

# Betting on the Crowd: The Intelligence of Diversity

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The power of diverse groups to make better decisions than non-diverse groups is one of the most potent ideas to come along in a generation and is currently in the process of upending the way business is conducted. From Google to Procter & Gamble – and much of the Fortune 500 in between – the collective wisdom of the diverse crowd is being applied to everything from search engines to R&D, and this only the beginning. Nowhere is the application of this notion more meaningful than in the area of organizational diversity.

### **An Outrageously Brief History of Diversity**

Once upon a time, diversity was something to avoid or hide from. Later, it became something to face up to and contend with. Later still, diversity was something to celebrate, in the tenuous and oddly codified sense of that word. And now, for a decade or more, it has become accepted wisdom that diversity is a good thing, an obviously good thing. But why?

The answer to that *Why?* has evolved over time. Diversity was born out of the understanding that avoiding discrimination, and being inclusive, is a moral virtue. It came of age in the era of the civil rights movement, and since then embracing diversity has been an indicator of progressiveness, of getting out of the ‘dark ages’. But in the world of business, being on the side of the angels will get you a nice pat on the back and a chilly shoulder unless you can show an effect on the bottom line. Thus, the birth of the ‘business case’ for diversity.

### **The Business Case Until Now**

The business case was brought into the world to be the hard-nosed justification for what had previously been simply doing the right thing. Although its manifestations are many, the arguments for the business case have typically fallen into four categories: 1) better PR and community relations; 2) staying on the right side of the law; 3) a happier workforce – more engaged, less likely to quit, more appealing to join, and; 4) employees mirroring customers – better understanding of, and relationships with, customers. Of these, three out of four (the exception being mirroring customers) echo a negative corollary, they have the whiff of fear. Don’t upset employees. Don’t upset your community. Don’t get sued.

Which is not to say that these arguments are not true. They are entirely true and one would do well to heed them. Still, they possess a certain aura of the rearguard action, a desire to minimize conflict instead of recognizing an organization's diversity as a profound advantage in the marketplace. Sadly, much of the struggle of diversity has been perceived as a matter of making lemons into lemonade instead of understanding that that yellow object is not a lemon, it is gold.

## What if?

What if there is a very specific and tangible reason that diverse groups perform better than non-diverse groups? What if the hard-nosed justification for diversity turns out to be identical to doing the right thing? That justification, simply put, is the inherent ability of diverse groups to make better decisions. This is an idea that has entered the popular consciousness over the last few years, in part from James Surowiecki's book *The Wisdom of Crowds* as well as the work of other authors such as Cass Sunstein and Howard Rheingold. What these authors have identified may be summed up as follows: a diverse group of independent voices, regardless of their knowledge and experience, will generally make better decisions than a non-diverse group or a group of experts.

This idea is so startling, and so counterintuitive, that it bears repeating. A diverse group of people, *any* diverse group of individuals, no matter what their experience, will generally arrive at a better decision than an expert, a group of experts, or another group of people who are *not* diverse. This is not speculation but fact, with plentiful data to support it. And the implications of this astounding insight for organizations are immense. It means that the diverse group of people within an organization constitute a readily available resource for that central activity in the life of an organization: making decisions.

What kinds of decisions? All kinds, from the simple to the highly complex. From *Should we have an open office plan or private offices?* to *Which products should we devote our R&D budget to?* The latter question was tested by Eli Lilly which used a prediction market, a kind of stock market for ideas, to see how a group of its employees would perform if asked to predict which of a group of six drugs would make it through clinical

trials. Needless to say, for a pharmaceutical company, drug development is a huge part of their budget, and being able to separate the winner drugs from the losers could save them a bundle.

For this test, Lilly created pre-clinical study profiles of six drugs which they gave to their test predictors and asked them to select which of the drugs would successfully complete clinical trials and which would fail. Lilly knew the actual outcomes, but the participants did not since the completed trial data had not yet been released. Based on limited data, then, they had to make the same decisions as any pharmaceutical executive about which drugs to invest in and which to abandon. They gave the test group the limited data and watched the results. Three up, three down – the diverse group chose the winners and ditched the others.

A classic illustration of the diversity decision making phenomenon in action is sports betting. Let's look at horse betting. The bookie sets the odds by bringing together the collective wisdom of all the bettors. It's a very diverse group of people, some of whom know something about horses, some know nothing about horses, and some think they know something but know nothing. But every person who puts down a bet has an equal voice in setting the odds. It's not the experts who decide. It's not the ones who went to Princeton's Advanced Institute for Gaming Studies. It's everyone, everyone present, and the aggregate of all those opinions – of which horse is going to come in first, second and third – all of that determines the odds. And it is against that collective wisdom of everybody that the individual bettor has to bet. And yet, while the bookie wins, the bettors, on average, lose. Not always, of course, sometimes they win. Maybe because they're smart, or because they're lucky, but usually because they bet with the crowd. Sometimes they win because the crowd is small or not diverse. Surowiecki points out that professional gamblers' best chance at making a lot of money is when events have few bettors, such as a small-college basketball game, and they can more easily beat the odds. But day in, day out, the *diverse* crowd will beat even the savviest of bettors.

So, what is this next leap in the evolution of diversity? It is integrating this extraordinary gift of the diversity decision making phenomenon into the organization. And there it is: the hard-nosed justification for diversity – better decision making, a better organization, and better performance – which turns out to be identical to doing the right thing.

### **Does this mean that decision making should be based on a popular vote?**

No. Recognizing and taking advantage of the “wisdom of crowds” does not mean that the authority for decision making devolves to the crowd. Rather, it means that the diverse group becomes a resource, an engine of decision making wisdom, accessible to decision makers.

In the conventional model, managers make decisions while those below execute the decisions. Hopefully, the manager is enlightened and consults the people he or she works with to inform the decision, but that is hit or miss. In the new model, the input of the diverse group becomes the norm. The manager sees his or her role as including the bringing together of the collective wisdom of a diverse group in order to inform the decision. In the end, the managers’ role is not usurped, they still have the same decision making authority they always had – they still have to make the decision – but they have been given a better tool to make decisions. Think of it as another item on the forecasting spreadsheet.

### **How does this knowledge change the way diversity is tackled in organizations?**

It means you promote diversity not because you’re virtuous but because you’re ambitious. In truth, most people like the idea of diversity, would prefer to do the right thing, and are not generally driven by bigotry or conscious bias. But true diversity has been excruciatingly slow to take hold, in part because it has been depicted as a desirable but unaffordable extravagance: the lovable loser in a real life sparring match between virtue and commerce. The business case, until now, has been the genial peacemaker, standing between the two and asking why we can’t all just get along. But the insight that diverse groups are better decision makers overturns the assumptions of incompatibility, it calls off the fight between the equitable and the profitable.

The beauty of this understanding is that it allows for an entirely new approach to promoting diversity in an organization. Instead of trying to change people's behavior, you are changing their relationship to diversity – it is no longer a struggle but a process. A process that requires everyone's participation, while benefiting everyone. And in the end, behavior is more likely to change when people understand that diversity, regardless of its social benefits, is advantageous to the organization and to everyone in it, including themselves.

To understand why you need diversity, consider what happens when you don't have it. Cass Sunstein points out a curious feature of deliberative groups that people who hold similar opinions tend to reinforce one another and produce more extreme positions. And not only does the group move toward a more extreme position, but the opinions of the individuals within the group become more extreme. In fact, like-mindedness pushes the group toward greater homogeneity and suppresses whatever diversity may be present. This tendency has dangerous implications for an organization that depends on a non-diverse group of decision makers. It suggests that in the absence of diverse groups you are not only missing out on the chance to make better decisions, you are actually engaging in worse decision making.

The goal of diversity, then, becomes an exercise in gaining the benefits of an asset you never even knew you had – the latent diversity within your organization – like suddenly discovering your car has six gears when you thought it only had three. Which brings us to the heart of the matter: how do you make diversity work its magic?

### **How do you integrate the benefits of diversity into an organization?**

You need to do two things: *implement* diversity and *activate* diversity. Implementing diversity means retaining a good mix of people at all levels of the organization – having a team of people with different experiences and different strengths. Activating diversity means creating a workplace that brings out the advantages of having a diverse group – giving that team a chance to do its thing. It's like baking a cake. First, you need the right ingredients, and then you need an environment that will make the ingredients do something special.

Fortunately, implementation does not mean starting from scratch; most organizations already possess quite a bit of diversity in their workforce, although the distribution of that diversity may need some work. The other piece of good news is that activating diversity does not require a radical realignment process, it doesn't mean turning the organization on its head, nor does it require getting the organization on the couch for a round of soul searching.

### **What does activating the diversity within an organization require?**

Activating diversity means developing an environment where the value of diversity as an engine of decision making and new ideas is assumed and becomes built in to the culture. Primarily, this requires educating people within the organization about how and why diverse groups make better decisions so that they understand both the phenomenon itself and how to put it into practice. It also means developing processes to access group opinions within the organization. To some extent, these processes will emerge when people are encouraged, and allowed, to participate in decisions. Given the opportunity for participation, people in the organization jump at the chance, they want to be part of action, they become engaged in the direction and success of the organization. Where processes don't exist, they will invent them. Once placed into the system, the attractiveness and power of the diverse group to produce sound and innovative answers to questions both simple and complex becomes a viral phenomenon.

But this activation of diversity requires fostering an environment that is inclusive and genuinely welcomes all opinions. In the larger sense, activating diversity means asking people to give more of themselves, to offer their best ideas, their most creative and thoughtful qualities. Just the opposite of the "going along" culture, where you keep most of yourself hidden, concealed behind a veneer of competence and doing only what is necessary. Activating diversity demands more of everyone and offers real participation in return.

Fortunately, activating diversity dovetails well with existing diversity initiatives since these programs are aimed at developing an inclusive environment. A workforce that has already been primed to the benefits of an inclusive work environment and valuing

diversity will find it particularly easy to embrace the power of a diverse group to generate better decisions. Promoting diverse group decision making may also be undertaken gradually rather than all at once, preferably starting with a part of the organization that is already substantially diverse. From there, it's efficacy can demonstrated and migrated to other parts of the organization.

Over the last decade, the power of diverse groups has transformed the business landscape and driven the success of the Web. The search results produced by Google, the Britannica-trouncing content of Wikipedia, the accessibility and accuracy of Yahoo Answers, the ranking of Web content by Digg, all of these and many other web sites are based upon wise crowds. Amazon uses a diverse group, its customers, to create product recommendations. And Linux, a program created by a scattered and diverse mob of unpaid hackers, is the only operating system in the world to seriously challenge Microsoft's server dominance. Meanwhile, companies like GE, Best Buy, Google, Microsoft, Hewlett-Packard, and Corning are using internal prediction markets to answer questions from *Who will buy our products?* to *How much will memory chips cost in the next quarter?* Even the legendary R&D group at Procter & Gamble have adopted *crowdsourcing*, bringing the minds of tens of thousands of scientists, engineers, and entrepreneurs from all over the world to help them brainstorm and innovate. More than a third of P&G's ideas now originate from diverse groups outside the company while their R&D productivity has increased by 60%.

The power of diverse groups has become a central feature of the new economy, and now it has migrated to the most logical place imaginable: the organization itself.