

Showing Off or Laying Low? The Economics of Psych-outs

In many cultures, showing off your talent is not well-regarded - being modest is the norm. This is nicely illustrated by a variety of proverbs: “Cutting down the tall poppies” (Australia and New Zealand), “Je kop boven het maaiveld uitsteken” (the Netherlands), or “The nail that sticks out shall be hammered down” (Japan), just to name a few. Other contexts, such as Silicon Valley business culture, have few such proscriptions. Why do we observe modesty norms in certain settings, but not in others? Is a norm against showing off outdated or can it be beneficial in a modern society?

Utilising game theory

In my recent work with Philipp Denter (University Carlos III of Madrid) and John Morgan (University of California, Berkeley) we attempt to answer these questions by highlighting a trade-off between talent selection and effort motivation. Using a game-theoretical model, we first study what motivates an individual to show off their talent. Showing off typically happens before a competition; think of promotions in a firm, scholarships at school or sports. Not only humans show off – many animals engage in such behaviour before entering a fight, for example for a mate or territory. The point of showing off is to convince the opponent to compete less intensely. Whether revealing talent achieves that, depends on relative ability. When competitors turn out to be similar in ability, competition only becomes fiercer and thus more costly. For a low-ability competitor showing off appeases a stronger opponent. But everyone can pretend to be weak, and thus low ability competitors are not able to credibly reveal their type. It is the exceptional competitors who discourage---or psych out---competition by showing off and for whom showing off is relatively cheap, and thus a winning strategy.

With this in mind, we examine the economics of showing off from a societal perspective. We show that when society cares about aggregate effort expended in the competition, showing off should be strongly discouraged. In other words, workers on average work harder in a firm with a norm against showing off relative to one without. Our analysis thus reveals that such norms can be functional and create social value. By limiting opportunities to show off, society shuts down the channel of discouraging others to economise on effort.

Norms in different environments

But what about the Silicon Valley startups, did they get it wrong? In these settings, talent identification and retention determine success. We show that a norm against showing off is detrimental when selecting talent is the goal. Intuitively, showing off by a talented competitor psychs out a less talented opponent and thus lowers their effort which benefits selection efficiency. Thus, depending on how value is created, through aggregate effort or selection of the best, the same model of showing off can account for different behavioural norms.

A realistic assessment of one’s own talent underlies our previous argumentation. A prevalence of overconfident competitors, on the other hand, might dictate against a modesty norm even when aggregate effort is important. When a competitor is overconfident, showing off provides an additional benefit---it gives feedback as to the true ability and thus may help to correct the misperception.