“Attitude is a little thing that makes a big difference.”
Winston Churchill

Dear Investor:

This month’s letter is about the importance of group dynamics in investing and in the general pursuit of excellence. Like markets, the behavior of groups is complex, heavily biased, and difficult to predict. As is the case with most complex systems, the performance of groups follows a power law, with a few achieving extraordinary results while most others struggle to make a difference. We believe that there are common attributes among the elite groups of exceptional performers. Whether in sports, business, or investing, group dynamics is often the main driver of some of the most extraordinary outcomes in history, as well as some of the most outstanding companies.

In Leading at the Edge, Dennis Perkins, a Vietnam War veteran and professor at the Yale School of Management, profiles the dramatic account of Ernest Shackleton’s Antarctica expedition from the viewpoint of a management consultant. One of the several prescriptions that he offers leaders for maximizing the performance of their teams is to establish an egalitarian spirit that fosters a feeling of inclusion regardless of rank. When all team members feel a sense of involvement, positive outcomes are more likely to come about.

To reinforce this norm of equal treatment, Shackleton made sure that he, as the leader of the expedition, got no special privileges. He wore the same clothing, ate the same food, and took his turn in the rotation of daily chores. Perkins recounts the story of when their ship, the Endurance, broke up and the men found themselves with fewer reindeer-skin sleeping bags than they needed. To ensure equal treatment, the desirable bags were distributed using a lottery in which Shackleton did not participate. Unlike the famous explorer Robert Falcon Scott, who gave orders and observed while his men labored, Shackleton was an integral part of the team, and he reinforced this culture by example. While chance may have played a role, Perkins speculates that the outcome of Scott’s disastrous journey to the South Pole, where he and his entire crew died, could have been attributed to his inferior, command-and-control management style, borrowed from the Royal British Navy. In times of crisis, when teamwork becomes most critical, a team whose members feel excluded and unfairly treated falls apart.

Dr. Christopher Ahmad, an accomplished orthopedic surgeon who is the head physician of the New York Yankees, recently published a book titled Skill, in which he discusses the key principles that surgeons, athletes and other elite performers use to achieve mastery. He claims that the ability to keep reaching for improvement is central to the mastery of a skill, and one of the principles he proposes, which relates to group dynamics, is to praise
effortful practice, not good results. “Early praise,” writes Dr. Ahmad, “can create complacency or even fear of underachievement or failing to meet expectations, which thereby undermines the process of reaching.” Dr. Ahmad’s thesis regarding early praise was confirmed in an experiment performed by Carol Dweck of Harvard University. A group of fifth graders were given a series of puzzles to work on. Then they were given their scores and six words of praise, either “You must be smart at this!” or “You must have worked really hard.” All students were given a second test and given a choice of whether they wanted to take a hard test or an easy test. Remarkably, a full two-thirds of students praised for being smart took the easy test, while ninety percent of the effort-praised kids took the hard test. When good results occur, outstanding coaches and business leaders alike tend to praise in such ways that the team members are inspired to keep reaching instead of relaxing.

Another important attribute of extraordinary teams is that they can operate in a state of flow. Wikipedia defines flow as “the mental state of operation in which a person performing an activity is fully immersed in a feeling of energized focus, full involvement, and enjoyment in the process of the activity.” Named by psychology professor Mihály Csíkszentmihályi, the concept has been widely referenced across a variety of fields, but has existed for thousands of years under other guises.

A 1989 paper by Hamilton College sociology professor Daniel Chambliss offers a good example of the role that flow plays in achieving outstanding results. From January 1983 to August 1984, Professor Chambliss attended a series of national and international class swimming events conducted by United States Swimming Inc., the national governing body for the sport. He studied the prevalence and development of excellence in the sport cross-sectionally (looking at all levels of the sport) and longitudinally (over a span of careers). He found that true excellence had less to do with actual skill than with attitude. “At the higher levels of competitive swimming,” he writes, “something like an inversion of attitude takes place. The very features of the sport which the ‘C’ swimmer finds unpleasant, the top-level swimmer enjoys. What others see as boring – swimming back and forth over a black line for two hours, say – they find peaceful, even meditative.” This state of mind, which is the essential ingredient of flow, applies to individuals as well as teams. When people and teams take pleasure in working hard, they can enter a similar state of flow. And when outstanding companies are in flow, amazing outcomes that are often underappreciated by investors tend to result.

In conclusion, positive team dynamics is an important attribute of outstanding companies, as well as outstanding investment teams. A spirit of fairness and inclusion, effective feedback from leaders, and an attitude of continuous improvement are essential elements in the achievement of true excellence. Our goal at Victori Capital is to invest in extraordinary teams that exhibit these attributes, while pushing ourselves to the edge of our own abilities as investors, so that we, too, can reach beyond.

Best regards,

Victori Capital