

Reciprocation Tendency

This article is part of a [multi-part series](#) on human misjudgment by Phil Ordway, managing principal of [Anabatic Investment Partners](#).

Reciprocation tendency, including the tendency of one on a roll to act as other persons expect.

“It is so easy to be a patsy for what [Cialdini] calls the compliance practitioners of this life...a very, very powerful phenomenon.” “Wherever you turn, this consistency and commitment tendency is affecting you. In other words, what you think may change what you do, but perhaps even more important, what you do will change what you think.”—Charlie Munger

Munger cited the example of a study that asked members of an academic campus to take juvenile delinquents on a trip to the zoo; he got one in six to say yes. Then he asked others to devote two afternoons a week to taking juvenile delinquents to the zoo, and everyone declined. But after making the initial request he backed off and asked if they would at least take them to the zoo one afternoon. Then he got half of the respondents to agree. He got three times the success by going through the “ask-for-a-lot-and-back-off” strategy.

Zimbardo’s Stanford prison experiment is also an example of not just reciprocation tendency but also commitment and consistency tendency too. The actors’ actions themselves pounded in the idea.

Update

“Kantian Fairness Tendency” is an important corollary – Kant’s “categorical imperative” required people to follow behaviors that, if followed by all others, would make the surrounding systems work best for everybody. Examples include voluntary traffic mergers, cooperation at intersections and tunnels with no traffic signals, orderly lines even in “first come, first served” situations, and the abolition of slavery.

That is not to imply that reciprocation is dead, or even diminished. Why does every salesman have an entertainment budget? Concerts, sporting events, golf, holiday parties – they’re all designed to encourage reciprocation.

The brilliant financial writer Matt Levine often harps on his idea of the “gift economy” in finance. Banks and broker-dealers will give you “free” research, conferences and management meetings, tickets to the U.S. Open, etc., and in return they expect *overpriced* trading commissions and investment banking mandates. Wouldn’t it be easier to just price the underlying business reasonably and skip all the reciprocal dancing?

One of Munger’s original examples was Sam Walton’s practice of never letting his purchasing agents take so much as a handkerchief from a salesman. Fast forward a few years and Walmart finds itself enmeshed in a full-blown bribery scandal involving multiple government officials in multiple countries. It will likely have to settle for hundreds of millions of dollars and the total legal and compliance bill is already stretching toward \$1 billion.^[25] It’s easy for big companies to lose their culture over time.

Environmental factors in general probably get too little attention, especially in the investment industry. Noise levels, screens with blinking lights, ringing telephones, open floor-plan offices –

everything seems designed to distract.

The Buffett-Munger system at Berkshire Hathaway is one giant feedback loop of reciprocation used for good. Berkshire has had remarkable success in motivating its hundreds of managers and its hundreds of thousands of employees by intentionally cultivating a “seamless web of deserved trust” and populating it with people who find it attractive. Berkshire’s managers speak frequently of feeling the need to live up to the trust Buffett and Berkshire have placed in them. Other sprawling conglomerates would have long ago succumbed to sclerotic bureaucracy. Buffett also goes out of his way to praise publicly by name – notice that he is always careful to praise specifically and criticize by category. Reciprocation is everywhere within Berkshire. And conversely, a culture that is dominated by policy manuals and rote procedurals may be sending a subtle message of distrust that is – by the anecdotal evidence, at least – often reciprocated. Berkshire has also remarkably free of scandals and misconduct for a company of its size operating in industries that have tripped up many peers.

In Munger’s updated version, he focuses on the negative aspects of reciprocation. Human history suggests that turn-the-other-cheek behavior is not programmed into a natural algorithm, and it takes a lot of mental effort to overcome our genetic tendencies to avoid turn-the-other-cheek behavior. And the standard antidote is to train oneself to delay or defer any negative reaction. ***“You can always tell a man to go to hell tomorrow,”*** to paraphrase Tom Murphy of Capital Cities and Berkshire fame.

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<https://www.bloomberg.com/news/articles/2017-05-09/wal-mart-said-close-to-resolving-bribery-probe-for-300-million>