

THE WISDOM OF CROWDS

**Why the Many Are Smarter than the Few
and How Collective Wisdom Shapes
Business, Economies, Societies and Nations**

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MAIN IDEA

Collective thinking (“the wisdom of the crowds”) always outperforms the individual brilliance even of highly skilled people like CEOs and business leaders. Large groups of people – when thinking and acting collectively – always make better decisions, come up with better breakthroughs, solve difficult problems and predict the future better than any one individual can match.

This concept is counterintuitive because we live in an era when the expert is highly regarded. Even when a crowd of people collectively comes to a wise decision, we more inclined to attribute the crowd’s success to a few smart people within the group rather than the crowd itself being able to act so intelligently. This line of thought, however is flawed. Instead of endlessly hunting for an expert that has all the answers, we should spend more time asking the crowd. Instead of anticipating that groups will be dumbed down to the capacity of its weakest member, we should expect that a diverse crowd of people will always come up with a collective decision which is superior to that of any one individual, no matter how smart that person may be.

The lesson is simple. When you need an intelligent decision, don’t look for a guru. Find out what the crowd is saying. The crowd is always more likely to come to a better decision.

1. What is collective intelligence? Page 2

Collective intelligence refers to the ability of a group of people to come to a joint decision which is smarter and better than any one individual – even an expert – could produce acting alone.

Case Study #1 – The space shuttle *Challenger* disaster

Case Study #2 – Finding the *USS Scorpion*

2. What kinds of problems can collective intelligence solve? Page 3

Collective intelligence works with equal effectiveness on three kinds of problems:

1. Cognition – problems with definitive solutions.
2. Coordination – problems that require people to sync behavior.
3. Cooperation – problems requiring people to work together.

Case Study #3 – NYSE CEO Richard Grasso

Case Study #4 – The Linux operating system

3. What’s required for a crowd to be wise? Page 4

For a crowd to be smart, it must satisfy four key conditions:

1. There must be diversity of opinion amongst the people.
2. Each person must come to their own independent solution.
3. There must be decentralization of thought.
4. Some mechanism for making an aggregate decision exists.

Case Study #5 – The history of the U.S. automobile market

4. What are the practical applications of collective intelligence? Pages 5 - 8

1. Collective intelligence and traffic jams

How do you make inner cities less congested and keep freeways moving smoothly? Collective intelligence suggests the use of “congestion pricing” and simple traffic flow management techniques.

2. Collective intelligence and science

Science is a collective activity – advances in many fields are made regularly even though no one is formally in charge. The reason this occurs is because scientists publish their findings and share their discoveries, making it possible for others to collaborate with them. This is a prime example of collective intelligence in action.

3. Collective intelligence and committees

Society uses committees and small groups of people all the time to make important decisions. Criminal cases are decided by juries, boards of directors shape corporate strategy and people spend many hours in meetings. The challenge is to structure things so the collective wisdom of the group can be harnessed rather than suppressed.

4. Collective intelligence and corporations

Who make the major corporate decisions? If this power is vested solely in the CEO, the corporation will be failing to harness the advantages of collective intelligence. The real challenge for corporations is finding workable ways to let collective intelligence get harnessed rather than wasted away.

5. Collective intelligence and markets

Are stock markets smoothly functioning and efficient? Economists hope so, but in the real world, there are too many additional complicating factors that come into play. Consequently, markets don’t always accurately reflect or measure true value.

6. Collective intelligence and democracy

Democracy allows a single collective decision to be made about important social issues which affect everyone in a society. The decisions made in a democracy may or may not accurately reflect the wisdom of the crowds, but the decision to make them democratically certainly does.

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