August 25, 2014

LOL Journal: Givers and Takers in the Investment World

I lied to you. Last LOL I said that I would next write about negotiating comp deals. And I will, I promise. But this week, I am too jazzed about the book “Give and Take” by Adam Grant to write about anything else.

Investment professionals live in a “takers” world. For every trade, there is a buyer and a seller and one will win and the other will lose. This basic truth extends to form the mindset of many investment pros. They look at life as a win/lose proposition. Smart people play to win. The largest component of most bonus plans is “individual contribution.” Team work is given lots of lip service, but the real money is for the star. Second tier players can take comfort in the warm glow of the team.

One consequence of this “taker mindset” is that investment firms are woefully short of appreciation. When investment leaders are asked why this is, three responses are typical:

1. Appreciation?! We PAY them don’t we!
2. If we appreciate them, they will want more of #1.
3. And worse, if we appreciate them, they will become complacent and still want more of #1.

Really? All of our experience with investment staffs indicate just the opposite! If you appreciate the staff, they will require less tangible pay (i.e. money) because they are receiving more intangible (i.e. appreciation). And they will work harder. And be more loyal.

Enter Adam Grant and his Give/Take model. Grant makes a wonderfully solid case for the benefits of being a giver. Citing many behavioral studies (like the “ultimatum game”), game theory (“prisoners dilemma”) and examples from real life (Ken Lay as a taker, George Meyer (The Simpsons) as a giver), Grant makes a powerful case for being a generous leader. With the guiding mantra of “help people.” And isn’t that the purpose of our fiduciary profession? Aren’t we supposed to be helping people plan for retirement? Shouldn’t we ALL be givers not takers? In the sense that we are supposed to be putting the client interests above all else.

Here’s the trick. The “giver” mentality has to be genuine. It doesn’t work if you fake it: I will give so that I can get more! (ha, ha! I win again!) Instead, it must come from a genuine sense of empathy: I give because it feels good to help others. Or slightly differently, I give because it is the decent thing to do. (Principled people may see it more as a decision that a feeling.)

Grant’s research reveals a set of core values for takers and givers, shown below:

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<tr>
<th>Taker Values</th>
<th>Giver Values</th>
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<td>Wealth (money, material possessions)</td>
<td>Helpfulness (working for the well-being of others)</td>
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<tr>
<td>Power (dominance, control over others)</td>
<td>Responsibility (being dependable)</td>
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<tr>
<td>Pleasure (enjoying life)</td>
<td>Social justice (caring for the disadvantaged)</td>
</tr>
<tr>
<td>Winning (doing better than others)</td>
<td>Compassion (responding to the needs of others)</td>
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Note that the taker values are associated more with “self” and “ego,” whereas the giver values are associated more with “selfless” and “other-oriented.” Maslow would place the taker values in the bottom three rungs of his hierarchy. Whereas the giver values are more representative of “self-actualized” people. There is nothing wrong with any of the listed values; they are common to all of us. Who doesn’t want enough money or some occasional pleasures? However, “In the majority of the world’s cultures [70 countries], including that of the United States, the majority of people endorse giving as their single most important guiding principle.” (pg. 21)

So, why do so many professionals seem to endorse the “taker” side of the values chart? Grant writes, “The fear of being judged as weak or naïve prevents many people from acting like givers at work.” (pg 22) Grant explores the pressures that most of us feel in this tug of war between giving and taking:

“People who prefer to give often feel pressured to lean in the taker direction when they perceive the workplace as zero-sum. Whether it’s a company with forced ranking systems, a group of companies vying to win the same clients, or a school with required grading curves and more demand than supply for desirable jobs, it’s only natural to assume that peers will lean more towards taking than giving. ‘When they anticipate self-interested behavior from others,’ explains Stanford psychologist Dale Miller, people feel that they’ll be exploited if they operate like givers, so they conclude that ‘pursuing a competitive orientation is the rational and appropriate thing to do.’ There’s even evidence that just putting on a business suit and analyzing a Harvard Business School case study is enough to significantly reduce the attention that people pay to relationships and the interests of others. The fear of exploitation by takers is so pervasive, writes the Cornell Economist Robert Frank, that ‘by encouraging us to expect the worst in others it brings out the worst in us: dreading the role of the chump, we are often loathe to heed our nobler instincts.’”

FCG clients who have played the Prisoner’s Dilemma exercise with us will see a close correlation between takers/competitors (red behavior) and givers/collaborators (green behavior). Game theory teaches us the following lessons about takers (red) and givers (green):

1. In teams, lead with green behavior (win/win). It sends a signal: I want to collaborate. I want to build trust.
2. Reciprocate with green (W/W). This shows your desire to also collaborate and build trust.
3. Check out misunderstandings. When you play green (are a giver), and your colleague seems to play red (as a taker), then have the courage to inquire about the perceived disconnect. We have found, “Help me understand why you did such-and-such. That seemed like a red move (Win for him, lose for you) works well as an inquiry.
4. Be willing to forgive, forget and move on. We’re all human, we make mistakes.

And shame on the business schools. Teaching all of us that the reason why businesses exist is to “maximize shareholder wealth.” This elevation of the profit motive goes against our basic desire to help others. Business schools should teach that a business exists to provide value to people. In return for providing value, they get paid. The core of business is about helping others. Even Milton Friedman got sucked into believing that a business exists to make a profit. NO, a business exists to help people and in so doing, makes a profit.
My forty years in the investment world support the finding above that most people—even investment professionals—do want to help others. They do have a generous mindset. But, as in the passage above, they often suppress it because of the belief that it doesn’t serve them to be a giver in the investment world. I would love to see the mindset of our profession change to a giver mindset. Grant’s fine book makes the intellectual case for how givers can end up on top of the success ladder. In fact, he shows that this is the way that mindsets typically finish:

1. Generous and wise people finish on top (“Successful Givers”)
2. Matchers: people who operate on tit-for-tat basis
3. Takers: win/lose mentality. Get all that I can, can all that I get, and then poison the well!
4. Generous but naïve. Doormats. Givers who don’t recognize the “wolf in sheep’s clothing.”
5. Apathetic: low concern for self and others (“Hey dude, whatever...”)

Grant offers this chart:

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<tr>
<th>Concern for Self Interest</th>
<th>Low</th>
<th>High</th>
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<tr>
<td>Low</td>
<td>Apathetic</td>
<td>Selfless: Self-sacrificing Givers, “doormats”</td>
</tr>
<tr>
<td>High</td>
<td>Selfish: Takers/Matchers</td>
<td>Otherish: Successful Givers</td>
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For me, it was so heartening to read what I’ve always believed: that good people can finish first. Decent and kind people—providing they are also wise—can finish on top of the success ladder. This reminds me of the biblical passage: be gentle as doves but wise as serpents. This combination of compassion/kindness with wisdom is the mindset that provides the greatest level of success and happiness. Paraphrasing Albert Schweitzer: “I don’t know what your calling will be, but I can tell you this. Whatever you do, you will only be happy if you find a life of service.” Joy comes from contributing. And Grant’s book makes the case compellingly.

Ok, so next LOL I’ll revert back to a related topic: compensation negotiations. FCG gets involved in many of these, and it is fascinating. I pulled out the classic book on negotiations, “Getting to Yes” and—sure enough—was reminded of many great tips for successful negotiations.

Until next time, try being generous and see if it doesn’t feel good...