



## Behavioral Matters:

### Insights from the application of Behavioral Finance

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Behavioral Matters is a series of essays on the application of Behavioral Finance written specifically for professional investors and portfolio managers.

## Alpha Comes To Those That Give, Revised, May 12

*"How selfish soever man may be supposed, there are evidently some principles in his nature which interest him in the fortunes of others, and render their happiness necessary to him, although he derives nothing from it except the pleasure of seeing it."*

- Adam Smith

Nice guys finish last ... or so it is said. New research disputes this old saw and suggests that kindness and giving are characteristics found among top performers in virtually every profession. This personal quality is particularly valuable for professional money managers whose effective collaboration with others leverages their ability to identify buy and sell opportunities ahead of the crowd. This essay explores the concept of interpersonal reciprocity and its impact on relationships, building information networks and portfolio success.

## Give, Take or Match

Each time you interact with colleagues there is a choice to make: Do you claim as much from the interaction as possible or do you give more than you get? "Takers have a distinctive signature: they like to get more than they give. They tilt reciprocity in their own favor, putting their own interests ahead of others' needs.", says psychologist and Wharton School professor Adam Grant. He further observes, "In the workplace, givers are a relatively rare breed. They tilt reciprocity in the other direction, preferring to give more than they get." Grant adds: "But in the workplace, give and take become more complicated. Professionally, few of us act purely like givers or takers, adopting a third style instead. We become matchers, striving to preserve an equal balance of giving and getting."

Practically speaking, takers help others when they perceive the benefits they derive outweighing their costs. Givers use a different sort of accounting, preferring to help when the benefits to others outweigh the cost of such giving. Matchers are driven by a distinct sense of fairness, giving when the quid pro quo is maintained. Although each of us is capable of shifting from one form of reciprocity to another, fluidly and often unconsciously, we tend to have a dominant style and it greatly influences both how we are perceived and how strongly our connections form with others.

## Champs vs. Chumps

There are two types of givers: those that act in an *unfocused* manner and those that are *strategic* in their giving. Unfocused givers, or what Grant refers to as "selfless" givers, do in fact come in last. Their drive to be helpful to anyone at any cost tends to restrict their own success. Their investment of time and energy in others becomes excessive, while yielding low or negative returns. Matchers and takers fare much better. Their greater self-interest, accompanied by more judicious giving, helps propel them toward realizing goals and subsequent professional achievement. Although matchers and takers outperform their unfocused giver colleagues, they typically don't reach the pinnacle of their professions nor do they become franchise players. Who does?

Top performers are often strategic givers, termed "otherish" by Grant. Strategic givers are a different breed than their unfocused brethren. They invest considerable time and energy where it can really do some good. Strategic givers possess an uncanny intuitive knack for helping individuals whose drive and passion lead these beneficiaries to deliver many-fold on the support received. Consequently, strategic givers are able to move their own careers along while also helping the other guy. One reason that strategic givers outperform is that, although not an explicit objective, they build an ever-expanding circle of friends who are successful and can lend a helping hand when needed.

## Dividends of Giving

The benefits from strategic giving are well documented. One study cited by Grant regards Belgium medical students. Those with the highest giver scores earned the best and worse grades. The strategic givers noticeably outpaced their fellow students as they progressed into clinical/patient care where collaboration, judgment and patient empathy became essential. Summarizing a different study Adams concludes: "Even in sales, I found that the least productive salespeople had 25 percent higher giver scores than average performers—but so did the most productive salespeople. The top performers were [strategic] givers, and they averaged 50 percent more annual revenue than the takers and matchers." Similar results are found in assessing professional engineers. Describing engineers who are strategic givers Grant notes, "By giving often, engineers built up more trust and attracted more valuable help from across their work groups—not just from the people they helped."

## Team Giving

A competent work group can be nudged toward becoming a high performance team when infused with a giving culture. Strategic giving behavior can engender dynamics found in highly creative and collaborative groups, such as listening, sharing air time and encouraging vulnerability. "Giving, especially when it's distinctive and consistent, establishes a pattern that shifts other people's reciprocity styles within a group.", points out Grant.

Studies by contagion experts, James Fowler and Nicholas Christakis, indicate that when one person helps members in a group at a personal cost others soon follow suit. The group's reciprocity style shifts more toward giving than what had been previously. Strategic giver benefits, Fowler and Christakis have found, both spread to other individuals and persist going forward: "Other group members were more likely to contribute in future rounds, even when interacting with people who weren't present for the original act. This influence persists for multiple periods and spreads up to three degrees of separation (from person to person to person to person)."

## Ties That Bind

Building a portfolio of great names requires fully capitalizing on every resource at your disposal. Gathering input from knowledgeable individuals is one means to this end. The breadth and depth of ideas and experience accessible is greater when you are a strategic giver. Strategic givers can reach out to not only close friends and colleagues but they can also access a deep bench of individuals they helped or worked with over the years. This second group, known as, "weak ties", commonly provides more valuable help than do those with whom you are in regular contact. The reason is that having drifted apart you and your weak ties now occupy independent professional/social circles,

enabling your weak ties to bridge you into groups containing diverse and valuable ideas and experiences not available from your inner circle. Another quality Grant notes about weak ties is that they are often more than willing to go the extra mile to be helpful, including making sure that you connect with their contacts. The use of weak ties can also provide sources of “outside views”, recommended by Daniel Khanamen when attempting to reflect on whether you've arrived at fact-based conviction or mere bluster.

## Conclusion

Owning high performing assets is the key to generating excess returns. Improving your information advantage can lead to identifying a greater number of attractive investment opportunities. Fundamental to your advantage are the ideas and critical assessments available from your information network. Research suggests that strategic giving can greatly facilitate enlarging and deepening professional relationships. Yet, this is not a common way to engage professionally, says Grant: “The fear of being judged as weak or naive prevents many people from operating like givers at work. Many people who hold giver values in life choose matching as their primary reciprocity style at work, seeking an even balance of give and take.”

Markets are commonly unforgiving and their corrective actions can be painful. Generalizing these facts into the familiar misbeliefs that all of business is a “dog-eat-dog” enterprise or exclusively a zero-sum game is not only incorrect, but it leads to behaviors that undermine your success. Strategic givers are shown to outperform in all manner of profession. This type of giving can allow you to strengthen your information advantage. Shifting toward being more of a strategic giver can enable you to be a positive force in your company, reap the benefits of a stronger team and weak ties, and – just perhaps – position your portfolio to be a performance leader among active management.

## References

1. Adam M. Grant, *Give and Take: Why Helping Others Drives Our Success*, Viking, 2013.
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3. Michael A. Ervolini, *Inside-Out-Investing*, Behavioral Matters, 2009; available at: [www.cabotresearch.com/essays](http://www.cabotresearch.com/essays)