The Difference That Difference Makes
– Summary of Key Ideas –

1. DIVERSITY IS LIKE A SPEED BUMP
Business gurus often talk about how diversity can spark creativity and innovation. Diversity, they tell us, is supposed to be something beautiful: Different people come together to learn from one another and create an inclusive team that’s more than the sum of its parts. Everyone brings something special to the table, and the collaboration of unique individuals leads to amazing new ideas. But it turns out that diversity is often more painful than beautiful—and that’s exactly why it’s so valuable in complex environments. It helps because it makes things harder.

To understand why, consider how the lack of diversity affects us. Psychologists have found that we tend to trust the judgment of people who look similar to us. As a result, homogeneous groups reduce tensions and make for smooth, effortless interactions, which is not necessarily a bad thing. It can be easier to get things done when we are confident that we can rely on our peers’ judgment. But it turns out that homogeneity makes things too easy. It leads to too much conformity and not enough skepticism.

Diversity, in contrast, is less familiar and feels less comfortable. It’s a potential source of friction. And that makes us more skeptical, more critical, and more vigilant. When we are on a diverse team, we don’t trust each other’s judgment quite as much, so we’re able to call out the naked emperor. And that’s extremely valuable in complex, multifaceted, unforgiving contexts—exactly the kinds of environments that the governing bodies of public entity pools need to navigate. When small errors can be fatal, giving others the benefit of the doubt when we think they are wrong is a recipe for disaster. Instead, we need to dig deeper and stay critical. Diverse groups help us do that.

In other words, diversity is like a speed bump. It makes us work harder, snaps us out of our comfort zone, and makes it hard to barrel ahead without thinking.

2. PROFESSIONAL DIVERSITY IN GOVERNING BODIES
A recent study that tracked 1,300 community banks over two decades has found that banks with many bankers on the board were more likely to fail than banks whose directors had come from a wider range of backgrounds: not just bankers but also, for example, lawyers, doctors, retired civil servants, military officers, and nonprofit professionals. Though some of these backgrounds have little to do with banking, diversity in expertise helped banks survive even the global financial crisis. The research revealed three things that diverse boards had going for them:
• **Flexibility.** Homogeneous boards often became deeply entrenched in particular ways of doing things; diverse boards were more flexible in responding to new information and unfamiliar situations.

• **Skepticism.** Homogeneous boards tended to be overconfident; people on diverse boards were more skeptical and often responded to risky proposals by saying “We are not going to make a decision today because you didn’t give us enough information to make the decision.”

• **Productive conflict.** As one CEO explained, the problem with homogeneous boards that were dominated by experienced bankers is that “everybody respects each other’s ego at that table, and at the end of the day, they won’t really call each other out.” On a diverse board, in contrast, “when we see something we don’t like, no one is afraid to bring it up.” On diverse boards, in other words, there was a lot of friction: the directors questioned each other’s judgment and took nothing for granted. Bankers didn’t speak the same language as doctors and lawyers, so even “obvious” things had to be explained and debated. Diversity ensured that the board members didn’t work together too smoothly.

3. **GENDER AND RACIAL DIVERSITY IN GOVERNING BODIES**

Gender and racial diversity on boards have remarkably similar effects. For example, research shows that companies that lack gender diversity on their board of directors are more likely to issue financial restatements—revisions of their previous statements due to error or fraud. A financial restatement is an embarrassing failure and might shake investor confidence, and even a small increase in gender diversity makes it less likely that a restatement will be needed. Why does diversity have this effect? As accounting professors Larry Abbott, Susan Parker, and Theresa Presley put it, “A more diverse, less cohesive board may be more likely to question assumptions and inquire as to the comparability of accounting with industry practice, resulting in more in-depth discussion and slower decision-making. These actions are consistent with board gender diversity reducing groupthink and leading to an improved monitoring process.

4. **IMPLICATIONS FOR THE GOVERNING BODIES OF PUBLIC ENTITY POOLS**

There are some inherent limits on the extent to which the governing body of a public entity pool can recruit for diversity; for example, the board of a pool of school districts cannot recruit board members from a wide range of professional fields (e.g., journalism, non-profits, medicine, high-tech, etc.), and a Minnesota-based pool can’t just add board members from, say, California, South Carolina, and Rhode Island to foster geographic diversity.

But pool governing bodies do have other opportunities to increase other aspects of diversity:

• Demographic diversity
• Diversity in urban/rural representation
• Diversity in the size of entities represented (i.e., a small/large entity mix)
• Diversity in length of experience in public entities
• Role diversity (e.g., elected versus appointed officials)

In addition to changing their internal composition, a pool’s governing body can look for diverse cognitive input from external sources, too. This might be accomplished, for example, through:

• Ongoing conversations with other governing bodies across the country
• Board exchanges (e.g., inviting people from another pool’s governing body at a retreat or strategic planning meeting to provide input as informed, but unbiased, external observers).
• Looking to organizations in other—even distant—fields for ideas (not for mindless imitation but thoughtful adaptation). Research shows that this can be a crucial source of cognitive diversity, fostering the development of novel and useful ideas.

5. FURTHER READING


