

A Review of the Halo Effect and Its Applications at the Corporate Level

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Abstract: The halo effect is a cognitive bias that twists people's judgment in the rating process and has a significant influence on HRM(human resource management) practices. However, as a heuristic, the halo effect has shown much potential for improving the economic outcomes of corporate business and management as well. This essay gives a review of the halo effect and its applications at the corporate level based on the literature from 1920 to 2022. While the concept of the halo effect has been fully developed throughout the century, the problem of distinguishing true halo from illusory halo remains unsolved, which leads to the stagnation of further research on HRM practice. However, the study of the halo effect in brand marketing is rather mature, providing diverse advertising, sales, and crisis strategies for corporations to increase long-term gain. Furthermore, the literature on the halo effect has been focusing on more contemporary fields of application, such as the promotion of cultural products in the context of globalization, which could be a trend for researchers in the near future.

Keywords: halo effect, brand marketing, corporate management, human resource management

1. Introduction

Since it was proposed by Thorndike in 1920, the halo effect has been a significant cognitive bias in the field of psychology. In the 20th century, researchers mostly focused on the definitions, classifications, and measurement of halo effect [1]. While in the 21st century, with behavioral economics thriving as a new field of inquiry, the potential of halo effect as a heuristic has been accentuated. Existing literature reveals that halo effect is a notable heuristic in affecting people's decision making processes in many items relevant to corporate business and management. Thus, it is significant to review literature on the halo effect and conclude its applications at the corporate level. This essay reviews the literature written by international scholars from 1920 to 2022 on the definition, classification and measurement of the halo effect, and examines its applications in both the business and management levels for corporations, focusing on brand marketing and HRM practices respectively. This essay also concludes the unsolved problems of halo effect literature and identifies the directions for future scholars. This essay sorts the existing literature to provide scholars with more specific research focusing on this significant effect.

2. Definition of the Halo Effect

Scholars have long been bewildered by the inconsistency in the definitions of halo effect. When Thorndike studies the performance rating for flight commanders, he finds that the ratings for physique, leadership and character are all higher than reality [1]. He concludes that the general merit of an employee could be extended to influence the ratings for special abilities, or vice versa. Therefore, he defines such effect as a marked tendency to think of the person in general as rather good or rather inferior and to color the judgments of the specific performance dimensions by this general feeling. As the original definition of halo effect, it accentuates halo effect as the rater's property, which is supported or challenged in future studies.

In the following decades, different scholars have given their understandings and definitions of the halo effect. For instance, Johnson claims in the world's first published verification of the halo effect that when raters rate several individuals on several traits, they will rate some individuals high on most traits and some low on most traits [2]. If the ratings of the individuals on any two traits are correlated, the correlation will be positive and often quite large. He also proves with experimental results that halo effect is due to an error of judgement rather than to objective facts [2][3]. Subsequently, Saal et al. define the halo effect as a tendency to attend to a global impression of each ratee rather than to carefully distinguish among levels of different performance dimensions, or a rater's inability or unwillingness to distinguish among the dimensions of a given ratee's job behavior [4].

The inconsistency of halo effect's definition derives from its ambiguous substance. According to Thorndike's original definition of the halo effect, it is a property of the rater, meaning that some raters are relatively more inclined to commit this error, which is supported by many scholars [5][6][7][8][9][10]. However, as Symonds suggests, the effect resides in the judging process, but it might not be the rater's characteristic [11]. According to Kaplan, the halo effect attributes rating changes to an amalgamation of trait and overall person valuations [12]. Later, Murphy proves with a quantitative research that halo effect is actually a characteristic of the unique rating situation [13]. Until today, Murphy's perspective about the substance of halo was the most accepted idea, but controversy still remains.

3. Classification of Halo

With the controversy over the definitions of halo effect coming to a deadlock, scholars realize the significance of distinguishing the halo effect into different categories, which could help them understand halo from different directions.

To eliminate the confusion surrounding the conceptual definition of halo, Balzer and Sulsky defines general impression halo and dimensional similarity halo [14]. While the former is defined as a general impression bias, the latter is defined as a logical error, both of which derive from previous studies on the halo effect [13]. This classification is concluded by reviewing previous literature, but it lacks practical value for further investigation. Mathematically, scholars have distinguished two types of halo: covariance between dimension scores and co-occurrence of scoring levels on different dimensions [15][16][17]. This classification method has proven to be important for scholars who try to measure halo.

Another influential classification is Bingham's concepts of valid halo(true halo) and invalid halo(illusory halo), which has become the most influential classification [18]. While the true halo is the expected overlap among traits and the overlap between each trait and an over-all or summary judgment, the illusory halo refers to any excess overlap in these situations beyond what might be expected. This study highlights the idea that the emergence of halo might indicate inaccuracy. On the contrary, it is possible to show the real relationship among different traits. While Bingham's classification has influenced later studies, scholars have still been struggling to distinguish true halo

and illusory halo, despite the fact that some new methods have been proposed, but lacking further examination [19]. Future studies should examine the new methods to distinguish true and illusory halo, which can add much enrichment to the halo effect literature.

4. Applications of Halo Effect at the Corporate Level

Existing literature has proven that the halo effect is highly influential in corporations, especially in brand marketing and HRM practices.

4.1. Halo in Corporate Business

As Berry and Parasuraman claim, the purpose of brand marketing is to intensify strong relationships with loyal customers and to transform indifferent customers into loyal ones [20]. As is proven, the halo effect allows people to believe a subject is overall good or bad, the same way consumers could be convinced that an enterprise is overall excellent [21][22].

To distinguish halo from consumer behaviors, multiattribute attitude models are developed [23][24][25][26]. Multiattribute attitude models are a series of models that could distinguish various factors contributing to consumers' attitudes and beliefs on certain brands or products. Based on these models, brand equity effect is explained by halo effect, meaning that the reason why brands could increase products' prices is that customers are influenced by the halo [26][27][28].

With more aspects of brand marketing being studied, more practical conclusions have been drawn. For instance, with the Internet thriving, the competition between traditional supermarkets and online stores has become notable. While some executives are concerned that online stores would alleviate a brand's value, researchers confirm that brand names become less valuable only when more total information about product attributes is available online, since comprehensive information urges consumers to be more aware of the traits of the products instead of the brand names [28]. However, consumers' perceptions of the retailer's online attributes and attitudes are indeed influenced by the image of the prior offline brand [29].

Another trend in the 21st century is globalization. The flourishing international trade has shown that country of origin information could alter consumers' perception of products [30][31]. Specifically, since cultural media have a notable impact on consumers, the halo effect on the culture of these origin countries could theoretically influence consumer behaviors. For instance, positive cultural halo effects in the Japanese import market has been recorded, indicating that cultural products import has significant positive effects on certain types of consumer products of the same country of origin and negative effects on products of different origin [32]. The listed literature provides an innovative perspective for countries that export products. It can be deduced that combining cultural products and other products could maximize halo effect returns, but no empirical studies have been done to vindicate that idea. Therefore, future investigations should be targeted at conducting empirical studies on the methods of generating larger halos, and to expand the subjects from Japan to other countries.

In general, halo effect can be both directly and indirectly beneficial for corporations' businesses, thus knowing the exact methods to generate the halo is in urgent need. Researchers profess that sponsorship has a positive effect on brand's image and reputation [33][34][35]. They also conclude that sponsorship projects with high sponsorship awareness and high goodwill could generate the largest halo effect return for companies. However, these studies only focus on large-scaled B2C companies. Whether the same strategy is appropriate for small-scaled B2C companies or B2B companies still needs to be examined in future studies.

4.2. Halo in Corporate Management

As one of the first fields to study halo effect, HRM has long been beset by halo effect. Until contemporary days, precluding halo effect from influencing HRM processes has still been a major task for practitioners. Among all HRM practices employment interview and performance rating are the major focuses, since rating is the pivotal part of them.

4.2.1. Employment Interview

Although some scholars have proven the halo effect to increase the accuracy in ratings under certain circumstances, most companies still regard the halo effect as a rating error in their recruitment process, because the halo effect might lead to wrong employment and thus lower corporate performance [36]. Thus, eliminating the halo in employment interviews is a key mission for scholars and managers.

Existing literature has confirmed the halo effect in employment interviews and has identified its influencing factors. Back in the 1950s, scholars had already discovered systematic and sporadic halo in employment interviews [37]. To help corporations eliminate halo, multiple experiments are conducted to explore the factors altering halo in the interviewing process. According to existing studies, the interview rating methods, interviewers' training methods, the type of expectations (favorable or unfavorable) an interviewer possesses of an applicant, applicant's race and accent and interview strategies are the major factors that could influence the halo in the interviewing process [38][39][40][41][42][43]. After the influencing factors of halo are detected, scholars begin to find stable methods of minimizing halo in employment interview.

Different scholars propound various methods to minimize halo in employment interviews. Latham et al., claim that both workshop and group discussion could eliminate the halo effect in job interview [39]. While workshop appears to be more effective in reducing the halo effect, the expense is also higher, so enterprises could choose a form of interview according to the company's conditions. However, Kiker finds a paradox in that a rating strategy that raises internal consistency reliability also lowers interrater reliability [43]. Thus, no perfect strategy has been proposed. Also, a significant limitation of studies on halo in employment interview is that most of the conclusions are deduced from experimental data rather than real-life scenarios. Thus, these conclusions might not accurately reflect how the halo effect emerges in employment interviews. Future studies should attempt to collect more data from real companies and enrich the halo literature.

4.2.2. Performance Rating

Performance rating in corporations has always been a pivotal part of HRM, since illusory halo could damage organizational justice. The confirmation of the halo effect in performance rating is significant. Though Thorndike proposes the concept of the halo effect, he mainly describes and defines the phenomenon [1]. Later, many scholars successfully prove the halo effect in performance rating, further accentuating the importance of halo effect [44][45][46].

Subsequently, further studies are conducted to identify the influencing factors of the halo effect on performance ratings. Studies indicate that when raters lack information about employees performance conditions, their judgment is more inclined to be altered by the halo effect, thus requiring managers to monitor employees' performance at the workplace, which supports many previous scholars' expectations [8][47][48][49]. However, such a perspective is questioned by Jacobs and Kozlowski, whose study shows that the halo in ratings increases with increasing familiarity [50]. The reason for such inconsistency is still unknown, indicating that future studies should attempt to discover the mediators and moderators between familiarity and the halo effect.

Besides the inconsistency in familiarity, debates occur over the best method to eliminate halo in performance appraisal. Landy et al. propose that among the 4 classic methods of controlling rating

errors, residual rating scores may be used as supplements to raw scores so that halo effect could be eliminated effectively in performance rating [51]. Similarly, King et al. believe that the use of a forced-choice rating scale could also decrease halo effect in rating [52]. However, even without a consensus on the methods to eliminate halo, at the practical level, decreasing halo by training managers has been proven to be effective [53][47].

However, at the practical level, performance rating is still facing three major problems. First, although Nathan and Murphy have professed that halo in performance rating does not equal inaccuracy, and that it might show real accuracy [54][36]. However, scholars have yet to distinguish valid halo and invalid halo in performance rating. Moreover, with more employees learning about halo effect, they start to develop impression management strategies and have successfully obtained higher performance ratings under certain circumstances [55]. Future studies should focus on more exact moderators and mediators that allow employees to successfully utilize impression strategies. Lastly, previous studies hardly connect performance rating to compensation management, which is another pivotal HRM process. In recent years, some scholars have realized the lack of investigation in this field and have proven that halo has a significant impact on managers' salary decisions [56]. However, it is merely a beginning. More studies are required to be conducted to enrich the halo effect literature and eventually help enterprises with compensation management practice.

5. Conclusion

According to existing literature, the following conclusions can be drawn. At corporate level, the halo effect could be beneficial for businesses, and be challenging for management. The halo effect has proven to be beneficial for brand marketing both online and offline, which promotes sales in a notable way. Nevertheless, more studies still need to be done, so that different types of enterprises could generate large halos for higher returns. However, the halo effect has been a great problem for HRM. Both employment interview and performance ratings have developed multiple methods to avoid halo effect from influencing organizational justice and corporate performance. However, it is merely a beginning. More studies are required to be conducted in order to enrich the halo effect literature and eventually help enterprises with compensation management practice. This essay reviews how the halo effect is developed and measured, which in turn inspires corporations to notice the potential benefits and threats of this heuristic. In conclusion, while the definition and measurement of the halo effect have been fully developed throughout the century, some core problems have still been unsolved. For instance, a stable method to distinguish true halo and illusory halo has not been developed, which leads to many management problems. One of the most essential tasks for scholars is to solve this problem in the near future.

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