

The Facts Of Luck

Jun 11, 2012 – Michael Mauboussin

One of the greatest computer programmers of all time grew up near Seattle. He saw an upstart company, Intel, making computers on a chip and was among the first people to see the potential of these so-called microcomputers. He dedicated himself to writing software for the new device and, by one account, “wrote the software that set off the personal computer revolution.”

In the mid 1970s, he founded a company to sell software for micro-computers. In the early history of the company, “the atmosphere was zany,” and “people came to work barefoot, in shorts,” and “anyone in a suit was a visitor.” But the company was soon highly profitable, and by 1981 its operating system had a dominant share of the market for personal computers that used Intel microprocessors.

For all of its early triumphs, the company’s watershed moment came when IBM visited in the summer of 1980 to discuss an operating system for its new PC. After some negotiation, the two companies struck a deal. In August 1981, retailers offered the company’s software alongside the brand new IBM PC, and the company’s fate was sealed. The rest is history, as they say.

In case this story’s not familiar, here’s the ending. This pioneer of computer technology entered a biker bar in Monterey, California, on July 8, 1994, wearing motorcycle leathers and Harley-Davidson patches. What happened next is unclear, but he suffered a traumatic blow to the head from either a fight or a fall. He left under his own power but died three days later from the injury, complicated by his chronic alcoholism. He was fifty-two years old. He is buried in Seattle and has an etching of a floppy disk on his tombstone. His name is Gary Kildall.

You’d be excused for thinking that the first part of the story is about Bill Gates, the multibillionaire founder of Microsoft. And it is certainly tantalizing to ask whether Gary Kildall could have been Bill Gates, who at one point was the world’s richest man. But the fact is that Bill Gates made astute decisions that positioned Microsoft to prevail over Kildall’s company, Digital Research, at crucial

moments in the development of the PC industry.

When IBM executives first approached Microsoft about supplying an operating system for the company’s new PC, Gates actually referred them to Digital Research. There are conflicting accounts of what happened at the meeting, but it’s fairly clear that Kildall didn’t see the significance of the IBM deal in the way that Gates did.

IBM struck a deal with Gates for a lookalike of Kildall’s product, CP/M-86, that Gates had acquired. Once it was tweaked for the IBM PC, Microsoft renamed it PC-DOS and shipped it. After some wrangling by Kildall, IBM did agree to ship CP/M-86 as an alternative operating system. IBM also set the prices for the products. No operating system was included with the IBM PC, and everyone who bought a PC had to purchase an operating system. PC-DOS cost \$40. CP/M-86 cost \$240. Guess which won.

But IBM wasn’t the direct source of Microsoft’s fortune. Gates did cut a deal with IBM. But he also kept the right to license PC-DOS to other companies. When the market for IBM PC clones took off, Microsoft rocketed away from the competition and ultimately enjoyed a huge competitive advantage.

When asked how much of his success he would attribute to luck, Gates allowed that it played “an immense role.” In particular, Microsoft was launched at an ideal time: “Our timing in setting up the first software company aimed at personal computers was essential to our success,” he noted. “The timing wasn’t entirely luck, but without great luck it wouldn’t have happened.”

Making Your Own Luck

Since luck is intimately intertwined in all of our lives, it comes as no surprise that there are plenty of aphorisms that address luck:

- “You make your own luck.”
- “Luck is what happens when preparation meets opportunity.”
- “I’m a great believer in luck, and I find the harder I work, the more I have of it.”

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Preparation and hard work are essential elements of skill. They often lead to good outcomes. But the aphorisms don't really address what's happening. If you prepare and work hard, you are successful not because your luck improves. Luck doesn't change at all. Only your skill improves. And you can work hard and prepare and build the best American diner on Route 66 just when the Interstate highway bypasses your town and puts you out of a job.

There's another popular argument that says you can't get lucky unless you get in luck's way. For example, you can't win the lottery unless you play. On one level, of course, this is true. But it glosses over two important points. Luck can be good or bad. While winning the lottery does seem like good luck, it's hard to say that losing the lottery is bad luck. Losing the lottery is expected. Lotteries are designed to take in more money than they dole out, so they are a loser's game in the aggregate. The main issue is that putting yourself in a position to enjoy good luck also puts you in a position to lose.

The other point is that the very effort that leads to luck is a skill. Say that you need to complete ten interviews with prospective employers to receive one job offer. Individuals who seek only five interviews may not get an offer, but those who go through all ten interviews will have an offer in hand by the end of the process. Getting an offer isn't luck, it's a matter of effort. Patience, persistence, and resilience are all elements of skill.

The best-known advocate for the idea that you can create your own luck is Richard Wiseman, a professor at the University of Hertfordshire who holds Britain's Chair in the Public Understanding of Psychology. Wiseman's investigations are offbeat and fun. For example, he conducted a "scientific search" for the world's funniest joke. (The winner: Two hunters are out in the woods when one of them collapses. He doesn't seem to be breathing and his eyes are glazed. The other guy whips out his phone and calls the emergency services. He gasps, "My friend is dead! What can I do?" The operator says, "Calm down. I can help. First, let's make sure

he's dead." There is a silence, then a shot is heard. Back on the phone, the guy says, "OK, now what?") He also argues that he has found "a scientifically proven way to understand, control, and increase your luck."

Wiseman collected a sample of hundreds of individuals and had them rate themselves on their beliefs about luck. He then sought to explain "the different ways in which lucky and unlucky people thought and behaved" and identified the "four principles of luck." The principles include maximizing your chance opportunities, listening to your lucky hunches, expecting good fortune, and turning bad luck into good. Wiseman's research is unfailingly lively and provocative and he comes across as an energetic and intellectually curious man. Unfortunately, good science this is not.

In one experiment, Wiseman asked people playing the U.K. National Lottery to submit a form that included information on how many tickets they intended to buy and whether they considered themselves lucky. Of the seven hundred-plus respondents, 34 percent considered themselves lucky, 26 percent unlucky, and 40 percent were neutral. Thirty-six of the respondents (about 5 percent) won money that night, split evenly between the lucky and unlucky people. Individuals lost £2.50 on average, just as you would expect according to the number of tickets purchased. Wiseman points out that this experiment shows that lucky people aren't psychic (just in case you thought they were); he also rules out any relationship between intelligence and luck.

Suffice it to say that there is no way to improve your luck, because anything you do to improve a result can reasonably be considered skill.