

## HALO-YEN BULB

By Stuart White  
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The business world is reeling this week after the announcement that Japanese electronics giant and industry leader, the Sony Corporation, has announced a predicted pre-tax loss of 3.2 billion dollars. This figure had been revised downwards from the previous estimate of a profit of 860 million dollars.

Sony CEO Masaru Kato attributes the loss partially to the company writing off 360 billion yen (\$4.4 billion) related to a tax credit booked in a previous quarter, as well as a knock-on effect from the aftermath of the earthquake with several of its factories razed and a subsequent shortage of finished goods and spare parts. That's not the only factor, however. One of Sony's biggest sellers is its iconic PlayStation, a product whose reputation took a serious hammering only a few weeks ago with the revelation of a massive security breach affecting more than 100 million online accounts. After temporarily closing down its online gaming services last month, Sony began restoring its PlayStation Network services in the U.S. and Europe on May 15 mainly for online gaming, chat and music streaming services. Sony also spent 14 billion yen (\$170 million) to cover costs that included identity theft insurance for customers, improvements to network security, free access to content, customer support, and an investigation into the hacking – but the damage to its reputation will take a lot more than mere money to repair and restore.

Compare this to what happened to another Japanese previously untouchable icon, the Toyota car corporation, whose reputation for quality and safety suffered an almost fatal blow in 2009 – 2010 after a series of recalls involving millions of cars worldwide over potentially fatal faults with brake and accelerator pedals. Recalls affected 8 of its most popular brands, including their Yaris and Auris saloons, as well as its hybrid Prius, the economy car of choice for the rich and famous. So bad was the fall-out and fall from grace, that eventually Toyota CEO was forced to make a public and personal apology to the company's customers. Ironically, all of this happened only months after the CEO was brought in to repair the company's reputation after some previous quality issues.

Both of these are classic examples of how the mighty can all too easily fall. Both companies had solid reputations going back over decades and built on quality, reliability technological innovation and value for money, but in both cases they were suddenly found wanting in all areas. And in both instances they only had themselves to blame. Complacency over past successes had blinded them to the possibility that they could ever put a corporate foot wrong or make a technical or PR mistake. In short, their halos had slipped!

In his book *The Halo Effect* by Phil Rosenzweig, Marks and Spencer is used as a case study to show just how one characteristic can influence all others. In 2007 M&S was rated among the top 5 British companies despite it having been ranked 17<sup>th</sup> overall a year earlier. Within that year M&S had gone from nowhere to the top group in every category measured, thanks to excellent financial results engineered by the CEO Stuart Rose. What a difference a year makes because only 12 months later amid falling performance M&S had dropped all the way to 29<sup>th</sup> and crashed out of the top group in nearly all of the categories. Is it possible that M&S suddenly got worse, just as it had got better, in so many different ways? Or is a more plausible explanation simply that when times were good, managers perceived it to be excellent, and when performance faltered, managers saw it differently – M&S too had lost its halo.

The following year it was drinks company Diageo – producers of Johnnie Walker, Smirnoff and Guinness – that was named Britain's most admired company, coming in the top five in seven of the nine categories. So how is it even possible that the producers of these household brand drinks could come out first for quality of goods and services when they did not even get a mention the year before? Their products had obviously not changed a bit from one year to the next but what Diageo did achieve, however, were outstanding financial results and, dazzled by the golden glow of growing revenues and improved margins, managers then perceived the company, and by association the product range, as better across the boards – the halo effect.

Though no-one actually took a straw poll it's probably fair to assume that prior to the Toyota recalls and the Sony hacking scandal, the managers and staff of both corporations basked in the reflected glory of their employers' status' and solid reputations, and that in the aftermath they would have lost confidence, lost hubris, lost faith. Success can take years to achieve but can be lost in a very short time, proving that public confidence is a delicate flower at the best of times. It doesn't take much to damage it and often that damage is irreparable. A company's products may be solid but when their quality suffers it soon becomes clear that the aura surrounding them was just that – a warm fuzzy feeling, totally intangible and hard to hold on to forever.

We all enjoy a magic show but it's important to remember that what we're seeing isn't real. Success can never be achieved by mere smoke and mirrors, shadows and illusion – none of which are any substitute for substance, endurance and consistency. In other words, don't be blinded by the light, even when you think its coming from a halo, and never try and make saints of sinners - candidates and companies alike, most tend to come somewhere in the middle.

Managing Director  
HRMC  
Phone: 395 1640  
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