

## How Influence Is Transmitted (And “manipulates” a market, intentionally or otherwise)

History is rife with examples of how small groups of people exerted influence over many. It’s a social phenomenon that is so pervasive as to be seen as commonplace. That is especially true when it happens in a low-key way without being noticed. Creeping influence becomes accepted as the norm, which makes it more powerful and more difficult to recognize—let alone change.

We all have experienced that peer group pressure is a part and parcel of what can happen when you get small groups of people closely interconnected and (mostly) interdependent with each other. We also know that these are the spots where peer group pressure is greatest; that is, peer pressure to conform to the influence of others.

Our software uniquely finds these peer group pressure “hot spots” and delivers targeted marketing messages that leverage the pressure and maximize the effects and marketing ROI.

Such small groups are in fact the “engines” of influence. They often serve to structure our local and personal information environment. “Change” may be in the wind; however, very often instead the result will be a creeping conformity pervasively (and almost imperceptibly) spreading to many more people. From an analytical perspective, the heritage for this field of research is called Social Network Analysis (SNA).

The principles of SNA serve to underpin the software I developed.

This is the story that drove me to want to understand how and why the phenomenon happens. This personal experience was how I first found out about these principles, which became drivers for developing the software.

In the 1960s and ’70s, the wool industry was the number-one financial earner for Australia. As the saying went, Australia “rode on the sheep’s back.”

At the time I was a jackaroo. A jackaroo is an apprentice to become a manager of a large sheep or cattle property in the Outback. It was hard work in a rough and tumble environment, but it was filled with good times.

Camaraderie was essential, since the Outback is a vast, unforgiving stretch of brown land.



**Principle #1: It's comfortable.** People talk mainly to like-minded people. It's easier that way; it's friendlier. In a small country town most of the people you know also know one another. Therefore, they tend to share views; similar information is circulated around and around. That is not to say that they do not have differences of opinion. Differences do occur, but they tend to be variations of opinion on the same themes rather than distinctly different perspectives. It is easy to go along with the currently held views. That's not because of a rational decision to do so. It's because the information environment is such that one can hardly be exposed to any other view—at least, not consistently or persistently. It is not necessarily a cop-out; it is just the way most of us let things happen. And it makes for an easier, more pleasant life: Your cherished views are nurtured and supported far more often than they are challenged.

But take note: This tendency is not limited to close-knit rural communities. It's everywhere. Wall Street talks to Wall Street, geeks talk to geeks, homemakers talk to homemakers, kids talk to kids, scientists talk to scientists, and so on. You can find anecdotal evidence just by scanning your Internet bookmarks or scrolling through your Twitter feed. Chances are good that you've selected news sources and established connections with publications and people who share and reinforce your own views.

Having joined a "community of interest," all looked well for the present. The people in my area knew me. They were almost extensions of me. We played tennis together, we went to parties together, we played football together, we went to the same bars together—and so on, frequently. All these activities strengthened our bonds of commonality. We shared the same ideas. In fact, the term "we" meant that we shared the same people. The contacts of any one of us were also the contacts of each other. We were a very tight and highly supportive little community.

**Principle #2: Suffocation.** In hindsight it is easy to see the dangers. The tightly knit community was so supportive that it was stifling in terms of development. It nearly suffocated me. I was like a horse wearing blinkers—I had almost no peripheral vision. I was hemmed in to particular ways of viewing the world and understanding who I was and what life was supposed to be about. The frightening thing is that the community was so close and supportive that it was blinding.

I had to get out of the community, but I couldn't recognize that fact. I was lulled into its ease, convenience, and friendship. It took me a while to realize that it was uncomfortably comfortable.

At the time, my mother frequently insisted that I enroll in a university course (by correspondence since I lived in the Outback). "University?" I said. "You have to be kidding!" To keep her quiet, I took the minimum number of courses. (I eventually earned a Ph.D., but that came later.) It was nearly impossible to carve out study time given my demanding schedule of sports and revelry. Fortunately for my future, my mother's persistence shamed me into completing a bachelor's degree.

While I was a reluctant student at first, somewhere along the way I began to see the light. I realized I had been a big fish in a small pond. While I liked my "big fish" status, that small pond limited me. I would never grow until I jumped up into a bigger pond. I loved my small community, and I still stay in touch with good friends and value the relationships I had. But the pond was so still and cozy that it was suffocating.

**Principle #3: Conservatism.** The close-knit network didn't just promote comfort and stifle individuality. It also prevented innovation and the opportunities to adopt new methods. On a stud sheep property, the stud master (also called a classer) is the judge and arbiter of what bloodlines will be developed and nurtured and the particular features that will be emphasized across the years through selection of appropriate stock. What will keep the wool industry prosperous—straight backs? Wide horns? “Bright” wool?

I was curious as to how the selection criteria evolved. What sources of knowledge did the masters tap in order to decide the future of Australia's top export earner?

I recall most vividly the late Harry O'Brien, for whom I had great respect and even awe. He was one of the nation's top stud sheep classers, always telling me, “Hit him with the raddle, boy!” That meant that I had to mark a ram with a piece of colored chalk to show the ram as accepted or rejected. All too often, it seemed to me, a ram was accepted if it had features such as a “bright eye” or a “good upturn in the horn.” Gradually, it dawned on me that those features were only tenuously connected to the *business* of growing wool. Surely the length, color, and quality of wool were at least as important as look in the eye or curl of the horn. But that wasn't the case, because it simply wasn't the way of doing things—and innovation was stifled in such a tight community with such established ideas and traditions.

**Principle #4: Peer pressure.** The top sheep from the various studs were regularly exhibited at sheep shows in big cities. Stud masters congregated there and most often (you guessed it) talked with other stud masters. This habit had a reinforcing effect at the top of a national industry as to what were “correct” and “incorrect” features. Simultaneously, it served to prevent alternative views from gaining a foothold. From the vantage point of hindsight it is obvious that the net result was the development of a self-congratulatory cocoon that was difficult to penetrate with logic. The peer pressure between the top people in the industry<sup>1</sup> was largely unintentional but nevertheless powerful. Nonconformist views were not even entertained.

One nonconformist idea that could not penetrate the inner group (but made sense to me) was the practice of fleece measurement (where small samples are sent to a laboratory and scientifically tested for fiber strength and quality). A particular university had been trying for years to get the practice established in the industry. In the Outback, however, even if such an idea had managed to get through, it would have been summarily dismissed. (In fact, the ideas that did get through were stamped out quickly: “A bunch of boffins, what would they know!”).

The strategy of improving wool by selecting for “curl in the horn” was sanctioned by the personal network structures (small groups, tightly knit) of stud masters mainly sharing opinions with and seeking advice from other stud masters. These structures so strongly reinforced existing views that other approaches to influence could hardly get a look-in. In a sense, the structure dictated the strategy rather than the other way around.

As a result of this behavior, rams that conformed to the set of features that a very small number of people had deemed “correct” went for top prices at the auctions throughout the country. High

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<sup>1</sup> Akin to what is called groupthink (see <http://en.wikipedia.org/wiki/Groupthink>)

prices were paid, bloodlines with heritage were maintained, and innovation slowed or stopped altogether.

In this case, influence transmission manipulated the market, however unintentionally. The net effect was that the Australian wool industry (while it did make progress) potentially made significantly less progress than it would have if everyone involved had better understood the exertion of a small group of people's influence over others<sup>2</sup> and thereby the whole industry and market.

**Principle #5: Influence transmission.** Influence does not and cannot flow like water. However, influence does "flow" (leaving it in quotation marks). Somehow or other, via peers who associate with other peers influencing each other in smallish groups of like-minded people, influence *does* get transmitted.<sup>3</sup>

This is true for many cases we can cite. For example, at one end of the spectrum is the Jonestown massacre. Though dubbed a "massacre," what transpired at Jonestown on November 18, 1978 happened willingly to a large extent, making the 900-person mass suicide all the more mysterious and macabre. At the other end of the spectrum, the most everyday and simple behaviors often result from peer groups exerting subtle influences over many people; which jeans to wear, movies to see, or restaurants to visit. There is no denying it: We are social animals.

Wall Street and other stock markets are places where the social takes hold. Many people's behavior results not only from individualistic and quasi-rational decisions, but of influence transmitted subtly or otherwise by a few like-minded and self-congratulatory top industry folk who act in a way rather contrary to market logic. The ebb and flow of peer pressure between those in the top echelons of an industry, as in the Australian wool industry, may be largely unintentional and almost playful, but it is nonetheless a force with a powerful outcome.

Similar principles apply across human behavioral contexts. The logic is similar, as are the analytics underlying the logic. How does influence between people get transmitted? What and where are the social and peer group pressures? Who will be the *next* person we can accurately predict to be influenced, and why them?

The sequel to this story is that fleece measurement and wool testing eventually did gain widespread acceptance. It had to; it was the logical way to go. But it took 20 years and a new generation of people at the top of the industry. I had left by then.

Fortunately, I took the experience and lessons with me and sought with great passion to apply the principles I had learned to build a set of new software solutions. For many years I applied the software to predicting criminal behavior ("Who should we *next* take out to have the greatest effect?"). Now it's used to predict marketing behavior ("Who should we *next* direct our advertising messages to for greatest effect?").

I know this works because it is proven. I hope you can reap the benefits of following an old jackaroo's experience.

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<sup>2</sup> Abstractly a cartel, but far less obvious than that.

<sup>3</sup> Technically called "transitive" relationships, in this case between like-minded people who tend to support and reinforce the same or very similar viewpoints among each other and thereby influence what becomes the accepted or normative way of thinking and acting by them and others with whom they are socially connected.