Our annual survey of emerging management ideas considers the downside of reliability and the upside of flip-flops; new directions for evolving technologies; and the persistent questions of who we are and what we fear.

THE HBR LIST

BREAKTHROUGH IDEAS FOR 2005

There exists a fleeting and deliriously exciting moment in the life of an idea when it teeters between what one person suspects and what everyone accepts. In that moment, months or years before it exerts any practical influence, the idea holds the greatest potential to inspire and incite. Opportunities, implications, and related discoveries open up from it in all directions like a hall of mirrors.

The HBR List is our annual attempt to capture ideas in just that state of becoming: things felt but not yet spoken, innovations that will change – something? everything? – and promising or unnerving developments. This year's offerings are intriguingly varied, yet two timely themes recur. First is a rising preoccupation with identity, embodied in entreaties to make business meaningful as well as reliable, to anoint continuity champions, and to analyze one's organizational DNA. Second is anxiety over unclear or not-yet-present dangers, illustrated by warnings about risks without owners, the potential failure of the global intellectual-property-rights system, and the fear of fear itself.

Our impressive roster of contributors includes Nobel Prize winner Robert C. Merton, renowned anthropologist Mary Catherine Bateson, and Stanford business professor Roderick M. Kramer, the second-place winner of last year's McKinsey Award. In addition, a number of pieces emerged from a two-day brainstorming session hosted by HBR and the World Economic Forum last August; some two dozen of the best and brightest minds from around the world identified nascent ideas with the greatest potential for impact. In January, the WEF further developed some of those themes at its annual meeting in Davos, Switzerland.

6 Seek Validity, Not Reliability*

Corporations believe that they face problems of ethics and credibility, but the underlying issue may well be a crisis of meaning. CEOs complain that investors care only about quarterly earnings – not about companies' long-term health or the broader role they play in society. That's not all. Customers feel disappointed by the lack of a warm, human connection with the companies that supply them. Employees, particularly young ones, worry that there's nothing meaningful about their work, that it's only about the money. In addition, social activists excoriate businesses, especially transnational corporations, for their lack of conscience. Yet companies pay little attention to the issue of how people find meaning in economic matters.

Business has only itself to blame: Corporate processes and systems have created and, in fact, exacerbated the lack of meaning. Firms have adopted Six Sigma programs to improve the quality of their manufacturing processes, but those initiatives haven't made employees feel that their work is more meaningful.

Companies have installed customer relationship management systems to forge links with consumers, but the latter feel more manipulated than understood as a result. Governments have enacted laws like the Sarbanes-Oxley Act to prevent companies from defrauding investors, but corporate boards sleepwalk through its procedures, and that leaves investors just as vulnerable to fraud as they used to be.

Six Sigma, CRM, Sarbanes-Oxley, and most other corporate systems have one thing in common: They are reliability-oriented processes. They are intended to produce identical or consistent results under all circumstances, often by analyzing objective data from the past. For instance, a perfectly reliable poll would be able to produce the same result from ten random samples of voters. By contrast, a perfectly *valid* poll would be able to predict an election's winner.

Companies don't realize that when they make their systems more reliable, they render them less valid or meaningful. In other words, the processes produce consistent outcomes, but the results may be neither accurate nor desirable. That's because, to make their processes more reliable, companies have to reduce the number of variables and standardize measurements. To achieve high validity, however, systems must take into account a large number of variables and use subjective measurements. Adding squishy variables and using gut feel allows for outcomes that are more accurate, even though the processes may not be able to deliver accurate results consistently. (See the exhibit "Reliability Versus Validity.")

There's a tension between reliability and validity in almost every business system. For instance, most compensation methods, like the Hay system, award points to each job so that companies can calculate how much to pay managers. That results in bias-free compensation levels, but companies can't really use points to rank a human being's value to the organization. So the points approach is balanced against senior executives' judgments about individual managers. A similar balancing act happens when companies test ads. Companies find it convenient to test ads on large samples of people because messages that do well in those tests are bound to appeal to customers. The danger is that the samples may not be representative of the products' users. If firms were to test ads on users, the results wouldn't be as statistically significant, because the samples would be smaller. So firms have to choose between clear results from irrelevant audiences and fuzzy results from relevant audiences. Reliability and validity occupy opposite ends of the spectrum that defines how companies create systems and frame solutions.

Reliability versus Validity

The systems and processes at left can be highly reliable, but they won't necessarily achieve validity in the form of the desired results at right.

Enterprise resource planning	A robust strategy
Customer relationship management	Customer intimacy
Six Sigma and total quality management	Design excellence
Knowledge management systems	Creativity
Incentive compensation	Jobs that have meaning
Shareholder value maximization	Corporate social responsibility
Meeting analysts' quarterly targets	A successful company

While it would be optimal to achieve both validity and reliability, companies have mostly favored reliable processes, for two reasons. First, valid systems require the use of subjective or qualitative data, and companies have an aversion to biases. Second, reliable processes result in claims that are provable because they're based on past data; only the future can provide confirmation of a process's validity.

Unfortunately, companies' obsession with reliability hasn't prevented them from getting on the wrong side of customers or being ambushed by new rivals. Indeed, the quest for greater reliability has created corporations that make little effort to consider the purpose or meaning behind the business results that are endlessly crunched out.

A company that produces reliable, predictable, but meaningless results is not unlike a well-tuned car that runs full speed off a cliff. To save themselves, corporations will have to figure out how to become more welcoming for people who are comfortable handling fuzzy data, using their judgment, and creating a sense of purpose in the workplace. For instance, CEOs should go out and talk in person to customers, even if the sample size isn't statistically significant, rather than sit in their offices and make decisions based on statistically significant market research. Rather than focusing on managing corporate earnings, CFOs should concentrate on helping managers better understand the economics of their businesses.

Senior executives also need to stop promoting managers based on the consistency of their track records and start promoting them for breaking out of the box. Boards must get used to approving plans based on the logic of what might be rather than on regressions of what has always been. They need to understand that variability in outcomes is as likely to be a sign of creativity as a sign of bad management, and that the more they drive out variability, the more they ensconce mediocrity. Finally, stock analysts must realize that when they insist on reliability of earnings, they drive out the creativity, innovation, and emotional connection with customers and employees that together produce long-term growth in those earnings.

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