

The Halo Effect aims to debunk the “business book genre” which generalizes too easily on the keys to success.

It is important, the author argues, not to be blinded by success if we truly aim to identify its source.

The Halo Effect—by Phil Rosenzweig

Every year, numerous books are published that seek to tell the secrets of success in business. Occasionally, a few of these books, such as *In Search of Excellence*, *Built to Last*, and *Good to Great*, catch fire and become bestsellers. Do such books really hold the keys to success in business? According to Phil Rosenzweig, a professor at IMD in Lausanne, the answer is a resounding “No.” Rosenzweig lays out his case in *The Halo Effect*.

The book’s main thesis is that much of the thinking about business and success described in popular books is shaped by numerous delusions. Rosenzweig argues that most of the best selling business books operate mainly at the level of storytelling, despite their claims of scientific rigor. Such books offer comforting and satisfying tales that people find inspirational, but are based on shaky thinking and are fundamentally flawed.

The biggest delusion is what Rosenzweig calls “The Halo Effect.” There are several kinds of Halo Effect. One of the most important revolves around the tendency of people to make inferences about specific traits on the basis of a general impression. It is difficult for most people to independently measure separate features. There is a common tendency to blend them. The Halo Effect is a way for the mind to create and maintain a coherent and consistent picture, to reduce cognitive dissonance. But it is more than that; it is also a heuristic, a sort of rule of thumb that people use to make guesses about things that are hard to assess directly.

The Halo Effect shapes how people commonly talk about so many topics in business, from decision processes to people to leadership and more. It shows up in everyday conversations and in newspaper and magazine articles. It affects case studies and large-sample surveys. It is not so much the result of conscious distortion, says Rosenzweig, as it is a natural human tendency to make judgments about things that are abstract and ambiguous on the basis of other things that are salient and seemingly objective. For many people, the Halo Effect is just too strong, the desire to tell a coherent story too great, the tendency to jump on the bandwagons too appealing.

Rosenzweig identifies and discusses a number of other delusions commonly observed in the business world. He cites the delusion of correlation and causality, and notes that inferring causality for correlations trips up many studies about business. Another delusion is one involving single explanations. Many business studies look at a single explanation for firm performance and erroneously leave others aside. Another delusion is the delusion of rigorous research. We can do our best to select samples of high performers and low performers, notes Rosenzweig, but if the data are colored by the Halo Effect, we will merely find out how high and lower performances are described and never know what drives the performance. Another delusion is the delusion of lasting success. The author observes that nothing recedes like success.

Three other delusions discussed in the book are the delusion of absolute performance, the delusion of the wrong end of the stick, and the delusion of organizational physics. The last delusion – organizational physics - concerns the emphasis on certainty and clear causal relations in the business world rather than contingency and uncertainty. Many of the best selling business books, says Rosenzweig, offer steps to guaranteed success based on formulating rules, steps, and laws that resemble theoretical physics. However, they fall short of the mark because the business world does not run with clocklike precision. The most important questions in the business world do not lend themselves to the predictability or replicability of physics.

The Halo Effect shapes much of the way we think about business, says Rosenzweig, but by no means all of it. There is nothing inevitable about the Halo Effect. If we are aware of the tendency to bestow Halos, we can take corrective measures. Wise business managers must focus on the elements that drive company performance while recognizing the fundamental uncertainty that lies at the heart of the business world. In the concluding chapters of his book, Rosenzweig discusses how managers might replace delusions with a more discerning way of understanding company performance, one that respects probabilities.

Readers will not find any promises of guaranteed results in *The Halo Effect*. There are no “adopt these four rules,” or “live by this five-point plan,” or “commit to these six steps” programs. What Rosenzweig’s book does provide is a more thoughtful way of thinking about business management. If we want to answer the mother of all business questions—*What leads to high performance?*—one thing, says Rosenzweig, is clear: We have to avoid the Halo Effect.