Beware the Camel in the Tent

Our Director of Research, Vijay Viswanathan, was six years old when his grandfather visited him from India. A loud and animated man whose hands waved when he spoke, Thatha (“grandfather” in Tamil) was a prodigious storyteller. He often took Vijay on walks to the grocery store where the two would collect fruits and vegetables for the family. During these times Thatha would tell stories, and if Vijay listened well, he was rewarded with a chocolate bar.

It was on one of these walks that Vijay first heard the fable of the Arab and the Camel. According to this classic tale, one cold night, a camel asks his master if he can put his head in the tent for warmth. “By all means and welcome,” said the man; and the camel stretches his head into the tent. Soon after, the camel inquires if he may also bring his neck and front legs inside. Again, the master agrees.

Finally, the camel asks, “May I not stand wholly within?” With pity, the master beckons him into the warm tent. But when the camel comes forward it becomes clear that the tent is too small for them both. “I think,” the camel said, “that there is not room for both of us here. It will be best for you to stand outside, as you are the smaller; there will then be room enough for me.” And with that, the man is forced outside of his tent.

The fable is a warning that small, seemingly harmless acts—even made with good intentions—can sometimes have negative repercussions. It is a tale our team often associates with values, and considers actively at this time of the year. After all, the creeping camel appears in many aspects of our lives…but only in rare situations is the camel more
detrimental than when he eats away at our principles. And what better time than the beginning of a new year to reflect on what we hold most dear?

Values shape the outcomes of our relationships, careers, investments and society, and therefore, are far too important to leave to chance or camels. It is worthwhile to reflect on them for they have a material impact on our decisions and will manifest in our lives whether or not we explicitly consider them. Better to be conscious of our values than to leave them to fate. Especially since we will all let the camel into the tent at some point—and when and how we do it should be a deliberate choice.

A $400 Million Decision

What are values and why do they matter?

The Oxford Dictionary defines values as “principles or standards of behaviour; one’s judgment of what is important in life.” More simply, we can view them as our internal compass, helping to establish what is important, guiding decisions and influencing culture. Whether in business, investing or our personal experience, they are critical in every dimension of life.

How material are values in business? One need only to look at Google to see their importance. Google's motto “don't be evil” extends far beyond a plaque on the company’s wall. It is a guiding light for the company and it influences major decisions. Nowhere has this been more apparent than in the company's dealings with China.

Google first entered China in 2006 with the aim of winning a large share of the nearly 400 million user search engine market. However, the team had misgivings over China's demands to censor certain search results. Co-founder Sergey Brin was particularly concerned, having grown up in the Soviet Union and experiencing firsthand how oppressive regimes can stifle free speech. In one infamous Friday meeting, Brin allegedly stood up and delivered a passionate speech in which he vigorously defended the ability to speak freely as an inalienable human right. Nevertheless, Google's leadership concluded that more good could be accomplished by operating within China than not, and the company entered the market.

They did not stay for long. After the Chinese repeatedly searched for dissidents and political activists by hacking Gmail accounts, Google found it impossible to remain true to their core values. They exited China, even though it would have been more profitable to cooperate with the government's demands. They left over $400 million in annual revenues on the table...certainly not chump change.¹

While Google demonstrates that values can have a palpable impact on a company's business decisions, it is important to note that values can also significantly influence how an individual or firm is accepted by consumers or society.

No One Likes a Jerk

According to urban lore, Uber was conceived one snowy New Year’s Eve in Paris when Travis Kalanick and his companion couldn’t find a cab. As they grumbled over flaws in the taxi system, Kalanick considered the possibility of building an app that could deliver rides on demand. A couple of years later, Uber was born.
Uber has grown at a staggering pace since Kalanick founded the company in 2009. Its impressive growth can be partly attributed to the near ludicrous convenience the company provides: with the click of a button on your smartphone you can order a car to pick you up and drop you off, all within a faster timeframe than if you called a typical cab company. In addition, you can select your driver based on his or her rating, and each trip is charged to your credit card, which allows you to leave the car immediately when you arrive at your destination and forgo fumbling with your wallet.

Much of Uber's success has been a result of the tenacious drive of its management team. As a disruptive newcomer, Uber has had to fight against an industry that has been against it tooth-and-nail since day one. By always doing what it takes to win, Kalanick has beaten countless municipalities and local taxi oligopolies. The question now is whether the same values that have made the company successful are landing it in hot water.

Despite delivering a service beloved by many, the perceived hubris and arrogance of Uber's management team has fueled a growing public disdain. It began when the company started calling and canceling rides on competing platforms such as Lyft in order to sabotage their operations, and it has continued throughout a series of events in which management has come across as misogynistic (Uber planned to launch an escort-like promotion in France pairing riders with attractive females, and Kalanick publicly called the company “Boober” to describe all the attention he now receives from women). And it has been exacerbated in recent months, when Uber indicated it would spend millions to attack and shame journalists who cast them in a negative light.²

The resulting damage to the company's brand demonstrates that consumers do not necessarily approve of aggressive behaviour and a 'win at all cost' attitude. And while the damage may be reparable, the fact that Uber has now hired Obama's former campaign manager to manage the fallout to its reputation is telling. Even with an exceptional business model and incredible growth, companies do not have carte blanche to act however they please within society—not, at least, without incurring repercussions.

**Culture and Trust**

Not only do values influence our decisions and perceptions of others, they are inextricably linked to the culture within organizations. This is true for both businesses and other groups, such as families. A parent who values utmost discipline and order will raise his or her child in a very different environment than a parent who values absolute freedom. Similarly, a company that values hierarchy may find that they miss a junior employee's good ideas.

Values also matter in building trust. Often, we trust individuals who hold similar values as ourselves. However, a full alignment of values is unnecessary to build trust because what we are really looking for is confidence that a particular behaviour will occur as expected. For example, you might not trust your spouse to take out the trash tonight, but you may trust that he or she will pick up the kids from soccer practice. You can often determine a person's future actions based on what you know he or she values.

Examining and scrutinizing a company's cultural values is essential for investors when evaluating management. For our team to trust in a manager, we must believe that he or she will act in a way that is rational, capable and honest. That means going beyond what management says and looking at what it does. Like an iceberg, the values of an organization are usually not visible from the outset and require some digging. After all, Enron once wrote
that its core values were respect, integrity and excellence.

Our team gets an idea of what management actually cares about by evaluating their previous decisions, speaking with a number of employees, customers and competitors, and examining their incentive system. When we uncover evidence of inconsistency with their stated values, a red flag goes up. For example, we have not invested in a number of prospect companies when we have detected signs of excess hubris or arrogance in management, as it is our experience that leaders with these qualities will eventually be blind to reality and make bad decisions over time. We also avoid investing in banks when they have shown excessive greed or risk-taking, as we have frequently observed how aggressive sales cultures lead to these institutions making bad investments that eventually turn out to be worthless.

The Trouble with the Entropy

If we have insinuated it is easy or simple to protect our values, then we apologize. For all of the literature there is on this topic, we find it conspicuous that so few sources acknowledge how hard it is to maintain ones principles in practice. One would be forgiven for thinking that adopting values is simply a matter of choice! In truth, most people never actively consider their values, and when they do, they have a hard time sticking to them. This second challenge exists because of something known as entropy.

What happens when you open up a perfume bottle? Its contents are released into the atmosphere. But the perfume molecules will not stay in the spot you sprayed and, over time, will gradually fill the room. The ordered state of the perfume in the bottle is transformed into a state of disorder. As entropy—a measure of a system's disorder—increases, the more a system is chaotic. And as we know from the Second Law of Thermodynamics, most systems move towards increasing disorder over time. This is why perfume doesn't return to the bottle once you open it—it doesn't return to its original state of order, it just keeps spreading around the room (This is also why an ice cube doesn't simply reform into a cube after it has melted).

It turns out that the Second Law of Thermodynamics is one of the chief challenges we face in life. Our bodies grow old and fat. The weeds grow in our gardens. The cobwebs proliferate. Even our values can erode if we are not careful. The only way to prevent the increasing chaos is to apply energy to the system to keep it in order.
One need only look at the current state of the British Banking System to see how mutated values can become when an active process is not put in place to keep them in check. Although they were once seen as institutions with conservative cultures and simple business models, most British banks now have aggressive sales cultures. This shift has negatively impacted the sector: banks have paid out £38.5 billion in fines in their retail operations since 2000 and have received over 20 million complaints between 2008 and 2014. Moreover, they have lost the faith of the populace and been slapped with extensive regulation, which has in turn increased the cost of doing business. Not to mention, they nearly detonated the entire financial system in 2007. Clearly, the consequences of this gradual shift in values have been grave. And now it will take a Herculean effort to return the system back to its earlier culture.

But is not usually easy to defend against increasing entropy because it has a tendency to sneak up on you. Parents do not wake up one day and decide to alienate their children. For example, when children are infants, parents sometimes think they can put off spending time with them until they are older and it really matters. So they stay late at work. They miss the dance recital. And they make a series of seemingly small, innocuous decisions that cumulatively place greater value on their careers. Sadly, they wake up one day and discover that their relationship with their kids is broken.

Defending Against the Camel

So how can we protect against increasing entropy in our values? How can we keep the camel out of the tent? In our experience, the following strategies, when successfully adapted, can help you to stay true to your values:

1. Decide your values in advance
   Benjamin Franklin is known for having created a list of 13 Virtues by which he wanted to live. His list, including virtues such as “temperance” and “candour,” was supported by a weekly program in which Franklin made efforts to align his behaviours with his values. Although Franklin was not a saint—he routinely failed to comply with his standards—he still made progress because he knew the man he wanted to be.

   Knowing who you want to be is a necessary first step in defending against entropy. The sailor with no compass loses his bearing quickly. It is therefore a valuable exercise to explicitly define the values that will guide us. And if you think that this applies to only our business or individual lives then think again: our Deputy CIO, Paul Moroz, and his wife conduct family retreats in which they discuss the values they want to instill in their children.

   As investors, it is useful to define your decision-making values. For example, numerous studies show that people are emotionally flawed traders, often being far more aggressive and quick on the draw than the situation warrants. Therefore, it is useful to predefine patience, humility and discipline as values we want to emulate as investors, and monitor our behaviours to ensure that we are truly reflecting them.

2. Align behaviours
   It is not enough just to know your principles. Behaviours must be proactively aligned with your core values to ensure consistency of execution. In our experience, this can be done by embedding values into the decision-making process, keeping them front-and-centre day-to-day, and carefully aligning them with incentives.
Arguably, incentives are by far the most challenging part of this equation. Too often incentives are meant to encourage a specific behaviour but fail to achieve the desired outcome. For example, when U.S. lawmakers implemented standardized testing as part of the No Child Left Behind program, they hoped to improve the country’s overall education system. But by applying extreme pressure for schools to achieve specific educational targets (failing schools would be shut down) well-intentioned teachers sometimes resorted to cheating. Ultimately, there was no discernible improvement to the quality of education and there was ample evidence that the warped incentives of the program created negative consequences.\(^4\)

Aligning behaviours with incentives is therefore a tricky business. Ironically, sometimes the best incentive is no explicit incentive. As Barry Schwartz, the Dorwin P. Cartwright Professor of Social Theory and Social Action, argues, the inclusion of specific extrinsic rewards can often undermine intrinsic motivation.\(^5\) A nurse is more likely to feel motivated because he believes he is making a sick person’s day a little better, than if you pay him incrementally for every patient he serves. Likewise, you are unlikely to embed self-discipline in your child if you pay him to make his bed each morning.

3. **Surround yourself with people with similar values**

It is difficult to act one way when your peers act another. Protecting your values on a daily basis is far easier when you are surrounded by people who share similar views on what is important. Again, this applies to your personal, professional and investing life.

As an example, the values within our research team are kept in check because we hire individuals who share similar fundamental ideologies. Our team may represent a melting pot of cultures assembled from all over the world, but we share a number of unifying core principles (i.e., truth, excellence and humility). Because we all care about these things, it is easier to find common ground and help each other achieve our goals. This is obvious when you see our team debate. Because the group is genuinely interested in reaching the truth and cares most about the meritocracy of ideas (as opposed to bowing to hierarchy), we tend to have surprisingly frank and candid discussions.

Similarly, our team’s shared value around excellence is one of the reasons why the group is so supportive of pursuing big dreams. While others might say that I am crazy for my 24 hour solo mountain bike races, or that Jim was nuts for willingly running over 640km in the heat of the Moroccan desert, our team has a different response: *cool.*

The opportunity to do this also exists within our personal relationships. Research suggests that we are strongly influenced by the five people with whom we spend most of our time. Consequently, fit individuals tend to associate with other fit individuals, as do positive folks and people who pursue excellence. By and large, people often deliver to the standards against which they hold themselves—standards that are largely influenced by the people around them.

**A Question of Choice**

As dangerous as the camel in the tent can be, sticking unequivocally to your values can sometimes be just as poisonous. Every now and then, the right thing to do is to alter your values.

A good example of this can be found in the 1961 Bay of Pigs invasion. When President Kennedy and his advisors tried to overthrow Fidel Castro, nearly every one of the 1,400 CIA-trained Cuban exiles was captured or killed. It was a remarkably foolish decision, resulting in U.S. humiliation and Cuba aligning itself closer with the Soviet Union. Many historians believe
that the decision to attack was due to Kennedy’s advisors withholding their reservations about the invasion because they wanted to accommodate the President’s wishes. In other words, Kennedy’s advisors placed significant emphasis on social cohesion and it led to a very bad outcome.

Interestingly, this phenomenon has often been seen in business. Harvard researchers have shown that the more social cohesion that exists in a group of product managers, the less likely the group will produce innovative products. Paradoxically, a value that is usually seen as critical for group effectiveness (getting along with others) can lead to group failure. Sometimes we need to move away from values we assume are positive or that have served us well in the past.

A good example of a company that successfully shifted its values is Alcoa. When Paul O’Neill became the CEO of the Aluminum Company of America in 1987, the company had operated for over a hundred years and was one of the largest corporations in America. And yet the company’s culture was stodgy, bureaucratic and inflexible, which resulted in mediocre products and operational inefficiencies. O’Neill wanted to embed excellence into Alcoa’s values but was cognizant that changing such a large organization would be difficult. Moreover, his predecessor had run into severe labour backlash when he wanted to make improvements.

As Charles Duhigg describes in the *Power of Habit*, O’Neill opted to shift the overall value system of the organization by embracing one seemingly inconsequential value: safety. And that one shift was enough to transform culture at Alcoa. O’Neill reasoned—correctly—that no one would argue with the need for greater safety at the company. Union managers had been fighting for better safety rules for years, while managers were positively disposed towards anything that improved productivity and boosted the company’s low morale. Thus, O’Neill had little opposition to the company’s new goal of zero injuries (at least internally—externally, many analysts thought O’Neill was nuts). And the company started making safety a priority in all presentations, incentive programs and communications.

These efforts proved brilliantly transformative. As Duhigg describes:

> The key to protecting Alcoa employees, O’Neill believed, was understanding why injuries happened in the first place. And to understand why injuries happened, you had to study how the manufacturing process was going wrong. To understand how things were going wrong, you had to bring in people who could educate workers about quality control and the most efficient work processes, so that it would be easier to do everything right, since correct work is also safer work.

> In other words, to protect workers, Alcoa needed to become the best, most streamlined aluminum company on earth.

Alcoa’s adoption of one value in the organization led to massive improvements in the overall processes in the company. Not only did the company’s safety record improve, the quality of its products increased and morale was boosted.

Just as Alcoa benefited massively from shifting its values, Uber would likely benefit from doing the same. Moreover, society clearly demonstrates the power of values shifting over time. For example, over the last century, equality has become more and more entrenched in Western society. In 1921, my great-grandmother fought to become one of the first female
pharmacists in the UK, entering the profession before women even had the right to vote. Today, significant social and economic progress occurs because women like her great-grand daughter are able to participate directly in the global workforce.

Sometimes we need to evolve. This is fine—and often healthy—as long as it’s a deliberate choice.

**Final Thoughts**

Values have a material impact on our personal, professional and investment lives. It is useful to proactively consider who we want to be and how we want to conduct ourselves in the world. Moreover, it is a slippery slope when we allow subtle changes to occur to our values, and we must be cognizant that they have a tendency to erode over time unless we are vigilant and apply energy to protect them.

Of course, this is a lot easier to say than do. Much of the time, we are wilfully blind to the gap between the values we wish to hold and those we exhibit. This is where self-awareness and leadership come in. What worker wants to put in effort when their manager is lazy? What child will stay calm if their parents constantly explode in anger? Would it be fair to speak of integrity as a firm value if we did not invest alongside our clients? It isn’t enough to say these things. The follow-through is what matters. In our experience, this requires self-reflection and action.

The New Year is a perfect time to mull over these ideas. Putting our inner cynics aside, there is great value in systematically considering the values we want to adopt and protect. And it is useful to remember that on rare occasions it is necessary to make a shift in our principles. So long as these moments occur in full consciousness of what we are doing, it can be okay to let the camel in the tent.

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