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Google employees trade on optimism

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A recently released study of trades undertaken in an internal predictive market in place at Google surfaced a quantifiable can-do spirit among the company's employees.

Analyzing the predictive market trading behavior of 1,463 participating Google employees from April 2005 to September 2007, Justin Wolfers and Eric Zitzewitz, economists at Wharton and Dartmouth, respectively, along with Google economic analyst Bo Cowgill, found that "internal markets overpriced securities tied to optimistic outcomes by 10 percentage points."

Meaning, in essence, that participating Google employees were, on the whole, willing to pay a 10 percent premium to place a bet on success.

[[PDF download: "Using Prediction Markets to Track Information Flows: Evidence From Google"](#)]

Part of a larger trend attempting to glean insight from the wisdom of crowds, predictive markets allow participants to perform trading-style transactions on the outcome of various short- and long-range conjectures. Participants are given tokens -- in Google's case, "Goobles" -- to place bets. The flow of this currency is believed to provide a credible prediction engine for future events -- more accurate, some believe, than knowledge gleaned from polls and surveys. Much of this accuracy is attributed to the assurance of vested participation in the form of financial compensation for individual participants' predictive accuracy -- for Google, this took the form of a \$10,000 prize budget pool per quarter.

[[For a deeper look at predictive markets and crowdsourcing, see "Mob wisdom means business"](#)]

Google's market, which the authors believe is the largest such company market in operation, has been up and running for four years. Similar markets are under way at Abbott Labs, Arcelor Mittal, Best Buy, Chrysler, Corning, EA, Eli Lilly, Frito Lay, GE, HP, Intel, InterContinental Hotels, Masterfoods, Microsoft, Motorola, Nokia, Pfizer, Qualcomm, Siemens, and TNT, according to the authors of the report.

Conjectures ran the gamut, from demand forecasting (number of Gmail users at the end of a particular quarter), performance (Google Talk quality rating), company news, industry news, decision markets (will users of feature A use feature B more), to plain-old fun (how many rotten tomatoes will Star Wars III get?).

In all, 270 such "markets" were opened at Google, each with between two and five bet outcomes.

Participants in the Google market, who were more likely to be programmers at the Mountain View campus, exhibited a bias toward outcomes linked to a positive outcome for Google. Moreover, the economists found a measurable correlation between bullish predictive market behavior the day after Google's actual stock price experienced a better-than-average boost.

According to the economists, such optimism is akin to what is known as the "entrepreneur's curse," in which "firms are started by those most overly optimistic about their prospects." Such optimism, the authors conjecture, is desirable for leaders and employees in such environments, as it generates motivation, leads to risk-taking, and "makes employees cheaper to compensate with stock options."

Optimism, according to the study, was correlated most prominently with more recent hires, as experienced employees tended to be less likely to overspend on optimistic outcomes.

Also of note from the study was a correlation of like-mindedness with physical proximity, as strong correlations in trading were found among employees with 10 to 20 feet of one another in a shared office setting, suggesting that being on the same page means being in the same environs.

Moreover, trading correlations were also found among employees sharing the same "three-levels-below-SVP" manager, which at Google, usually means working on the same broad set of products, according to the authors of the report.

Analysis of holdings and trading activities is used to determine how an organization processes information.

Interestingly, the authors did not find friendship to be a strong correlation factor in Google's predictive market. Apparently, work-farm architecture and workforce organization have a demonstrable effect on siloing information.

Organizations looking to foster cross-departmental collaboration, take note.

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