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Managers have lost legitimacy over the past decade in the face of a widespread institutional breakdown of trust and self-policing in business. To regain society’s trust, we believe that business leaders must embrace a way of looking at their role that goes beyond their responsibility to the shareholder to include a civic and personal commitment to their duty as institutional custodians. In other words, it is time that management finally became a profession.

True professions have codes of conduct, and the meaning and consequences of those codes are taught as part of the formal education of their members. A governing body, composed of respected members of the profession, oversees members’ compliance. Through these codes, professional institutions forge an implicit social contract with other members of society: Trust us to control and exercise jurisdiction over this important occupational category. In return, the profession promises, we will ensure that our members are worthy of your trust—that they will not only be competent to perform the tasks they have been entrusted with, but they will conduct themselves with high standards and integrity. On balance we believe that a profession, with well-functioning institutions of discipline, will curb misconduct because moral behavior is an integral part of the identity of professionals—a self-image most are motivated to maintain.

The idea of management as a profession is not new. It was launched in the United States with great hope a century ago with the founding of the nation’s university-based business schools. A vanguard of institutional entrepreneurs, both academics and enlightened business leaders, saw the rise of the large corporation as a profound challenge to the existing social order. When large corporations began to sell shares of their stock to the public, thereby dispersing ownership and control, myriad stakeholders (shareholders, labor groups, government officials) all proclaimed the right to direct these powerful new entities.
The business school, in turn, was conceived as a way of legitimating another claimant’s right to control the publicly owned corporation: a new group known as managers. The strategy for advancing management’s claim was to ally the leaders of the business school movement with three institutions viewed as the pillars of the Progressive Era: science, the professions, and the new American research university. The leaders of the business school movement proposed to ensure that the large corporation would be run in the interests of society by turning the occupation of management into a bona fide profession, with the educational underpinning, certifications, and code of conduct that go along with it.

That ambition has so far gone unrealized. The claim that managers are professionals does not withstand scrutiny when you compare management with true professions such as medicine and law. Unlike doctors and lawyers, managers don’t need a formal education, let alone a license, to practice. Nor do they adhere to a universal and enforceable code of conduct. Individual companies may write and enforce corporate codes or value statements, but there’s no universally accepted set of professional values backed up by a governing body with the power to censure managers who deviate from the code.

In principle, there’s no reason why management couldn’t strive to become a profession. The institutional arrangements are known and easy enough to put in place. What’s more difficult is determining whether to push in that direction. Would formalizing management education make individual managers more effective? More generally, how would creating a professional pool of consistently trained managers affect the entrepreneurial activity that drives economic growth? Could we reach a consensus on a set of common standards that would be plausibly enforceable? Would having such a code have any impact on behavior? In the following pages we explore the differences between management and the true professions, describe how a professional management system might work, and examine whether such a system would be desirable.

Does Management Education Add Value?

Thanks to television shows, films, and books, the education of doctors and lawyers has become the stuff of legend. Typically, true professionals undergo an intense three- to four-year postgraduate program. On graduating, they then have to obtain a formal license to practice by passing a comprehensive state or federal exam designed to test their mastery of the body of knowledge their educational degree ostensibly conferred. Once they pass this test, they have to invest in a certain amount of clinical training and continuing education to stay abreast of evolving knowledge. In some fields, licensed professionals must periodically pass further exams in order to recertify their licenses.

Managers don’t face such challenges. Although the MBA has been the fastest-growing graduate degree over the past 20 years, it is not a requirement for becoming a manager. Managers do not have to sit a formal exam to demonstrate their knowledge even at the end of an MBA, let alone stay current in their field. There is no obligation for them to know anything about investing in innovative new financial instruments or special purpose vehicles, for example, even if they serve on boards required to approve such potentially risky transactions. To the contrary, data on enrollment in executive education programs offered by business schools suggest that people who already possess an MBA are less likely than those who don’t to invest in lifelong learning in the form of continuing education.

Management today could easily adopt the more stringent knowledge and competency standards required by the true professions. The Association to Advance Collegiate Schools of Business (AACSB) already sets modest accreditation requirements for business school programs, and the Graduate Management Admission Council administers the GMAT exam in an effort to gauge a potential MBA student’s intellectual ability. The council also examines and accredits the MBA curricula of most schools granting this degree. The AACSB or another similar body could devise and administer an exam that all graduating MBAs would have to pass before they were licensed to practice. Imagine a Certified Business Professional (CBP) status granted for fulfilling this additional requirement beyond the MBA. The same governing body could also devise the standards for continuing education courses that managers would need to
take to maintain the CBP license over time. Professionalizing management in this way would have the additional benefit of making it easier for firms and employees to invest in continuing education and development. The costs would no longer be borne by just a few employers who provide such training, only to have their employees move on to other companies.

The bigger challenge is gaining acceptance of the idea that educational standards will improve the practice of management. Many management scholars and practitioners believe that management is as much art or craft as science, better mastered through experience than through formal education. The softer skills of management (interpersonal effectiveness, communication, leadership) are hard to learn through formal education and harder yet to test for in a standardized exam. Some people, notably Jeffrey Pfeffer of Stanford’s Graduate School of Business, go so far as to argue that experience is the only valid teacher. In other words, those who possess a management education are no more effective than those who don't. Even if few people go quite that far, many agree with Nobel Prize–winning economist A. Michael Spence, who says that higher education is simply a signaling device: Going to a business school allows individuals to credibly signal their greater commitment to a career in management (admittedly useful information for employers). And many MBA students have yet a different perspective: They believe that business school is simply an opportunity to develop a robust network of peers and alumni.

In the absence of empirical evidence, the idea that people can improve the practice of management by mastering some body of knowledge rests on faith. If you believe that the only value in management education is derived from signaling dedication to the field or building networks, it makes no sense to advocate the professionalization of management. It also calls into question the legitimacy of all current university-based management education, which does entail studying a broadly similar curriculum across all schools offering management degrees.

But if you believe, as we do, that the practice of management can benefit from judgment that draws upon a coherent body of formal knowledge, then pushing manage-
managers could cause—particularly in a more complex, globalizing world—cannot be underestimated.

The persistent skeptic may yet argue, what about the stunting effect that professionalizing medicine has had on alternate forms of therapy and healing? Would the next business revolutionaries be similarly stifled under such a system? In response, we point to the growing success of alternative medicine as proof of the opportunity for entrepreneurs to challenge the existing order in an open, democratic society. Even if all management jobs were professionalized, creative destruction would always be open to any entrepreneur, whether certified or not, who could mobilize the resources to launch a venture.

It is also a matter of choice how restricted management jobs need to be. In medicine and law, entry into the profession is totally closed. In the case of medicine, hospitals will hire only licensed doctors, and the state and insurance companies will reimburse only for care provided by licensed professional doctors. The system, however, is not closed from the standpoint of consumer choice. Consumers are free to go to any medical practitioner, licensed or not, if they are willing to pay for the services themselves and bear the risk of the outcomes. (Note: The state does protect minors, who must be treated by licensed doctors because they can't make independent choices in their own interest.)

In management, one could imagine a closed system for certain sectors—for instance, the state might restrict investment of public and state pension funds or tax-protected retirement savings to “professionally” managed public enterprises. Even in this closed system, much as in medicine, individuals could choose to invest their personal money in any enterprise (professionally managed or not). One could also imagine a much more open system, in which management positions would be attainable by individuals with varying credentials, depending on the job responsibility: none; experience only; experience plus education; MBA only; MBA plus CBP; CBP only (which might be granted to an experienced manager who passed the certification exam without having completed the MBA, as people without a law degree are allowed to pass the bar and practice in some states). In this system, the market would determine the value of a professionally certified manager relative to those with other qualifications, as it does today for MBAs. We believe that the added confidence in the intellectual capabilities of certified professionals (that they have mastered a body of knowledge and are current in their knowledge of new ideas in business) would enable them to command a premium.

Could Management Embrace a Code?

Most successful codes—such as the ancient Hippocratic oath, for doctors—establish the ideals and social purposes that members of the profession embrace. As the sociologist Robert K. Merton has argued, such codes have enormous influence because they provide guidelines for how an occupant of a role ought to behave. They can trigger strong positive emotions such as pride (when one acts in a manner that exemplifies the code) and equally strong negative emotions such as guilt or shame (when one acts in ways that transgress the code). The influence of such emotions in shaping behavior can be as significant as the expected material or reputational consequences of a professional's behavior.

Codes and their supporting institutions also help define an implicit social contract among the members of the profession. By establishing a standard for inclusion, they create and sustain a feeling of community and mutual obligation that members have toward each other and toward the profession. These bonds shape the social capital of a profession—capital that builds trust and greatly reduces transaction costs among the members of the profession and between the profession and society.

There's no mystery to the process of establishing a professional code for management: Articulate the code (as so many other professions have done); familiarize students with it during their formal management education; require students to embrace the code as part of their professional license or certificate to practice; and create peer review bodies to monitor adherence, establish protocols for due process to review infractions, and administer sanctions as necessary.

The challenge in writing a code lies in forging a broad enough consensus on the proper aims and social purpose of management and
the norms for pursuing these aims. There appear to be two deeply divided schools of thought on this topic. One school, anchored by economists like Milton Friedman, argues that management’s aim should simply and exclusively be to maximize shareholder wealth using means consistent with prevailing laws and customs. Let markets and the state take care of the rest. The other school argues that the corporation should properly be thought of, as organizational theorist Chester Barnard wrote long ago, as a social institution that enables individuals to come together to create value they could not create individually. In this view, the proper purpose of management is to judiciously balance the legitimate, potentially competing claims of all stakeholders whose joint effort creates value.

It’s clear that the extreme approaches won’t work. The flaws in a dogmatic adherence to the doctrine of “maximize shareholder value to the extent permitted by law” have become very apparent. On the other hand, the stakeholder approach has drawbacks as well. Stakeholder interests can diverge sharply, and managers who attempt to keep everyone happy when there is no sensible compromise can do more damage than those who put the shareholder first. Some Japanese firms are textbook cases of this problem. During the 1990s, for example, in their effort to avoid layoffs or even the collapse of insolvent banks, many Japanese banks refused to write off real estate loans that would never be paid back. Because of management’s unwillingness to make difficult short-term choices, an enormous amount of economic value was destroyed. To succeed, a management code will have to steer a middle course between these two extremes so that we lose neither the value-creating impetus of the shareholder concept nor the accountability inherent in the stakeholder approach.

Whatever the approach, without a collective commitment to a code that enshrines the duties and obligations of management as trustees of society’s economic resources, managers can no longer claim to be a positive social force, no matter how rich the financial rewards are for some or how many philanthropic foundations others construct. Without such a commitment, the public ceases to see managerial work as what the educator Howard Gardner describes as “good work.”

What Should a Code Look Like?

In that spirit, we have written a code that might govern a formalized profession of management. The resolution of this code is inspired by the way doctors and lawyers, members of true professions, define their purpose. Doctors seek to further the health of their patients. In doing so, they not only honor the sanctity of each individual life; they also meet society’s need for healthy citizens. A society of unhealthy, infirm citizens would inevitably be a weak society. Similarly, lawyers seek to ensure that justice is done by their clients. In doing so, they not only honor the rights of each individual to due process under the law; they also meet society’s need to prevent lawlessness.

What is the parallel for managers? Modern societies have a huge interest in creating organizations that enjoy the public trust and are able to mobilize resources to create economic value greater than the opportunity cost of the resources used. Managers, in our view, must be agents of society’s interest in this endeavor. We further contend that society grants to corporations the status of legal persons in order to hold them accountable for their conduct, as any individual citizen would be.

We hope our formulation will appeal to proponents of the shareholder perspective because it explicitly affirms the importance of ensuring that the enterprise creates value. Firms that destroy value hurt not only their shareholders but the broader social trust in firms’ ability to create value. Our code should also appeal to those who take a stakeholder perspective because it explicitly recognizes that to ensure ongoing legitimacy, an enterprise must meet the legitimate claims placed upon it. Moreover, our definition of value creation takes into account the opportunity cost of all the resources consumed by the firm, including public resources such as the natural environment. By turning managers into agents of society’s interest in thriving economic enterprises, we get out of the bind of viewing them as agents of one narrowly defined master (shareholders) or many masters (stakeholders). Indeed in most modern corporations, the interests of stakeholders are inextricably intertwined. Employees, for instance, are shareholders (through investment in their pension funds) as well as
As a manager I serve as society's fiduciary for one of its most important institutions: enterprises that bring people and resources together to create valued products and services that no single individual could produce alone. My purpose is to serve the public's interest by enhancing the value my enterprise creates for society. Sustainable value is created when the enterprise produces an economic, social, and environmental output that is measurably greater than the opportunity cost of all the inputs it consumes. In fulfilling my role:

I recognize that any enterprise is at the nexus of many different constituencies, whose interests can sometimes diverge. While balancing and reconciling these interests, I will seek a course that enhances the value my enterprise can create for society over the long term. This may not always mean growing or preserving the enterprise and may include such painful actions as its restructuring, discontinuation, or sale, if these actions preserve or increase value.

I pledge that considerations of personal benefit will never supersede the interests of the enterprise I am entrusted to manage. The pursuit of self-interest is the vital engine of a capitalist economy, but unbridled greed can be just as harmful. Therefore, I will guard against decisions and behavior that advance my own narrow ambitions but harm the enterprise I manage and the societies it serves.

I promise to understand and uphold, both in letter and in spirit, the laws and contracts governing my own conduct, that of my enterprise, and that of the societies in which it operates. My personal behavior will be an example of integrity, consistent with the values I publicly espouse. I will be equally vigilant in ensuring the integrity of others around me and bring to attention the actions of others that represent violations of this shared professional code.

I vow to represent my enterprise's performance accurately and transparently to all relevant parties, ensuring that investors, consumers, and the public at large can make well-informed decisions. I will aim to help people understand how decisions that affect them are made, so that choices do not appear arbitrary or biased.

I will not permit considerations of race, gender, sexual orientation, religion, nationality, party politics, or social status to influence my choices. I will endeavor to protect the interests of those who may not have power, but whose well-being is contingent on my decisions.

I will manage my enterprise by diligently, mindfully, and conscientiously applying judgment based on the best knowledge available. I will consult colleagues and others who can help inform my judgment and will continually invest in staying abreast of the evolving knowledge in the field, always remaining open to innovation. I will do my utmost to develop myself and the next generation of managers so that the profession continues to grow and contribute to the well-being of society.

I recognize that my stature and privileges as a professional stem from the honor and trust that the profession as a whole enjoys, and I accept my responsibility for embodying, protecting, and developing the standards of the management profession, so as to enhance that respect and honor.
informed judgment, which is essential to a professional ethic, can only be exercised by a discipline of lifelong learning and a willingness to listen to and learn from others. While we encourage managers to honor the lessons learned from those who came before them, we encourage them to be innovative, so that the process of creative destruction, which Schumpeter viewed as the vital force that sustains a dynamic capitalist society, continues.

Finally, our code reminds managers of their obligation to honor and further the reputation of the profession as a whole by their actions as managers as well as by their commitment to develop and enforce the code. Managers today are among the least trusted members of society. Regaining this trust for the profession of management must be regarded as an important responsibility for all individual managers.

Would the Code Make a Difference?

Even if a code such as the one we have proposed were to garner sufficient support to be broadly adopted by the profession, you might argue that codes are merely motherhood and apple pie statements that carry no credible moral force to reliably shape behavior. Look at Enron, one might say: The company's code of ethics was widely lauded; now it has become a symbol of the firm's deceit. If a company, a relatively small and coherent social group, can't enforce such codes, why would one imagine that a larger collective such as a profession might be able to?

The answer can be found in the work of political scientist Robert Axelrod. His work suggests that a shared ethical orientation and set of common ideals at the professional level may be crucial in guiding the behavior of individuals at the company level. The ideals, or meta-norms as Axelrod calls them, emerge partly out of an inward sense of vocation—a conviction that one is doing work that is meaningful—but are also grounded in a commitment to peer sanctions and monitoring. For example, U.S. military cadets promise “not to lie, cheat, or steal”; they also promise “not to tolerate those who do.” In this way, according to Axelrod, meta-norms contribute to the self-governance capability of a profession: Managers who swear to uphold a common professional code, understanding that if they violate the code they might suffer sanctions administered by their peers, are more likely to adhere to individual company codes.

Would instituting a code increase the likelihood that acts of gross management malfeasance would be brought to light? Many people would say no. Whistle-blowing or bringing attention to the misconduct of a peer is arguably even rarer in a true professional setting than in nonprofessional settings. In some professions, such as the police, exposing a colleague is almost taboo. Such arguments have merit, but when people fail to self-monitor, it doesn’t negate the argument that they should. Indeed, when self-policing becomes weak, it is often time for the profession and its individual practitioners to recommit to their social contract—or risk losing society’s trust, as the accounting profession discovered and the financial services industry is now discovering.

We believe that professionalizing management would greatly curb misconduct, because moral behavior is an integral part of professionals’ identity—a self-image most want strongly to preserve. Though we are often shocked when doctors or lawyers misbehave or condone the misbehavior of their own, at least we are shocked. We expect better from them. In the case of comparable malfeasance in business, we are no longer even shocked that it occurs or that it is not more commonly reported. Although the implicit contracts that society has with true professions—we grant you privileges because we trust you to self-govern—aren’t always upheld, they do establish a higher expectation of self-governance than in a non-professional setting, and thereby a higher degree of censure when expectations are violated. We know from social science that the behavior of human beings is greatly influenced by the expectations placed on them. If management were to be seen as a true profession, our expectations of the moral conduct of managers and their expectations of themselves would rise.

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written constitution that has ever existed. Yet its approval was the result of much wrangling and debate between two sharply opposed philosophies of government. Over the years, the document has evolved through the painstaking passage of amendments and the interpretation of the courts. The process of agreeing to and adapting a code of professional management is unlikely to be as contentious, but in a global world it could be even more difficult.

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