaken the moral underpinning of their integrity and responsibility. If someone becomes so attached to the rewards of office that they will not resign under any circumstances, they risk violating their integrity, their effectiveness in the future, and the norms of office that will in time be held by others. Dobel cites the example of George Schultz, the US Secretary of State, who had objected to the policy of exchanging weapons for American hostages in the 1980s that subsequently blew up into the Iran-Contra scandal. He offered his resignation to President Ronald Reagan in order to continue his opposition, but Reagan refused and encouraged him to stay. As Schulz put it: "I knew I could not like the job too much."[5]

In another essay written in the 1990s, two philosophers argue against the proposition that many business failures should be thought of as misfortunes dealt out by a "capricious and impersonal market". Brian Steverson and Mark Alfino, then and now at the Department of Philosophy at Gonzaga University also in Washington state in the US, argue that the responsibility of managers for business failure is based on both employment and managerial ethics.

In their essay, they argue that there is a distinction between business failures which are no one's fault, in the sense that no reasonable person could have foreseen them, and failures which are the management's fault, in the sense that a reasonably prudent and informed management could have prevented them.[6]

Ultimately in their view, the basis of the duty of care that the management has to look after the welfare of their employees is the fact the executives hold the power and responsibility for the success and survival of business organisations. They conclude that "by viewing the collective responsibility of management for the harm caused [to] employees by business failure in this way, one can argue that management incurs a collective obligation to the employees of a business organisation to manage that business successfully".

Accept responsibility without blame

That view clearly carries a lot of weight for the few executives who have taken the decision to resign without there being any specific allegation of wrongdoing of malfeasance on their part. Perhaps the fact that those examples are few and far between is further evidence that it is a behaviour that is increasingly rare. However, where it has happened it is worth noting the language used by those who do take the honourable course and to contrast it with other leaders who initially took a different course.

After it emerged that 11 million Volkswagen cars had been installed with a defective device that reduced emissions under test conditions only, chief executive Martin Winterkorn resigned saying he took full responsibility. He had been in the top role for around eight years but insisted he was "stunned" that misconduct on such a scale had been possible within the German automotive giant.

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[5] Shultz, G.P. *Turmoil and triumph: My years as secretary of state*. New York: Charles Scribner's Sons. 1993

[6] Alfino, M. and Steverson, B. Business Failure and Corporate Managerial Responsibility. Annual Meeting of the Society for Business Ethics. Boston, US. August 1997.

He went on: “As CEO **I accept responsibility** for the irregularities that have been found in diesel engines and have therefore requested the supervisory board to agree on terminating my function as CEO of the Volkswagen group. I am doing this in the interests of the company, even though **I am not aware of any wrongdoing on my part**. Volkswagen needs a fresh start — also in terms of personnel. **I am clearing the way for this fresh start** with my resignation.”[7]

The highlighted parts of his statement point to three important ingredients to the honourable resignation. Firstly, the leader takes responsibility for the failure because he or she occupies the most senior post. Secondly, it is not relevant whether or not they were personally responsible. Lastly, they accept that as the leader they are not the right person to run the clean-up operation.

Another example comes from the head of a corporate minnow — Crystal Palace football club. Ian Holloway resigned as manager in October 2013 after a run of defeats in the Premier League. He said he was exhausted and took responsibility for making too many changes in the squad. He recommended that someone “fresh” could come in at this level, adding: “I believe that with me out the way, all of this will stop [and] **the new man will have a chance to actually have a chance to start again**.”

A few years later and on the other side of the Atlantic, Dennis Muilenburg took a different approach as CEO of Boeing in the aftermath of the crashes of two of the company’s 737 Max aeroplanes with the loss of 346 lives. Although he said at a business conference that he had considered resigning, he had decided against it.

“To be frank, that's not what's in my character. I don't see running away from a challenge, resigning, as the right solution,” he said, adding later: “They happened on my watch… and I feel obligated, **I feel responsible to stay on it, to work with the team to fix it, to see it through**.”[8]

While he follows the first and second rules of taking responsibility without any indication of personal fault, he takes the view that he should stay on in order to rectify the situation. A month later, however, he was fired. The board of Boeing took this position, saying: “The board of directors decided that **a change in leadership was necessary to restore confidence in the company** moving forward as it works to repair relationships with regulators, customers, and all other stakeholders.”[9]

Accountability, not blame

Of course, not every failure within an organisation must necessarily end with “blood on the carpet” – another sanguineous metaphor beloved of corporate analysts. One lesson from Mr

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[7] Farrell, S. and Ruddick. G. Volkswagen CEO Martin Winterkorn quits over diesel emissions scandal. September 2015. The Guardian

[8] Schaper, D. Boeing CEO Says He Decided Not To Quit After 737 Max Crashes And Gave Up Bonuses. November 2019. NPR.org

[9] Boeing Announces Leadership Changes. December 2019. Boeing.com

Muilenburg’s fate is that his decision not to offer his resignation but instead to explain why he should not quit, only delayed his departure. It is possible that an offer to resign would have led to an invitation to remain and “fix the mess” — as George Schulz found three decades earlier.

The point is that what lies at the heart of the honourable resignation is **not the departure but the offer to resign**. Something will always go wrong. People will always make mistakes. The leader is accountable for what happens within his or her company for the reasons that Professors Steverson and Alfino set out. This is not to say he or she is to blame for what went wrong, but they are accountable and — as such — should offer to resign.

So, what steps should a chief executive or managing director take when they find out that a major failure has taken place under their watch? Here are three:

1. The first step is to come clean about the fact that something has gone wrong. Do not try to conceal it or cover it up. As the American politician Tom Petri said about Washington wrongdoings, it isn't the original scandal that gets people in the most trouble — **it’s the attempted cover-up**.
2. Do not then try to pass the blame onto others within the organisation, neither those within your own C-suite nor those lower down. Another business vernacular is to “throw someone under the bus” to “save your own skin”. It is unlikely to work and will lead to greater long-term reputational damage when the leader ultimately does step down — or is sacked.
3. Offer to resign in the full expectation that it will be accepted. If the board of directors refuses to accept the resignation, then the leader can continue in their job in the knowledge that they have been given the opportunity to improve the business. By offering to resign, the leader has shown they are accountable and put their fate in the hands of their peers.

The offer to resign can be seen as a sign of strength as it shows they are strong enough to accept losing their job: this puts them in a high moral position. The offer will strengthen their own integrity, act as an indication of an acceptance of accountability, and make clear they are ultimately responsible for what has happened.

It is the decision to put their fate in the hands of their peers that shows why it is honourable to offer to resign.