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What's Luck Got to Do With It?



Marc Phares/Epic Studios

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BETTER to be lucky than good, the adage goes.

And maybe that's true — if you just want to be merely good, not much better than average. But what if you want to build or do something great? And what if you want to do so in today's unstable and unpredictable world?

Recently, we completed a nine-year research study of some of the most extreme business successes of modern times. We examined entrepreneurs who built small enterprises into companies that outperformed their industries by a factor of 10 in highly turbulent environments. **We call them 10Xers, for "10 times success."**

The very nature of this study — how some people thrive in uncertainty, lead in chaos, deal with a world full of big,

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MICROSOFT: A TURN OF THE PC TIDE In 1980, Digital Research developed the leading non-Apple operating system for personal computers. Luckily for Bill Gates, it failed to impress I.B.M., so Big Blue turned to Microsoft. At the time, Microsoft didn't have an operating system — and Mr. Gates had no plans to create one. But he recognized the moment and committed his young company to a brutal schedule to develop the system for the I.B.M. PC.

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INTEL: GOODBYE AND HELLO Japanese companies unleashed a price war in DRAM computer chips in the mid-'80s, driving down prices 80 percent in two years. The business offered nothing but misery — bad luck for Intel, as DRAM chips were its main business.

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Gordon E. Moore, right, and Andrew S. Grove (shown in 2001) asked themselves what new managers would

disruptive forces that we cannot predict or control — led us to smack into the question, “Just what is the role of luck?”

Could it be that leaders' skills account for the difference between just meeting their industry's average performance (1X success) and doubling it (2X)? But that luck accounts for all the difference between 2X and 10X?

Maybe, or maybe not.

But how on Earth could we go about quantifying something as elusive as “luck”? The breakthrough came in seeing luck as an event, not as some indefinable aura. We defined a “luck event” as one that meets three tests. First, some significant aspect of the event occurs largely or entirely independent of the actions of the enterprise's main actors. Second, the event has a potentially significant consequence — good or bad. And, third, it has some element of unpredictability.

We systematically found 230 significant luck events across the history of our study's subjects. We considered good luck, bad luck, the timing of luck and the size of “luck spikes.” Adding up the evidence, we found that the 10X cases weren't generally “luckier” than the comparison cases. (We compared the 10X companies with a control group of companies that failed to become great in the same extreme environments.)

The 10X cases and the control group both had luck, good and bad, in comparable amounts, so the evidence leads us to conclude that luck doesn't cause 10X success. The crucial question is not, “Are you lucky?” but “Do you get a high return on luck?”

Return on luck: We call it ROL.

SO why did [Bill Gates](#) become a 10Xer, building a great software company in the personal computer revolution? Through one lens, you might see Mr. Gates as incredibly lucky. He just happened to have been born into an upper-middle-class American family that had the resources to send him to a private school. His family happened to enroll him at Lakeside School in Seattle, which had a Teletype connection to a computer upon which he could learn to program — something that was unusual for schools in the late 1960s and early '70s.

He also just happened to have been born at the right time, coming of age as the advancement of microelectronics made the PC inevitable. Had he been born 10 years later, or even just five years later, he would have missed the moment.

Mr. Gates's friend Paul Allen just happened to see a cover



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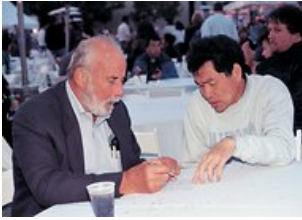
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do. The answer: Get out of DRAMs. So Mr. Grove suggested that he and Mr. Moore leave the company, metaphorically speaking, and return as those new managers. They exited memory chips and committed Intel to the new market for microprocessors, for which it's known today.

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Amgen

AMGEN: HELP WANTED, AND FOUND In 1981, Fu-Kuen Lin, a Taiwanese scientist, happened to see a classified job ad from Amgen, then a small start-up company. Mr. Lin happened to be looking for a job — and that lucky break became a defining moment for the company. George B. Rathmann, its founding C.E.O. (below left, with Mr. Lin), recognized the scientist's talent and drive and built an environment where he could thrive. Mr. Lin logged 16-hour days to isolate and clone what is known as the EPO gene, which led to one of the biggest biotechnology products of all time.

article in the January 1975 issue of Popular Electronics, titled “World’s First Microcomputer Kit to Rival Commercial Models.” It was about the Altair, designed by a small company in Albuquerque. Mr. Gates and Mr. Allen had the idea to convert the programming language Basic into a product that could be used on the Altair, which would put them in position to be the first to sell such a product for a personal computer. Mr. Gates went to college at Harvard, which just happened to have a PDP-10 computer upon which he could develop and test his ideas.

Wow, Bill Gates was really lucky, right?

Yes, he was. But luck is not why Bill Gates became a 10Xer. Consider these questions:

- Was Bill Gates the only person of his era who grew up in an upper middle-class American family?
- Was he the only person born in the mid-1950s who attended a secondary school with access to computing?
- Was he the only person who went to a college with computer resources in the mid-’70s? The only one who read the Popular Electronics article? The only one who knew how to program in Basic?

No, no, no, no and no.

Lakeside may have been one of the first schools to have a computer that students could use during those years, but it wasn’t the only such school.

Mr. Gates may have been a math and computer whiz kid at a top college that had computers in 1975, but he wasn’t the only math and computer whiz kid at Harvard, Stanford, Princeton, Yale, M.I.T., Caltech, Carnegie Mellon, Berkeley, U.C.L.A., the University of Chicago, Georgia Tech, Cornell, Dartmouth, Southern Cal, Columbia, Northwestern, Penn, Michigan or any number of other top colleges with comparable or even better computer resources.

Mr. Gates wasn’t the only person who knew how to program in Basic; the language was developed a decade earlier by Dartmouth professors, and it was widely known by 1975, used in academics and industry. And what about all the master’s and Ph.D. students in electrical engineering and computer science who had even more computer expertise than Mr. Gates on the day the Popular Electronics article appeared? Any could have decided to abandon their studies and start a personal computer software company. And computer experts already working in industry and academia could have done the same.

But how many of them changed their life plans — and cut their sleep to near zero, essentially inhaling food so as not to let eating interfere with work — to throw themselves into writing Basic for the Altair? How many defied their parents, dropped out of college and moved to Albuquerque to work with the Altair? How many had Basic for the Altair written, debugged and ready to ship before anyone else?

Thousands of people could have done the same thing that Mr. Gates did, at the same time. But they didn’t.

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The difference between Mr. Gates and similarly advantaged people is not luck. Mr. Gates went further, taking a confluence of lucky circumstances and creating a huge return on his luck. And this is the important difference.

Luck, good and bad, happens to everyone, whether we like it or not. But when we look at the 10Xers, we see people like Mr. Gates who recognize luck and seize it, leaders who grab luck events and make much more of them.

This ability to achieve a high ROL at pivotal moments has a huge multiplicative effect for 10Xers. They zoom out to recognize when a luck event has happened and to consider whether they should let it disrupt their plans. Imagine if Mr. Gates had said to Paul Allen after seeing the Popular Electronics article: “Well, Paul, I’m kind of focused on my studies here at Harvard right now. Let’s wait a few years, and then I’ll be ready to start.”

When we examined less successful companies, we saw a generally poor overall return on luck. Some of the comparison cases had extraordinary sequences of good luck yet showed a spectacular ability to fritter that luck away. When the time came to execute on their good fortune, they stumbled. They didn’t fail for lack of good luck. They failed for lack of superb execution.

WHILE getting a high return on good luck is an essential skill for 10Xers, getting a high return on bad luck can be a truly defining moment. Consider the 10X case of Progressive Insurance.

On Nov. 8, 1988, Peter Lewis, the chief executive, received news that shocked the insurance industry. California voters had passed Proposition 103, a punitive attack on [car insurance](#) companies. Prop 103 required 20 percent price reductions and refunds to customers, plunging a huge auto insurance market into chaos. Progressive had significant exposure, with nearly a quarter of its entire business from that one state — bang! — severely damaged by a 51 percent vote on a single day.

Mr. Lewis zoomed out to ask, “What the heck is going on?” He placed a call to a former Princeton classmate, Ralph Nader. Mr. Nader had long been a consumer rights activist, at one point leading a sort of special forces unit nicknamed Nader’s Raiders, and he had championed Proposition 103. The message that Mr. Lewis heard: People hate you. Or, in other words, people simply hated dealing with insurance companies, so they revolted, screaming with their votes.

“People were saying, ‘We hate your guts. We’re going to kill you. And we don’t give a damn,’” Mr. Lewis said.

Chastened by what he had heard, he called his staff together and told everyone, “Our customers actually hate us.” He challenged his team to create a better company.

Mr. Lewis came to see Proposition 103 as a gift, and he used it to deepen the company’s core purpose and to reduce the economic cost and trauma caused by auto accidents. The company would create its “immediate response” claims service: No matter when you had an accident, Progressive would be available — 24 hours a day, 365 days a year. Claims adjusters would work from a fleet of vans and S.U.V.’s dispatched to policy holders’ homes or even directly to an accident scene.

By 1995, Progressive could note this achievement: in 80 percent of cases, its adjusters would have visited the customer, ready to issue a check within 24 hours of an accident.

In 1987, the year before Proposition 103, Progressive ranked No. 13 in the American private-passenger auto insurance market. By 2002, it had reached No. 4. Years later, Mr.

Lewis called Proposition 103 “the best thing that ever happened to this company.”

Progressive and Mr. Lewis illustrate how 10Xers shine when clobbered by setbacks and misfortune, turning bad luck into good results. They use difficulty as a catalyst to deepen purpose, recommit to values, increase discipline, respond with creativity and heighten productive paranoia — translating fear into extensive preparation and calm, clearheaded action. Resilience, not luck, is the signature of greatness.

Nietzsche wrote, “What does not kill me, makes me stronger.” We all get bad luck. The question is how to use it to turn it into “one of the best things that ever happened,” to not let it become a psychological prison.

WE came across a remarkable moment at the very start of the history of [Southwest Airlines](#), described by its first chief executive, Lamar Muse, in his book, “Southwest Passage.”

“The very first Sunday morning of Southwest’s life, we narrowly escaped a disaster,” Mr. Muse wrote. “During the takeoff run, the right thrust-reverser deployed. Only the captain’s instantaneous reaction allowed him to recover control and make a tight turn for an emergency landing on one engine.”

What if the jet had smashed into the ground in the first week of building the company? Would there even be a Southwest Airlines today? If we all have some combination of both heads (lucky flips) and tails (unlucky flips), and if the ratio of heads to tails tends to even out over time, we need to be skilled, strong, prepared and resilient to endure the bad luck long enough to eventually get good luck. The Southwest pilot had to be skilled and prepared before the thrust-reverser deployed.

There’s an interesting asymmetry between good and bad luck. A single stroke of good luck, no matter how big, cannot by itself make a great company. But a single stroke of extremely bad luck, or an extended sequence of bad-luck events that creates a catastrophic outcome, can terminate the quest.

The 10Xers exercise productive paranoia, combined with empirical creativity and fanatic discipline, to create huge margins of safety. If you stay in the game long enough, good luck tends to return, but if you get knocked out, you’ll never have the chance to be lucky again. Luck favors the persistent, but you can persist only if you survive.

After finishing our luck analysis for “[Great by Choice.](#)” we realized that getting a high ROL required a new mental muscle. There are smart decisions and wise decisions. And one form of wisdom is the ability to judge when to let luck disrupt our plans. Not all time in life is equal. The question is, when the unequal moment comes, do we recognize it, or just let it slip? But, just as important, do we have the fanatic, obsessive discipline to keep marching, to push the opportunity to the extreme, to make the most of the chances we’re given?

Getting a high ROL requires throwing yourself at the luck event with ferocious intensity, disrupting your life and not letting up. Bill Gates didn’t just get a lucky break and cash in his chips. He kept pushing, driving, working — and sustained that effort for more than two decades. That’s not luck — that’s return on luck.

Jim Collins is the author of the worldwide best seller “Good to Great.” This article was adapted from “Great by Choice: Uncertainty, Chaos, and Luck — Why Some Thrive Despite Them All,” which was written with Morten T. Hansen and published this month.

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