

# UNLIMITED POTENTIAL

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Newsletter

## 9 Common Delusions About High Performance

**D**o you really know what contributes to your company's high performance – or are you making assumptions based on faulty logic?

It turns out that most of the data regarding why one company succeeds and another fails is rife with errors in thinking and researcher bias.

For all of the business bestsellers that proclaim to share the secret formula of successful companies and heroic CEOs, the drivers of performance in business are as elusive as ever – especially at a time when global competition and technology are evolving at unprecedented rates.

But this doesn't stop consultants and business school professors from writing "authoritative" books that claim to have the formula for driving company success. If you haven't already guessed, high performance cannot be attained by simply applying the best practices of General Electric, Toyota, Starbucks or Google to your own enterprise. Nor can you hire rock-star CEOs to guarantee high performance in your organization.

I'm sorry to report it's not that easy, but I have a hunch you already know that. What you may not be aware of are the common biases and flawed thinking that affect the way individuals make decisions under uncertainty. When it comes to evaluating company performance, it's easy to fall into a variety of universal traps.

For the last 20 years, managers have bought into popular business books such as *In Search of Excellence*, *Built to Last* and *Good to Great*.

Writing in *The Halo Effect...and the Eight Other Business Delusions That Deceive Managers* (Free Press, 2007), Phil Rosenzweig claims many books that focus on company success are based on flimsy research and delusional thinking:

"For all their claims of scientific research, for all their lengthy descriptions of apparently solid and careful research, they operate mainly at the level



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of storytelling. They offer tales of inspiration that we find comforting and satisfying, but they're based on shaky thinking."

We must peel away the layers of jumbled thinking to thoroughly investigate the elements that lead to high performance. Recognizing these lapses in logic is the only way to pull back the curtains to see what's really going on.

With full awareness, we can identify the elements that truly drive company performance, provided we recognize the fundamental uncertainties at the heart of all businesses. Delusions can be replaced with more discerning ways to understand performance based on a respect for probabilities.

## Delusion #1: The Halo Effect

Psychologist Edward Thorndike researched the ways superiors rated subordinates during World War I. If a soldier was given a high rating for one trait, his superior officer usually provided high ratings for all other traits. And if a soldier was rated sub-par on a trait, he usually garnered low ratings for all other traits.

Thorndike called this the "Halo Effect:" our tendency to make inferences about specific traits on the basis of a general impression. It's difficult for most people to measure discrete traits; we tend to blend them together. The Halo Effect tricks the mind into creating and maintaining a coherent, consistent picture.

For example, after the 9/11 attacks, George W. Bush's overall approval rating rose sharply. The percentage of Americans who approved of his handling of the economy also rose. There's no reason to believe the latter suddenly improved in the weeks after Sept. 11, but it was hard for Americans to separate these issues.

Our minds become uncomfortable when we approve of one area of performance, but not another. We create consistency by conferring a halo across the board to avoid cognitive dissonance.

When companies are profitable and sales are growing, we routinely attribute positive evaluations to other performance particulars. Numbers don't lie; we trust them. So, when we make inferences about company culture, customer outreach and core strategies based on financials, we succumb to the Halo Effect.

It's hard to know in objective terms exactly what constitutes good communications, optimal group cohesion or appropriate role clarity, so we make attributions based on other data we believe to be reliable.

## Good People Equals Good Results?

It's widely believed that companies that manage people well will outperform those that don't. This was the conclusion of the landmark book *Hidden Value: How Great Companies Achieve Extraordinary Results With Ordinary People*, by Charles A. O'Reilly III and Jeffrey Pfeffer (Harvard Business School Press, 2000). A company that attracts people, provides them with an environment where they can be productive and creative, and motivates them to work for the common good ought to do well. But how much of the research is influenced by the Halo Effect?

We bestow halos on CEOs all the time, but they're always based on company performance. In all of the books written about good leadership, descriptions are always accompanied by company performance based on financial data.

Why is it so hard to understand why some companies succeed and others fail? Because our thinking is shaped by the Halo Effect. Even when we try to gather data in large-scale samples like *Fortune Magazine* surveys or Great Places to Work studies, we often multiply the Halo Effect.

This is less of a conscious distortion and more of a natural human tendency to make judgments about abstract, ambiguous concepts based on seemingly objective criteria. Our desire to find answers and create a coherent story is too compelling to withstand.

Awareness of such tendencies may help us guard against the Halo Effect. Of course, solid research also helps.

While the Halo Effect is not the only delusion that distorts our thinking about business, it's the most basic one. This flaw permeates most surveys and interviews, weakens the quality of data, and diminishes our ability to think clearly about important factors that lead to key decisions.

## Delusion #2: Correlation and Causality

To identify high performance, you must gather data using independent variables.

But even when rigorous research standards are applied, there's still a tendency to apply faulty reasoning. We continually infer causality from correlation. It's logical to assume that having satisfied employees leads to high performance.

The challenge is to untangle the direction of causality. Does lower employee turnover lead to higher company performance? Or does higher company performance lead to lower employee turnover? Pinpointing the distinction is critical to determining how much you should invest in achieving greater levels of satisfaction versus other objectives.

### **Delusion #3: Single Explanation**

Most studies look at a single explanation for performance and cast the others aside. The problem is that other factors – a strong company culture, customer focus or great leadership – are correlated.

This is why it's so difficult to identify what drives performance. Even if you avoid the Halo Effect, you must still consider alternative explanations. So many factors contribute to performance that it's hard to accurately differentiate between the various considerations.

### **Delusion #4: Connect the Winning Dots**

If you pick a bunch of successful companies and attempt to search for what they have in common, you'll never isolate the reasons for their success. That's because we have no way to compare them with less successful companies.

### **Delusion#5: Rigorous Research**

If you have poor-quality data, it doesn't matter how much you've gathered or how sophisticated your research methods may be.

### **Delusion#6: Lasting Success**

Almost all high-performing companies regress over time. The promise of a blueprint for lasting success is attractive, but unrealistic.

### **Delusion #7: Absolute Performance**

Company performance is relative, not absolute. A company can improve, yet fall farther behind its rivals, at the same time.

### **Delusion #8: The Wrong End of the Stick**

It may be true that successful companies often pursue a highly focused strategy. This doesn't mean highly focused strategies often lead to success.

### **Delusion #9: Organizational Physics**

Company performance doesn't obey immutable laws of nature and cannot be predicted with the accuracy of science, despite our desire for certainty and order.

We'd like to believe there are governing laws that,

when applied, would make the business world less chaotic and more precise.

We cannot put companies under a microscope or run exact experiments. The best studies of business – the ones that carefully follow strict research methods, avoid the Halo Effect, control for variables and avoid confusing correlation with causality—can never achieve the precision of physics.

### **The Power of Stories**

**W**hen you examine blockbuster business books, you find that each successive study made a bolder set of claims: more data, more experts, more analysis (i.e., *In Search of Excellence*, *Built to Last*, *What Really Works* and *Good to Great*).

None admitted the Halo Effect's central problem. By relying on articles from the popular press, business-school case studies and retrospective interviews, their data were compromised.

But these books – and many like them – are immensely popular and effective because they have the power to motivate. *Good to Great* has sold more than 3 million copies since its release in 2001.

Such books provide riveting stories and often follow a rags-to-riches theme. They inspire and comfort, helping people make sense of a complex and often chaotic world.

### **The Search for the Formula**

**T**here will always be business books that profess to explain the most important elements separating best companies from the rest. Managers are eager to learn shortcuts and new insights they can apply in daily life. But it's crucial to read business books with a critical eye, free from delusions and in tune with reality.

Here are five lessons to learn about data, according to Rosenzweig:

1. If independent variables aren't measured independently, we may find ourselves standing hip-deep in Halos.
2. If the data are full of Halos, it doesn't matter how much we've gathered or how sophisticated our analysis appears to be.
3. Success rarely lasts as long as we'd like. For the most part, long-term success is a delusion based on selection after the fact.
4. Company performance is relative, not absolute. A company may improve while falling farther behind its competitors.

5. Anyone who claims to have found laws of business physics understands little about business, little about physics or both.
6. Searching for the secrets of success reveals little about the world of business, but speaks volumes about the searchers' aspirations and desire for certainty.

## **What Wise Managers Know**

**O**nce we've swept away common delusions, what remains?

Here are five lessons wise managers need to learn:

1. Any good strategy involves a certain amount of risk.
2. Execution, too, is uncertain. There are just too many variables. What works in one company with one workforce may yield different results elsewhere.
3. Chance often plays a greater role than we ever imagine, and most managers don't like to admit this.
4. The link between inputs and outcomes is tenuous. Bad outcomes don't always mean managers made mistakes. Good outcomes don't always mean they acted brilliantly.
5. In the end, the best managers act with persistence and tenacity, dismissing the role of chance as irrelevant.

There are no surefire success formulas. Our chances of success improve when we adopt sensible goals to pursue.

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