

The Halo Effect and Bounded Rationality – Limits on Decision-Making

Patricia F. Katopol

Jose's eyes were swimming. He'd seen so many resumes for the new reference librarian position that they were beginning to all look alike. The other members of the hiring committee were starting to grumble. Two years ago, they hired a librarian with minimal experience, but who seemed like someone they could train – and she was willing to work for what they were able to pay. Her interview went well, she had a good job talk and was personable, but that didn't last. After a few months, she started coming in late and taking a lot of unexcused time off. Every new assignment was met with complaint. The worse part was, she didn't want to work weekends anymore. This had been a specific requirement of the job. Jose dreaded reprimanding her and starting the dismissal process when she surprised (and pleased) everyone by announcing she was leaving to hike the Appalachian Trail.

Their little library couldn't afford to take another chance on hiring the wrong person and Jose was wracking his mind trying to differentiate amongst the applicants. Then he came upon a new application. This one was from a graduate of his library program. The applicant had even taken courses from a couple of his old professors. Well, things were starting to look better. Not only had Jose attended this program, but the daughter of one of his staff had gone there as well. He knew how this applicant had been trained, thought well of the professors and the program, and was willing to champion her hire even before they met. None of the other applicants had attended schools with which the committee was familiar. They had taken a chance on an unknown quantity before - and look where it got them. This time, they would stick to a school and program that they knew. How could they go wrong?

Halo Effect. The hiring committee is about to fall prey to the *halo effect*.¹ Described as attributing characteristics to people or businesses based on perception or bias rather than on reality, the halo effect can result in the use of poor information for decision-making.² For example, during WWI, many British officers came from the upper classes and were considered to be 'naturally' able to lead and strategize because of their class status, despite the fact that many had no military training or experience at all. Research shows that jurors are less likely to

find attractive people guilty of crimes and attractive people are considered to be smarter or be better off economically than those who are not as attractive.³ Conversely, once people learn something negative about a person, such as a criminal defendant, they are more likely to believe that the person is guilty of other crimes.

The halo effect is also seen in business and the workplace. On one hand, companies such as Coca-Cola continue to enjoy its halo of generally favorable public opinion, even when it makes a huge marketing mistake such as New Coke. On the other hand, I think about *The Peter Principle*⁴ in which the authors posited that people are promoted to their level of incompetence. This happens because management often believes that if Susie can do one thing well, certainly she can do two or three other things just as well. Sadly, often this is not the case, but management can be blinded by a halo of competence in one area and think there is competence in other areas where it does not exist. Poor Susie gets a promotion, and then fails spectacularly – and management wonders what happened.

In our example, Jose transferred the positive memories of his library program onto the applicant without interviewing her or knowing anything more about her than what is on her CV. He assumed that she is qualified and will work hard (as he was qualified and worked hard) because she went to ‘his’ program. Jose isn’t wrong or an incompetent manager because of this way of thinking. It happens to us all. I admit that I attribute all kinds of magical abilities to alumni from my program. The problems occur when you don’t realize that you are taking these shortcuts in thinking. If you don’t realize what you are doing, you don’t make corrections in your thinking and you are prone to errors in decision-making.

Why do we take these shortcuts? I suggest we do so because it simplifies decision-making. If we can put a halo of competence over someone because they went to our school, are from our hometown, worked for Google, or have an advanced degree, just for starters, we don’t have to go through the hard work of wading through a myriad of facts to make a decision. We take these shortcuts because it makes life easier – at least initially.

Bounded rationality. Another way we take shortcuts in decision-making is to use readily available information. Economists will tell you that people try to make rational choices. They take in all the information about a situation and then make decisions based on that

information. They are unboundedly rational in that they have access to all the information necessary to make a decision.

This sounds good, until you realize that we have complete information about very few things in life. Our work environments are full of uncertainty and we have to make decisions based on the limited information available. We don't have the luxury of all relevant information, and therefore we make decisions that are *boundedly rational*. That is, they are rational, or at least seem that way, within the bounds of the information we have at hand when making the decision.

In addition to limits on available information, boundedly rational decision-making is also formed by the constraints facing the decision maker. What is the political environment? Have federal or state regulations changed? What about the economic environment? Are people more concerned about keeping their homes than maintaining library or university funding? What organizational demands must be met? How is the budget? Would management like to hire an experience person but only has money for a new graduate?

Decision-makers also use less than complete information because making decisions has *deliberation costs* such as time, effort, and expense. Returning to the hiring committee scenario, despite the attraction of free pizza during meetings, the committee members have other things to do. The more time spent wading through resumes, the less time they have to spend on the knowledge work they're being paid to do. They have to spend time trying to read into the future to determine if an applicant will fit with the job and the staff. Flying candidates in costs money to the organization. Even with local candidates, the hiring process includes spending money for things like meals and gas reimbursement that could have been spent otherwise. Then there are the costs of training the new employee, such as the cost new employee errors and the time a mentor has to take away from his or her own work to supervise the newcomer. These costs may not appear in the budget, but they are present nonetheless.

The result of all this is that decisions are rarely optimal. Decision makers do what they can with what they've got. They often stop with the first satisfactory result, rather than spending much time and effort on exploration to see if there is a better result. They *satisfice*.⁵ Decisions are often 'just okay.' They work for the moment. They aren't optimal, but then, who's got time for optimal?

Recognizing constraints on information. In addition to using only the information at hand, decision makers may also ignore the information at hand. For example, those same WWI commanders used outdated battle tactics such as walking across open areas to the enemy – an enemy that now had flamethrowers, tanks, and airplanes. They ignored the obvious information in front of them that combat had changed. Eventually they adjusted their tactics, but not until after many thousands of soldiers died. Racism, sexism, and ageism can also blind decision makers to available information, causing them to ignore a person’s capabilities or faults and using shortcuts to fill information gaps with assumptions rather than facts, so that it a male is denied the same opportunity to be a children’s librarian as a female. It is likely that decisions made under the influence of the halo effect and constrained by bounded rationality will result in error, at least in the long run, because of the shortcuts used. Attributing characteristics of a group to a person, rather than fact-finding about an individual is a shortcut. Using easily available information rather than conducting exploration is a shortcut. Refusing to recognize biases is a shortcut. Deciding you need to hire the boss’s nephew if you want to keep you own job is a shortcut.

Sometimes even ‘good’ decisions without obvious shortcuts do not work out as expected. Jose and the committee used the customary hiring process to choose the previous librarian. The process worked before and should have worked again. Everyone in the room had been hired in the same manner; there was no way they could foretell that the new person would be so problematic. The problem is, substituting decision-making made under the influence of the halo effect won’t guarantee a good result. The applicant from Jose’s program might also decide to hike the Appalachian Trail; there is no way to tell that she will be a competent and hard worker just because she and Jose had some of the same professors.

Perhaps the way to reduce poor decisions is not to work toward particular outcomes, but to focus on processes that improve the likelihood that a good decision will be the result. One way to accomplish this is to examine the information used in decision-making. What assumptions are you making and why? What can you do to help yourself recognize when you are using assumptions and not facts? Why are you assuming certain things (creating a halo) about a person, organization, or situation? What are your constraints, that is, how is the information needed for decision-making bounded? Are you able to explore all the options or do you have to go with the information on hand and be satisfied with the resulting decision?

Decision-making can be difficult and it is natural to look for anything that will simplify the process. Unfortunately, the 'anything' often involves shortcuts that negatively affect the quality of the decisions we make.

Patricia F. Katopol (pkatopol@uiowa.edu) is Senior IRB Education & Compliance Specialist with the Human Subjects Office in the Harden Library for Health Science at the University of Iowa

Published: May 2018

References

1. Thorndike, E. (1920). A constant error in psychological ratings, *Journal of Applied Psychology* 4(1): 25–29.
2. Rosenzweig, P. 2007. *The Halo Effect ... and the Eight Other Business Delusions That Deceive Managers*, New York, New York: Free Press.
3. Ciotti, G. (2014). The Surprising Power of a Beautiful Face, *Psychology Today*, December 7. <https://www.psychologytoday.com/blog/habits-not-hacks/201412/the-surprising-power-beautiful-face>.
4. Peter, L. and Hull, R. (1969) *The Peter Principle: Why Things Always Go Wrong*. NY, NY: William Morrow and Company.
5. Simon, H. (1956). Rational Choice and the Structure of the Environment, *Psychological Review* 63(2): 129–138.