Penguin Effect

Idea In Short

The penguin effect is a term from crowd psychology that suggests that penguins and humans apparently wait for one victim to start doing something before join in.

Reid Hoffman understands professional social networks. As the co-founder of LinkedIn, he is an inarguable expert in the formation and dynamics of social networks. According to him:

> If you are seeking opportunity you are really seeking a person

The Penguin Effect is a network effect that describes wait and see attitude among the population. In a network, the early users usually have little benefit as first-movers because other users are not participating. The network becomes more valuable as more people use it1. As a result, companies and crowds will delay action till somebody takes the 1st step. Therefore, mobilising the first user is the 1st challenge that consultants should tackle. Subsequently, once the critical mass is achieved, then the bandwagon effect kicks in.

Phenomenon

Penguins have a shockingly utilitarian behaviour that keeps them safe from their predators. But, before they jump into the frozen waters to fish, they jostle each other to the edge of the ice. This is a gradual and hesitant shuffle. As an unfortunate front-line penguin slides to the precipice, the group nudges its comrade into the water. The penguin then falls into the freezing waters underneath and the group waits. The involuntary participant surfaces and swims about, happy at having not been eaten by a predatory whale. To the group, this indicates that there are no hungry killer whales under the surface. So, they all jump in and the mass fishing begins. Contrary to Bandwagon Effect, Harvard Business School Professor Tom Eisenmann explains:

> Economists Joseph Farrell and Garth Saloner labeled this scenario "excess inertia," and more colloquially, the "penguin problem." Hungry penguins gather at the edge of an ice floe, reluctant to dive into the water. There is food in the water, but a killer whale might be lurking, so no penguin wants to dive first. In such circumstances, individual rationality may lead a group to forfeit attractive opportunities, for example, a predator-free meal or an innovative new networked product.

Example

Suppose two companies A & B share 30% and 40% of the market, respectively. Company A can either choose to hold its market share or increase it by launching new products and options to customise those. However, this strategy is expensive and doesn't guarantee success because company B emulate the same strategy. Therefore, Company A is better off to wait for a window of opportunity and, subsequently execute strategies that Company B cannot replicate.

3C Framework

Translated to consulting, client expectations determine whether your recommendations will be implemented. The 3C framework helps consultants spur action when they face a deadlock situation.

Cognition

In an engagement, consultants should understand the stakeholders involved and their expectations. Stakeholders are those who have a vested interest in your findings. Depending on their political proclivity and stake in the outcomes, they will either amplify or discount your findings. Those that find merit in your findings will support change, while those that share a counter-view might underplay your findings, your analysis, reasoning or approach. Therefore, consultants should be conscious of the power distribution and political landscape at the clients they consult at. For example, your findings may may support closing an office in a different geography and re-assigning employees to a different office. The headquarters may view this positively in terms of cost savings. However, the regional stakeholders may challenge your recommendation and highlight need to service customers locally from that office.

Coordination

Coordination involves influencing and channeling team behaviour to exact decisions and actions, also unpopular ones. Consultants should understand the client's organisational structure, culture and power distribution to call for actions and to expect reactions from the stakeholders. Building on the above example, consultants may co-ordinate activities among internal stakeholders to assuage stakeholders' concerns. They may perform additional analyses, both at the headquarters and the regional offices. Subsequently, they will co-ordinate with stakeholders to both, deliver cost savings as well as enhance customer service and may propose the Target Operating Model for a hub and spoke model.

Collaboration

Subsequently, you should identify individuals that could catalyse and spearhead change. Once you've identified these individuals, you enable them with tools, insights, best practices, and other artefacts to succeed. Usually, external consultants are not called upon to actually implement change. Nevertheless, you should collaborate with these individuals across the project phases and set them up for success. This way, you could secure their trust and be a part of their success, which is what professional consulting is all about.

Summary

- Identify the first mover / advocate / challenger. This is, usually, the one with the most stake for change
- Most probably, the initiator has considered alternatives and ascertained that yours is the best course of action
- If no other alternatives exist, then succumb to the competition. This may, perhaps, the best next alternative.