

THE HALO EFFECT

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“Secrets of Greatness” According to *Fortune* Magazine

So much that is written about business and management is shaped by delusions—errors of judgment and flaws in reasoning. These delusions are rife in the business press, in business school case studies, in many academic articles, and in business best-sellers. They make it hard to understand what really drives business performance.

I’m very critical of the academics and management gurus who claim to have conducted serious, rigorous research, when for the most part they’ve just indulged in storytelling. Some of the authors have advanced degrees and teach at well-known business schools. They really ought to know better.

On the other hand, I have a great deal of sympathy with journalists, who generally make no claim that their work is science, and who often write under a tight deadline. Yet despite my sympathies, it’s worth taking a close look at journalism, because articles from the business press—from *Business Week*, *Fortune*, *Forbes*, the *Wall Street Journal*, as well as from local newspapers—often become the raw material for subsequent studies that claim the mantle of science. It’s often said that journalism is the first draft of history, and that’s true when it comes to business research. Many studies, ranging from Harvard Business School case studies, to popular books like *In Search of Excellence*, *Built to Last*, *Good to Great*, and many more, rely heavily on articles from the business press. If journalists systematically misunderstand or misrepresent the drivers of company performance, then the case studies and books that rely on their articles are likely to be misguided, too.

A particularly striking example of poor thinking can be found in the June 19, 2006, edition of *Fortune* magazine. (I read the European edition of *Fortune*, so the page numbers and maybe even the dates may be slightly different from the US edition.) That edition featured the second in a series called “Secrets of Greatness,” which is typical of a time-honored approach in business reporting: to highlight a successful company and explain what led to its success. This sort of story is a staple of the business press, and for good reason. Managers love to read about successful companies, and are constantly trying to glean lessons that they might apply to their companies. But unless the reporting is accurate and the logic is clear, the result may be no more than a collection of impressions, a sort of simplistic storytelling with little practical value.

The June 19 *Fortune* article looked at two recent successes that seem to exemplify excellent teamwork: Sony’s resurgence under Howard Stringer, and Motorola’s hugely

popular RAZR mobile phone. What, according to *Fortune*, were the lessons from these companies?

The Secrets from Sony

Once a leader at innovation, Sony had faded in the last years, and was said to have become stodgy and inflexible. Yet under its new CEO, Howard Stringer, Sony has rebounded. According to *Fortune*, a first lesson to learn from Sony is the importance of internal openness of communication. Rather than work alone in their departments, Sony's engineers broke down barriers and worked together. The result? A raft of exciting new products. This insight is presented on p. 49:

Sony Lesson Number One: Break down silos

Teams are great ways to build morale and competitive spirit, but they need to be coordinated or they risk duplicating tasks.

But Sony's engineers didn't just talk to each other—they also listen carefully to the market, capturing customer views and preferences. Thus the second lesson:

Sony Lesson Number Two: Listen to customers, not just engineers

Sony's engineers are among the world's best, but they were slow to see that customers demand user-friendly software in the digital era.

According to *Fortune*, Sony's success is testimony to the need for openness—both internally and externally. That's said to be the key to greatness at Sony, and of course it all makes good sense. Readers around the world probably nodded in agreement. Open communication and close contact with customers—that's what innovative companies do.

.... and the Secrets from Motorola

But now take a look at the other featured initiative, just a few pages later in the same issue, about Motorola and its sleek new mobile phone, the RAZR. Here was a company that had lost the lead in the white-hot market for mobile handsets, and then, seemingly out of nowhere, brought to market a hugely successful new product. What were the secrets of success here?

According to *Fortune*, Motorola's great triumph is illustrative of another business legend: the bunch of bright people who barricade themselves against outside influences and, against all odds, emerge with a brilliant idea. On p.63, we read:

Motorola Lesson Number One: Secrecy limits distractions

By insulating its RAZR development team from the influence of corporate groupthink, Motorola got an innovative product that wowed the industry and customers.

Not only did the RAZR team shield itself from distractions elsewhere in Motorola, it also pursued its vision with single-minded determination. Did the engineers go out and talk with customers? Not at all. The team deliberately ignored conventional wisdom from market research. That led to lesson number two:

Motorola Lesson Number Two: Research isn't everything

Motorola's "human factors" unit dictated that phones more than 49 mm wide would be deemed uncomfortable by consumers. The RAZR team concluded otherwise. Their only data points: their own instincts.

The story of RAZR offers some powerful lessons. Research isn't almighty. Sometimes it's better to discard research and go with our own instincts. In fact, listening to customers can limit imagination—true breakthroughs demand that we go beyond what customers tell us they think they need!

All of which is fine, but as you've probably spotted by now, the lessons from Motorola are exactly the *opposite* of the lessons from Sony. Read each story on its own, and the tendency is to nod and say, yes, that makes good sense. The lessons from Sony seem to be reasonable. The lessons from Motorola seem to make sense, too. But place them side by side, and the result is baffling. Is it good to allow ideas to freely circulate within an organization? Apparently so—at least at Sony. But apparently not—at Motorola. Is it good to listen to customers? Definitely—at Sony. But definitely not—at Motorola.

And all of this is when companies are successful. As a thought experiment, imagine for a moment that these companies hadn't rebounded at all, but had continued to flounder. Imagine that the same reporter visited the two companies and asked for the reasons why they continued to be *unsuccessful*. It's entirely possible that Sony would point to a failure to insulate its development team, whereas Motorola might explain its flop as a lack of listening to the market. Both stories make sense when explaining a success, and both also make sense when explaining failure.

What's going on here is very simple. It's an example of a widespread tendency to select examples based on outcome—whether a successful venture or a miserable failure—and then to advance plausible explanations in retrospect. Openness and customer focus? *Those must have been the reasons for Sony's success!* Secrecy and disregard for research? *That must be why Motorola did so well!* But without a sense of how the story ended, we have little basis on which to tell the tale. It's the Halo Effect, the tendency to make attributions based on overall performance.

The Case of the Missing Editor

There is, of course, a way to get beyond these sorts of easy attributions. Rather than pick successes or failures, then look backwards for explanations, we need to gather data that are not shaped by what we know about eventual outcomes. We need to avoid

the Halo Effect. In addition, we have to control for a number of variables, and also assemble a large enough sample size that would permit statistically significant associations between the things we hypothesize drive performance—our independent variables—and the performance outcome—our dependent variable. That way, we might be able to move to a deeper level of understanding, and suggest *under what circumstances* the openness of Sony should be pursued, and under what circumstances the more secretive approach taken by Motorola is advisable. That's not rocket science, but calls for good, solid research—research that is well-designed and based on valid data.

Of course, that sort of research goes well beyond what a popular magazine like *Fortune* is able to do in any given week. And in fairness, conducting original research isn't *Fortune's* aim. It's not a research journal, after all, but a weekly publication with a mix of news and features, aimed at practicing managers. Yet at a minimum, one would hope that someone at *Fortune* would play a strong editorial role, and ensure that the reporters do more than find a couple of success stories, weave a plausible tale, then tie it up with a ribbon that claims to have discovered the secrets of success. One would hope that someone might ask whether the story on p.49 is the opposite of the story on p.63—and if so, what is really being said about the path to high performance? One might also hope that, quite apart from the editor, *Fortune's* reporters would be aware of the Halo Effect and try not to make simple attributions based on outcomes.

It's irresistible to want to write about big successes or dismal flops—they tell captivating and dramatic stories. But you have to make sure that the data you gather are not filtered through the lens of the outcome. If that sort of contamination is allowed, then the results will be suspect. You may have an appealing story that seems to make sense, but little more. That may not worry the reporters at *Fortune*, working under tight deadlines and interested in selling magazines. But it should be a concern for managers who read these articles and take them to heart, as well as for researchers who look to these sorts of articles as the source material for their studies. *Garbage in, garbage out.*