

What Happens When These Standard Psychological Tendencies Combine?

“The clear answer is the combination greatly increases power to change behavior, compared to the power of merely one tendency acting alone.” When you get these lollapalooza effects you will almost always find four or five of these things working together. When I was young there was a whodunit hero who always said, “Cherchez la femme.” What you should search for in life is the combination, because the combination is likely to do you in.” -Charlie Munger

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

Tupperware parties - “Billions of dollars from a few manipulative psychological tricks.”

Moonie conversion methods - “He just combines four or five of these things together.”

Alcoholics Anonymous - “It’s a very clever system that uses four or five psychological systems at once toward, I might say, a very good end.”

The Milgrim experiment - Milgrim’s explanation of “why” great changed the behavior of the people involved. “So commitment and consistency tendency and the contrast principle were both working in favor of this behavior. So again, it’s four different psychological tendencies.”

The McDonnell Douglas airliner evacuation disaster - A test required to certify an airliner for commercial use caused numerous severe injuries...and then was repeated later that same afternoon, with the same disastrous effects. “Again, it’s a combination of tendencies. Authorities told you to do it. He told you to make it realistic. You’ve decided to do it. You’d decided to do it twice. Incentive-caused bias: If you pass you save a lot of money; you’ve got to jump this hurdle before you can sell your new airliner. Again, three, four, five of these things work together and it turns human brains into mush. And maybe you think this doesn’t happen in picking investments? If so, you’re living in a different world than I am.”

The open-outcry auction - it is “just made to turn the brain into mush. You’ve got social proof, the other guy is bidding, you get reciprocation tendency, you get deprivation super-reaction syndrome, the thing is going away... I mean it just absolutely is designed to manipulate people into idiotic behavior.”

The board of directors - “The top guy is sitting there, he’s an authority figure. He’s doing asinine things, you look around the board, nobody else is objecting; social proof, it’s okay. Reciprocation tendency: he’s raising the directors’ fees every year, he’s flying you around in the corporate airplane to look at interesting plants, or whatever in hell they do. And you...really get extreme dysfunction as a corrective decision-making body in the typical American board of directors. They only act, again the power of incentives, they only act when it gets so bad it starts making them look foolish, or threatening legal liability to them. That’s Munger’s rule...by and large the board of directors is a very ineffective corrector if the top

guy is a little nuts, which, of course, frequently happens.”

Update

Herbalife/MLM – just as Tupperware parties were a linchpin of the original talk, Herbalife is a fascinating case study of the power of these tendencies in combination.

Volkswagen emissions scandal – \$24.5 billion in fines/penalties, and counting, with five or more OEMs possibly guilty of some version of this too. Incentive-caused bias, over-influence by authority, maybe social proof.

United Airlines’ recent “re-accommodation” of a passenger was a huge failure. Overbooking is a common – and economically rational – practice, even if incentive-caused bias can interfere. The problem came when the policies became the process: over-influence by authority. The policy manual said to offer a max of a couple hundred dollars in vouchers. Then the policy manual said to ask the man to leave. Then the policy manual said to call the police. Over-influence by authority, incentive-caused bias, reciprocation, stress-induced behavior, etc. etc.

It was “a failure of epic proportions that’s grown to this breach of public trust. **We let our policies and procedures get in the way of doing the right thing.**”^[69]

Look instead at Alaska. “...the notion of “empowered employees” was a recurring theme. That’s no accident. The airline’s president and chief operating officer, Ben Minicucci, makes employee empowerment a pillar of his corporate strategy. ‘Airlines are bound by government regulations and federal regulations and all these policies,’ Minicucci told Bloomberg. ‘It’s easy to become bound to them.’ He recognizes, however, that most airlines’ tendencies to follow rules to the letter are what get them in hot water. Cue the dragged-off doctor on United: His flight attendants were blindly following protocol at every turn. ‘You do need strong structure and policies in the airline business, but you also need to blend it with empowerment,’ according to Minicucci. ‘We double down on that.’ Every employee at Alaska—from flight crew to baggage handlers to customer service reps—is given an ‘empowerment toolkit’ as part of training. It includes a series of incentives that employees can dole out to resolve customer complaints: miles, money, restaurant vouchers, fee waivers, and so on. It’s up to employees to ‘find the story and create a personal connection’ with customers, and then decide—based on a series of loose guidelines—the appropriate reparation strategy... ‘Do what you think is right,’ Minicucci tells his employees. ‘We trust you. You’ll never get in trouble for making a decision. And we don’t want you to call the supervisor.’ J.D. Power’s [Michael] Taylor agrees that this is a secret formula for success. Investing in empowerment, he says, simultaneously builds good morale and strong customer loyalty. ‘We see this in top-performing companies across industries, be it hotels or utilities or telephone companies,’ he says. ‘If you want to win friends and influence people, you have to treat them right.’”^[70] Empowerment might be the most powerful incentive a company can give its employees. By giving its employees the power and the tools to act with common sense, rather than being bound by a set of rules or a guidebook that is by definition going to miss some things, the employees are happier and more engaged. That shows in the employees’ countless interactions with customers. It is a self-perpetuating feedback loop. Look at how much benefit Berkshire Hathaway has gained from hiring people and then empowering and trusting them to do their jobs. Almost every great, special company takes that attitude toward its people – it might not even be possible to run a great organization if it is bound to policies, manuals and procedures. Only a culture of hiring well and trusting those hires, of empowerment, of creating an esprit de corps seems to work over the long haul. And conversely, many of the

worst companies/industries have a rules-first, manuals-and-policies driven culture that creates bitter, grumbling employees that due the bare minimum (if that).

“Isn’t this list of standard psychological tendencies improperly tautological compared with the system of Euclid? That is, aren’t there overlaps? And can’t some items on the list be derived from combinations of other items?”

“The answer to that is, plainly, yes.”

^[69] <https://www.wsj.com/articles/united-says-litany-of-failures-led-to-flight-fiasco-1493269261>

^[70]

<https://www.bloomberg.com/news/articles/2017-05-24/how-alaska-airlines-became-the-best-airline-in-the-u-s>