1994, Vol. 37, No. 5, 1347–1359.

REMOVING THE FINANCIAL PERFORMANCE HALO FROM *FORTUNE*'S "MOST ADMIRED" COMPANIES

BRAD BROWN
SUSAN PERRY
University of Virginia

***Fortune's* annual ratings of America's largest corporations are shown to be heavily influenced by previous financial results, thus creating a halo that must be removed before these qualitative reputational measures can be used appropriately in other research. This article presents a method for removing that performance halo and demonstrates the method's validity.**

Many interesting organizational research questions are difficult to answer because there are no readily available, direct measures of the constructs of interest. For example, researchers may want to identify companies that are innovative, ethical, well managed, or environmentally responsible. Without direct measures, they are forced to develop secondary proxies that perhaps capture only a portion of the constructs of interest. Although the use of proxy variables is reasonable given the inability to directly study important issues, researchers must constantly be mindful that the measures being analyzed are proxies, not the actual constructs of interest.

Large-scale surveys that appear to measure organizational constructs directly are sometimes reported in the popular press. Our research focuses on the corporate attributes reported annually in *Fortune*'s "most admired corporations" issue (e.g., Ballen, 1992). Researchers must be cautious when using these large-scale surveys because the characteristics of survey respondents, data-gathering methods, and survey questions may introduce measurement error. If this error is pervasive, coloring many or all of the individual attribute ratings of an object—the objects in our study are the companies in the *Fortune* surveys—a halo is said to exist. Before these large-scale surveys can be used in academic research, this halo must be removed. In this article, we examine the financial performance halo derived from the

We would like to thank Stanley Slater for his earlier research in this area and this journal's anonymous reviewers for their helpful comments. This research was supported by the McIntire School of Commerce Associates Program.

Fortune most admired companies survey and present a statistical method designed to remove a significant portion of that halo. We demonstrate the validity of our method by comparing four of our halo-removed measures to other, independently developed proxies for similar constructs. We also compare the results of our method for removing the financial performance halo with measures obtained using less satisfactory statistical techniques. Although our specific model applies to the *Fortune* data, we believe that our technique is broadly applicable and should be considered whenever widespread measurement error is suspected in survey data.

Fortune's annual list of the most admired companies, published early each year since 1983, ranks large corporations on the following eight qualitative attributes: quality of management, quality of products or services, value as a long-term investment, innovativeness, soundness of financial position, ability to attract, develop, and keep talented people, responsibility to the community and environment, and wise use of corporate assets. The magazine collects data on the largest firms in over 30 industries. The survey sample includes 8,000 executives, directors, and market analysts, each of whom reports on the industry he or she follows. Industry analysts and executives within an industry have been shown to be reliable and accurate raters of corporate strategy (Chen, Fahr, & MacMillan, 1993). With a response rate of about 50 percent, *Fortune*'s survey sample is probably larger than most samples obtained by academic researchers and its members are probably more qualified and better informed. The results are widely circulated and cited in popular press outlets. In short, this survey offers data from a large sample of industry experts assessing qualitative dimensions of organizational performance that are difficult to measure quantitatively.

Unfortunately, the *Fortune* most admired ratings have been shown to be heavily influenced by previous financial performance. Financial performance, which is generally measured by combinations of accounting returns, stock market returns, sales growth, size, operating leverage, and so forth, has explained from 42 percent (McGuire, Schneeweis, & Branch, 1990: 176) to 53 percent (Fombrun & Shanley, 1990: 250) of the variance (measured as adjusted R^2) of the overall rating of firm quality in the *Fortune* survey. The influence of financial performance is understandable: executives and industry analysts are very interested in financial performance. But this problem must be dealt with if the data are to be useful to researchers.

The eight individual attributes of corporate reputation rated in this survey have been shown to be very highly correlated. Fombrun and Shanley (1990) used factor analysis on the eight variables and extracted one factor that explained 84 percent of the variance. They concluded "that the eight attributes elicited from respondents were components of an underlying and stable construct of reputation" (Fombrun & Shanley, 1990: 245).[1] However,

[1] Fombrun and Shanley (1990: 245) found that the combination of the eight reputational dimensions yielded an extremely reliable scale for overall reputation ($\alpha = .97$).

researchers interested in finding a measure for a particular construct, such as social responsibility, will be disappointed to discover that *Fortune*'s measure, "responsibility to the community and environment," is analytically indistinguishable from any of the other reputational dimensions, such as "wise use of corporate assets" and "innovativeness," which appear to be assessments of very different constructs. Halo is present whenever principal components analysis results in "a common general factor showing high loadings on nearly all attributes which accounts for appreciable variance" (Dillon, Mulani, & Frederick, 1984: 194). The *Fortune* most admired survey results are influenced by a strong halo, which renders the use of any single attribute ratings questionable. Unfortunately, many recent studies of corporate social responsibility have relied on *Fortune*'s ratings on responsibility to the community and environment (e.g., Chakravarthy, 1986; McGuire, Sundgren, & Schneeweis, 1988; O'Bannon & Preston, 1993; Sharfman, 1993).

The financial performance halo affecting results for the individual corporate attributes rated in the *Fortune* survey poses a problem similar to those faced by researchers studying human resource management issues (e.g., Cooper, 1981; Myers, 1965; Pulakos, Schmitt, & Ostroff, 1986; Thorndike, 1920) and consumer behavior (e.g., Beckwith & Lehmann, 1975; Dillon et al., 1984; Holbrook, 1983) as they struggled to remove distortion from the perceptual judgments of those rating individual attributes of people, jobs, and products. Both fields generally refer to this perceptual distortion—a blurring of distinctions among dimensions or attributes due to a strong overall impression—as a halo.

Many of the halo-removal techniques proposed by human resource management and consumer behavior researchers were appropriate for removing the halo from an individual rater's perceptions of an object (a person or product). However, the data available from *Fortune* are summarized: individual raters' evaluations are unavailable and only mean data provided. Therefore, some of the more sophisticated halo removal strategies (e.g., Dillon et al., 1984; Holbrook, 1983) are either irrelevant or inappropriate in the current research setting.

One simple strategy for removing halo distortions of attribute ratings is to ignore the problematic first principal component because it is usually an evaluative general factor (Dillon et al., 1984: 185). This strategy may be appropriate to multifactor solutions, but in the case of the *Fortune* most admired data set and its single-factor solution, ignoring the first principal component leaves nothing on which to focus.

METHODS

The method we employed to remove the financial performance halo from the *Fortune* ratings was a partialing-out strategy. We controlled for halo statistically by forming a halo index, a set of variables believed responsible for the presence of halo, and partialed the halo out of the ratings using a two-step process. First, the variables of interest (in this case, *Fortune* attrib-

ute ratings) were regressed against the halo index (in this case, various measures of recent financial performance). Coefficients generated in those regressions were used to "model" each attribute, and firm-specific residuals were calculated. These residuals (the portion of the *Fortune* ratings not explained by prior financial performance) were the halo-removed attribute ratings. As each attribute must be modeled separately, we performed the above procedure eight times.

Sample Data

This study is based on 234 firms that met the following criteria: (1) They were listed among "American's most admired corporations" in the February 10, 1992, issue of *Fortune*. These were 1991 ratings since *Fortune* surveys are conducted during the fall of the year prior to publication of the issue containing the ratings. (2) Their financial data from the 1988–91 period were available on the 1991 COMPUSTAT tape.

Halo Removal

Fombrun and Shanley (1990) and McGuire and colleagues (1990) found strong correlations between the *Fortune* ratings and a number of financial and operational performance measures. Our halo index includes individual measures of corporate earnings, returns, growth, size, and risk, all of which are commonly used to measure corporate performance in the strategy and finance literature. Using multiple measures of financial performance would raise problems of multicollinearity and detract from parsimony. Therefore, we created our halo index using five financial and operating variables, computed as follows: *average return on assets* (ROA) = $(ROA_{it} + ROA_{it-1} + ROA_{it-2})/3$; *relative market to book value* = *market value/book value*$_{firm}$ *over market value/book value*$_{industry}$; *sales* = *logarithm of sales*$_{it}$; *growth* = (*percent change in sales*$_t$ + . . . + *percent change in sales*$_{t-2}$)/3; and *risk* = *debt*$_{it}$/*equity*$_{it}$. Several other variables commonly used in financial studies, including stock market returns, were excluded from our final model since their results were not statistically significantly and did not add to the model's explanatory power. Table 1 gives summary statistics and the correlation matrix of the halo index variables and the raw *Fortune* attributes.

These financial performance measures were employed as independent variables in regression analyses on the *Fortune* attribute ratings. Table 2 presents the results of the nine regressions, one for each of the eight attributes and one for the ratings combined. The regression of the combined *Fortune* ratings on the halo index had an adjusted R^2 of .55, slightly greater than that reported by either McGuire and colleagues (1990) or Fombrun and Shanley (1990). The highest explanatory power existed in the financial performance attribute, soundness of financial position (59%). However, even innovativeness, which one might expect to be less correlated with financial performance, had an adjusted R^2 of 36 percent. These findings provide further evidence of the presence of a strong financial performance halo in the *Fortune* attribute ratings. We calculated company-specific residuals from

TABLE 1
Correlations of Halo Index Variables[a]

Variables	Means	s.d.	1	2	3	4	5	6	7	8	9	10	11	12
1. ROA	0.04	0.04												
2. Relative market/book value	1.07	0.51	.59											
3. Sales	8.35	0.84	−.09	.03										
4. Growth	0.06	0.09	.29	.25	.02									
5. Risk	0.87	0.86	−.44	−.03	.11	.03								
6. Responsibility to community and environment	6.14	0.76	.42	.46	.24	.11	−.33							
7. Innovativeness	6.12	0.95	.37	.50	.13	.34	−.23	.68						
8. Soundness of financial position	6.28	1.39	.56	.57	.16	.29	−.45	.77	.69					
9. Ability to attract talented people	6.17	1.00	.48	.54	.21	.34	−.36	.81	.87	.90				
10. Value as a long-term investment	6.08	1.16	.50	.59	.15	.37	−.32	.75	.82	.92	.95			
11. Quality of products	6.94	0.82	.40	.48	.17	.26	−.32	.79	.82	.77	.88	.82		
12. Quality of management	6.54	1.09	.45	.58	.09	.35	−.27	.71	.86	.84	.93	.94	.84	
13. Wise use of corporate assets	6.08	1.08	.50	.63	.10	.34	−.32	.74	.81	.91	.93	.95	.79	.95

[a] $N = 234$. Financial variables were truncated to the .95/.05 percentiles to prevent the undue influence of outliers.

TABLE 2
Results of Regression Analyses[a]

Fortune Rating Dimensions	Intercept	ROA	Relative Market/ Book Value	Sales	Growth	Risk	Adjusted R^2
Combined score	3.529***	5.210***	0.754***	0.227***	1.622***	−0.286***	.55
	(8.163)	(3.620)	(6.922)	(4.477)	(3.321)	(−4.958)	
Responsibility to community and environment	3.525***	5.175***	0.426***	0.257***	−0.534	−0.188***	.41
	(8.988)	(3.965)	(4.316)	(5.578)	(−0.206)	(−3.599)	
Innovativeness	3.898***	3.166	0.657***	0.171**	2.193***	−0.193**	.36
	(7.564)	(1.846)	(5.062)	(2.827)	(3.766)	(−2.814)	
Soundness of financial position	2.318***	8.439***	0.985***	0.353***	1.532*	−0.540***	.59
	(3.993)	(4.638)	(6.735)	(5.186)	(2.336)	(−6.969)	
Ability to attract, develop, and keep talented people	2.931***	5.295***	0.668***	0.292***	1.943***	−0.291***	.50
	(6.197)	(3.363)	(5.609)	(5.267)	(3.636)	(−4.617)	
Value as a long-term investment	2.949***	5.488**	0.923***	0.245***	2.474***	−0.319***	.53
	(5.562)	(3.110)	(6.915)	(3.935)	(4.130)	(−4.508)	
Quality of products or services offered	4.772***	2.979*	0.559***	0.192***	1.176*	−0.255***	.38
	(10.906)	(2.046)	(5.074)	(3.732)	(2.380)	(−4.376)	
Quality of management	4.188***	4.970**	0.878***	0.152**	0.204***	−0.234***	.46
	(7.796)	(2.780)	(6.493)	(2.409)	(3.630)	(−3.272)	
Wise use of corporate assets	3.558***	6.314***	0.908***	0.168**	1.831***	−0.258***	.55
	(7.357)	(3.923)	(7.453)	(2.954)	(3.352)	(−4.006)	

[a] Each equation had 234 observations and took the form: Rating = $B_0 + B_1ROA + B_2RELMV + B_3SALES + B_4GROWTH + B_5RISK + e$. Unstandardized coefficients and *t*-statistics are shown.

* $p < .05$
** $p < .01$
*** $p < .001$

models developed using the variables and coefficients given in Table 2. These residuals are halo-removed ratings for each of the eight attributes, appropriate for use in research in which financial performance is also a variable of interest.

VALIDATION TESTS

To demonstrate the validity of the halo-removed ratings, we compared the halo-removed rating on four of these *Fortune* attributes with independent evaluations of corporate performance on similar attributes. We also compared our halo-removed measures with those obtained using a common factor process that removed most of the correlations among the *Fortune* attributes. Our final test employed a criss-cross analysis to ensure that our halo-removed attributes were meaningfully different from one another and that each was the best measure of the construct it was supposed to measure.

Comparison with Independent Evaluations

Kinder, Lydenberg, Domini & Co., Inc. (KLD) applied a series of "social screens," each composed of several individual, objective measures of a corporation's social responsibility, to the hundreds of firms that it tracks. KLD, an investment advisory service specializing in identifying socially responsible companies for investors, used these measures to create the Domini 400 social index of corporations exhibiting social responsibility. Our database had 196 companies that were included in both *Fortune*'s 1992 most admired companies list and the KLD database for 1991.

Each KLD measure of social responsibility is rated dichotomously (0 or 1), so they are a coarse measures but adequate for validation purposes. From the KLD screens, we selected items that appeared to measure at least a portion of the *Fortune* attributes and formed scales to represent four of our halo-removed attribute ratings. For our first two proxies, we summed the chosen KLD measures, with strengths having positive values and concerns having negative values, to obtain greater range. The last two proxies were single-item scales with limited range.[2]

The scales formed were as follows: (1) *Fortune*'s responsibility to the community and environment was represented by community and environment, a scale formed from 23 KLD items. Given that the KLD database was developed to track corporate social responsibility, the large number of items in this scale is not surprising. (2) *Fortune*'s ability to attract, develop, and keep talented people was represented by five KLD items that we designated employee relations. (3) For *Fortune*'s quality of products or services, we

[2] Descriptions and summary statistics of the KLD measures are available upon request. We chose items for their face validity. The two multiple-item scales are not reliable in a statistical sense. The KLD scales are formed from dichotomous variables, which on the average are scored 1 on only 8 percent of the observations. The range in the KLD data is very limited, and treating individual items as continuous measures is questionable. And because the individual KLD items measure specific attributes that are relatively independent but collectively measure a single broad construct, such as *responsibility to the community and environment*, scale reliability as measured by Cronbach's alpha can be expected to be low.

TABLE 3
Correlation of Halo-Removed *Fortune* Attribute Ratings and KLD Proxies[a]

Variables	Means	s.d.	1	2	3	4	5	6	7
Fortune attributes									
1. Responsibility to community and environment	.02	0.59							
2. Ability to attract talented people	.02	0.71	.66						
3. Quality of products or services	.01	0.65	.68	.82					
4. Innovativeness	.01	0.78	.52	.80	.73				
KLD scales									
5. Community and environment	−.39	1.89	.34	.20	.22	.14			
6. Employee relations	.20	0.65	.29	.31	.25	.22	.24		
7. High-quality products	.13	0.34	.30	.32	.37	.29	.07	.08	
8. Inventiveness	.04	0.20	.09	.05	.06	.16	.12	.21	−.07

[a] N = 196.

used a single KLD item, "The company has a reputation for high quality products or services relative to others in its industry." (4) For *Fortune*'s innovativeness, we also used a single KLD item, "The company is consistently among the leaders in its industry in research and development (R&D) expenditures as a percentage of sales, or the company has a reputation for exceptional inventiveness in new product development."

Table 3 presents the correlations between the four halo-removed *Fortune* attributes and their corresponding KLD social screen proxies. We performed a series of four simple regression analyses of the halo-removed attributes on their corresponding KLD proxies. The regression for responsibility to the community and environment had an R^2 of .11; for ability to attract, develop, and keep talented people, the R^2 was .09; for quality of products or services, the R^2 was .13; and for innovativeness, the R^2 was .02.[3] Results of the first three regressions were significant at $p < .0001$, and the innovativeness equation was significant at $p = .02$. We concluded that these regression analyses supported the validity of the halo removal process and the halo-removed measures.[4]

[3] The explanatory power of each regression analysis was limited by the relatively small number of positive observations on most of the KLD database items. For instance, only eight companies (about 4%) were rated as particularly innovative.

[4] Regression analyses of the raw *Fortune* attributes (before halo removal) on the same four KLD proxy variables also yielded significant results. Two of the four raw regressions had about the same explanatory power (adjusted R^2) as our halo-removed variables. The raw scores for the third, quality of product, explained less of the variance than our halo-removed variable (8% vs. 13%) and ability to attract, develop, and keep talented people explained more than our halo-

(continued)

Comparison with the Common Factor Removal Method

We examined a different approach to removing halo distortions by taking advantage of the single-factor structure of the *Fortune* data. The correlations among dimensions are attributed to a general or common factor (Jackson, 1983). The portion of a corporation's rating on a dimension not explained by the common factor is assumed to be specific to that dimension. Factor ratings can be used to develop an expectations model, the residuals of which are the dimensions or attribute ratings purged of the common factor, or halo. This common factor removal method is designed to remove all the shared variance captured by that first principal component.

In this sample factor analytic model, a company's rating on any attribute (Z_{ij}) is the sum of three components: $Z_{ij} = a_j f_i + m_j + d_j u_{ij}$, where i identifies a company, j identifies an attribute, a_j represents the loading of the j^{th} attribute on the common factor, f_i represents the factor scores of the individual company, m_j is the mean score for all companies on attribute j, d_j is a constant across all companies for the j^{th} attribute, and u_{ij} is an unobserved variable, both company-specific and attribute-specific. The individual companies' attribute-specific scores, $d_j u_{ij}$, can be determined from the above equation ($d_j u_{ij} = Z_{ij} - a_j f_i - m_j$) and can be considered halo-removed measures.

The assumption underlying this model is that the true constructs are independent and uncorrelated. But the apparent purity of the measures obtained using this technique can present a problem; often a researcher suspects that the underlying constructs are correlated. For instance, in analyzing *Fortune*'s most admired companies, it is reasonable to assume some "construct content overlap" (Spector, 1987) among even such nonfinancial variables as quality of management, ability to attract, develop, and keep talented people, and innovativeness. Good management may be reflected in progressive personnel policies and a record of innovation. Use of the common factor removal technique will treat what may well be construct content overlap as measurement error and eliminate it, sacrificing potentially useful information. However, we demonstrate the common factor removal process and compare its results with those of our preferred method of halo removal.

Correlation tables can illustrate some differences between our method and the common factor removal method. Table 4 presents three correlation matrixes in one: correlations of the raw *Fortune* rankings appear in plain type; those for the halo-removed variables derived from our method appear in parentheses; and those for the variables obtained from the common factor removal process appear in italics. We made no attempt to show correlations

---

removed variable (15% vs. 11%). But in most research using these attribute ratings, the point is not to demonstrate their validity, but to measure their effects on other variables, frequently those measuring financial performance. Even though our halo-removed measures did not always explain more of the variance of the KLD screens than their associated raw measures, it would be ill-advised to perform analyses with the latter as they are so heavily influenced by financial performance.

TABLE 4
Correlations of *Fortune* Attribute Ratings[a]

Variables	Means	s.d.	1	2	3	4	5	6	7
1. Responsibility to community and environment	6.14 (.01) −.01	0.76 (.58) .47							
2. Innovativeness	6.12 (.00) .03	0.95 (.76) .45	.68 (.53) −.15						
3. Soundness of financial position	6.28 (.00) −.09	1.39 (.85) .64	.77 (.58) −.21	.69 (.47) −.62					
4. Ability to attract, develop and keep talented people	6.17 (.00) .04	1.00 (.69) .02	.81 (.68) −.02	.87 (.80) .09	.90 (.79) −.13				
5. Value as a long-term investment	6.08 (.01) −.00	1.16 (.78) .31	.75 (.59) −.51	.82 (.68) −.34	.92 (.84) .41	.95 (.89) −.13			
6. Quality of products or services	6.94 (.01) .04	0.82 (.64) .40	.79 (.67) .31	.82 (.72) .17	.77 (.59) −.51	.88 (.80) .02	.82 (.69) −.54		
7. Quality of management	6.54 (.01) −.02	1.09 (.78) .32	.71 (.55) −.58	.86 (.77) .08	.84 (.71) −.23	.93 (.89) −.13	.94 (.88) .19	.84 (.73) −.25	
8. Wise use of corporate assets	6.08 (.01) −.01	1.08 (.71) .31	.74 (.57) −.38	.81 (.67) .31	.91 (.82) .25	.93 (.86) −.26	.95 (.90) .37	.78 (.62) −.61	.95 (.91) .42

[a] N = 234. Raw *Fortune* attribute correlations are shown in roman type. Halo-removed attribute correlations are in parentheses. Attributes developed using the common factor removal process are in italics.

among the raw variables and the two types of halo-removed variables. Using our preferred method, we reduced correlations by an average of 13.3 percent. The common factor removal process greatly reduced correlations, leaving many negative values.

As expected, our controlled halo removal technique (it is controlled in that we are removing only the financial performance halo from the measurements) yielded measures that are much more closely associated with the independent proxy variables than those obtained using the common factor removal process. We conducted regression analyses using variables with common factors removed for responsibility to the community and environment, ability to attract, develop, and keep talented people, quality of products or services, and innovativeness on our associated KLD social screen proxies, but only the results for innovativeness were significant, explaining 2 percent of the variance—about the same amount our preferred method had explained (results are available upon request). Kemery and Dunlap used Monte Carlo techniques to show that partialing out the first factor to remove

method variance can introduce spurious negative correlations and "thoroughly confound subsequent analysis" (1986: 529). Our results support their findings. Therefore, we consider our halo removal process, which removes only the known financial performance halo, not all correlations with other attributes, superior.

Further Validation Using a Criss-Cross Design

Another test of validity employed a criss-cross design (Seltzer & Bass, 1990). If our halo-removed measures are to be useful, each must explain more of the variance of the corresponding proxy we developed from the KLD social screens than do any of the other halo-removed *Fortune* attributes. Some explanatory power from the crossed regression equations is acceptable given the assumed construct content overlap, but the appropriate equations should have more explanatory power. In every case, we found that regressions of the appropriate halo-removed *Fortune* attributes on their corresponding KLD social screens explained more variance than regressions of crossed or mismatched *Fortune* attributes on the KLD social screens (results are available upon request). We concluded that the criss-cross tests further support the validity of our halo removal procedure.

CONCLUSIONS

This article demonstrates the extent to which financial performance influences the ratings of *Fortune*'s most admired companies and presents a technique for removing that halo to derive the underlying construct. In our research, we validated that technique by demonstrating a strong association between four of the halo-removed variables and proxy variables developed from another data source (Kinder, Lydenberg, Domini & Co.) and by demonstrating our method's superiority to the common factor removal and criss-cross design processes. Researchers wishing to use *Fortune*'s ratings for attributes that can be theoretically distinguished from financial performance should remove the financial performance halo before using the data, especially if they are testing the impact of one or more of these attributes on corporate financial performance or stock market returns. If the financial performance halo is not removed, the use of the *Fortune* most admired company attributes will confound results. We suggest that the halo-removed technique demonstrated in this article is generalizable beyond its current use and that researchers consider its application before using measures derived from any survey results that may be heavily influenced by factors extraneous to the construct of interest.

We suspect that the high correlations that remained after removal of the financial performance halo were largely the result of construct content overlap; many of the attributes are similar or theoretically related and would be expected to be correlated. The superior performance of our halo-removed measures (relative to the measures developed using the common factor removal process) in explaining the independent proxy variables sup-

ports this notion. However, we also suspect that an additional halo not influenced by financial performance may exist in the *Fortune* data, a halo related to the construct of corporate reputation sought by Fombrun and Shanley (1990: 245). The factors that drive this possible corporate reputation halo and that halo's potential for confounding other research will be left for future investigations, but researchers should recognize those possibilities when using halo-removed measures in their research.

Our results suggest several areas for future research. First, it would be useful if others would revalidate this technique by removing the financial performance halo from the *Fortune* database using other independent measures. In addition, it would be interesting to see the technique applied to databases other than *Fortune*'s survey. And finally, we would like to see halo-removed variables used in other research.

Practicing managers should realize that the *Fortune* most admired companies rankings, although entertaining (especially if your company is highly regarded), are strongly driven by prior financial performance. Ratings of companies on single dimensions are not particularly informative because of that financial performance halo.

REFERENCES

Ballen, K. 1992. America's most admired corporations. ***Fortune,*** 125(3): 40–72.

Beckwith, N., & Lehmann, D. 1975. The importance of halo effects in multi-attribute attitude models. ***Journal of Marketing Research,*** 10: 262–269.

Chakravarthy, B. 1986. Measuring strategic performance. ***Strategic Management Journal,*** 7: 437–458.

Chen, M-J., Fahr, J-L., & MacMillan, I. 1993. An exploration of the expertness of outside informants. ***Academy of Management Journal,*** 36: 1614–1632.

Cooper, W. 1981. Ubiquitous halo. ***Psychological Bulletin,*** 90: 218–244.

Dillon, W., Mulani, N., & Frederick, D. 1984. Removing perceptual distortions in product space analysis. ***Journal of Marketing Research,*** 21: 184–193.

Fombrun, C., & Shanley, M. 1990. What's in a name? Reputation building and corporate strategy. ***Academy of Management Journal,*** 33: 233–258.

Holbrook, M. 1983. Using a structural model of halo effect to assess perceptual distortion due to affective overtones. ***Journal of Consumer Research,*** 10: 247–252.

Jackson, B. 1983. ***Multivariate data analysis: An introduction.*** Homewood, IL: Irwin.

Kemery, E, & Dunlap, W. 1986. Partialing factor scores does not control method variance: A reply to Podsakoff and Todor. ***Journal of Management,*** 12: 525–544.

McGuire, J., Schneeweis, T., & Branch, B. 1990. Perceptions of firm quality: A cause or result of firm performance. ***Journal of Management,*** 16: 167–180.

McGuire, J., Sundgren, A., & Schneeweis, T. 1988. Corporate social responsibility and firm financial performance. ***Academy of Management Journal,*** 31: 854–872.

Myers, J. 1965. Removing halo from job evaluation factor structure. ***Journal of Applied Psychology,*** 49: 217–221.

O'Bannon, D., & Preston, L. 1993. ***Corporate social responsibility and firm financial performance relationships: A typology and analysis of possible relationships.*** Paper presented at the annual meeting of the Academy of Management, Atlanta.

Pulakos, E., Schmitt, N., & Ostroff, C. 1986. A warning about the use of a standard deviation across dimensions within ratees to measure halo. ***Journal of Applied Psychology,*** 71: 29–32.

Seltzer, J., & Bass, B. 1990. Transformational leadership: Beyond initiation and consideration. ***Journal of Management,*** 16: 693–703.

Sharfman, M. 1993. A construct validity study of the KLD social performance ratings data. In J. Pasquero & D. Collins (Eds.), ***Proceedings of the Fourth Annual Meeting of the International Associations for Business and Society:*** 551–558. Madison, WI: Omnipress.

Spector, P. 1987. Method variance as an artifact of self-reported affect and perception at work: Myth or a significant problem? ***Journal of Applied Psychology,*** 72: 438–443.

Thorndike, E. 1920. A constant error in psychology ratings. ***Journal of Applied Psychology,*** 4: 25–29.

Brad Brown (Ph.D, University of Washington) is an assistant professor in the management area at the McIntire School of Commerce, University of Virginia. His current research interests include corporate social responsibility and entrepreneurial networks.

Susan Perry (Ph.D, University of Wisconsin-Madison) is an assistant professor in the accounting area at the McIntire School of Commerce, University of Virginia. Her current research interests include earnings management and corporate social responsibility.