

A close-up photograph of a dark, weathered wooden surface, possibly a door or a wall, covered with many horseshoes. The horseshoes are arranged in a somewhat regular pattern, with some whole and some broken. The wood has a vertical grain and shows signs of age and wear. The horseshoes are made of metal and have a rusty, brownish patina. The text "What's Luck Got To Do With It?" is overlaid on the image in a white, serif font, centered horizontally and vertically.

What's Luck Got
To Do With It?

ROBIN HOGARTH EXPLAINS WHY WE SHOULDN'T TAKE SO MUCH CREDIT—OR BLAME—FOR HOW THINGS TURN OUT.

“SOME GUYS HAVE ALL THE LUCK; SOME GUYS HAVE ALL THE PAIN; some guys get all the breaks; some guys do nothing but complain.” The sagacious song lyrics say it all: Life is a crapshoot, and these days, the economy is pretty crappy. Obviously, it’s George W. Bush’s fault. No, wait—banks are to blame. Well, actually, irresponsible homeowners brought about this calamity. Oh, and let’s not forget Bernie Madoff.

As it turns out, they’re all to blame—but only partly. In figuring out how we got into this mess, too many of us overlook a major explanation, probably because it’s so damn unexplainable: luck. Robin Hogarth, the ICREA Research Professor at Spain’s Universitat Pompeu Fabra, explains why no one could have predicted the current financial crisis. In *Dance With Chance: Harnessing the Power of Luck*, written with Spyros Makridakis and Anil Gaba (Oneworld), Hogarth reveals how luck influences our lives and why we often insist on treating uncertainties as if they were certainties. Hogarth, 66, spoke from his office in Spain. —VADIM LIBERMAN

JUST HOW BIG A ROLE DOES LUCK PLAY IN OUR LIVES?

A very big role. The problem is that very few people recognize this. Only about 3 to 4 percent of us truly understand the role of luck in our lives. We suffer from an illusion of control, in that we overestimate the role we play as agents in what happens to us. This is a particular problem in management. Undoubtedly, some of the results you get in business are due to your skills, but it’s important to recognize that some are due to the fact that you got lucky or unlucky. It is not necessarily because you were a good or a bad manager.

HOW DO YOU KNOW IF SOMETHING IS DUE TO LUCK?

Very often, you don’t. It’s very difficult to separate what’s due to skill and what’s due to chance. There’s a joke in the book about a guy who wins the big lottery in Spain. The newspapers ask him, “How come you won the lottery?” He says he looked for a ticket that ended in the digits 48. “Why?” they ask. He answers: “I dreamt the number 7 for seven nights in a row, and 7 times 7 makes 48.” His calculations were clearly wrong, which only shows that he clearly got a winning lottery ticket by luck.

Now, if you’re dealing with the same situation over and over again, then it becomes easier to tell if a result is due to luck or having made the right decisions. This is because when you’ve had lots of experience in the past, you know the right decision to make when a similar situation comes up again. For example, chess masters have seen thousands of chess moves and can recognize instantly what kind of situation they’re in and what the best move is.

IN BUSINESS, THOUGH, THERE ARE SO MANY VARIABLES. TO FIND YOURSELF IN THE EXACT SAME SITUATION IS—

—pretty much impossible. That’s why I’m skeptical of using intuition when it comes to making business decisions. There is no repetitive nature to business.

THEN WHAT’S THE USE OF DEVELOPING SKILLS WHEN LUCK SEEMS TO TRUMP THEM?

You mustn’t go from an illusion of control to a fatalistic outlook. Just don’t assume you’re more in control than you really are. A classic illusion is believing you can predict the stock market. You have to realize you can’t; all you can do is play the averages. Another example is if you’re a benevolent dictator of a country and you want to have an organized, controlled economy.

When leaders have tried to do that in the past, it hasn’t worked. Economies are too complex to predict, so it’s better to leave things more to free markets. Countries that control their economies through central planning fare worse than those that don’t.

SO STIMULUS PACKAGES AND BAILOUTS ARE BAD IDEAS?

No, the government currently has got to do something. But I wouldn’t say that what it’s been doing is taking control of the economy. Put it this way: You can have a big football game with lots of people bashing each other up, being very competitive, but if you’ve got a good set of referees, the game will be played properly. And what has happened is that the credit system has gotten stuck, so the economy is not running properly. The government has to bail out the credit system.



IS IT POSSIBLE THAT THE RECESSION IS SIMPLY A PRODUCT OF BAD LUCK?

I don't think it's just a product of *just* bad luck, but I also don't think it was predictable. There's a tremendous lack of knowledge about how the economic system works; we are operating in an area of really great ignorance.

IF THE CRISIS WAS NOT PREDICTABLE, THEN IS THERE ANYONE TO BLAME FOR IT?

There are those who did things they shouldn't have done, like take on extremely risky debt. Part of this crisis was caused by illusions of control: Banks that made poor financial decisions were working with models that they thought could help them control risk, but, in fact, they couldn't predict the risk accurately.

NONETHELESS, YOU CONCEDE THAT NOT TAKING RISK IS THE BIGGEST RISK FOR AN ORGANIZATION.

Yes! All organizations have to take risks. But what level of risk will you take—one that may drive you out of business or one that lets you more reasonably function? You've got to do a thorough economic analysis. There are no magic formulas, and you always run the risk of making mistakes. One of the problems is that managers tend to get harshly judged on whether they were right or wrong, but, of course, they can't be right all the time. What they're aiming for is a high batting average.

THAT'S WHERE MANAGEMENT GURUS AND THEORIES COME IN.

Unfortunately.

WHY? IS THERE NO SUCH THING AS A SUCCESSFUL MANAGEMENT THEORY?

In one word, no—especially not if you mean that a successful theory can predict outcomes across time and place. Lots of people have studied the secrets of successful companies by doing case studies and very detailed analyses of best practices. And they try to draw conclusions from those. But unfortunately, they're just historical descriptions of what has happened. We don't know if something successful in the past will be successful in the future. If I want to know how tall a group of students will be in my class this year, I can see how tall they were last year, and my prediction will be fairly accurate, because students don't change much every year. But business does change from year to year. Is what made a company successful before the computer age going to make a company successful now? The whole nature of the economy changes; society changes; geography changes. Practices that are successful at one point in time may be less successful in the future.

That's not to say that management books are useless. They are excellent historical documents that can make you think about how to do things. But they mustn't be taken as formulas, and that's exactly what a lot of companies do. That's why a lot of practices started as fads and didn't end up lasting. Total

Quality Management was really hot in the early 1990s, but a former colleague did a study and found that after ten years of TQM, relics of old seminars were all that were left. None of the ideas had stuck.

INDEED, YOU POINT OUT HOW THE BEST PRACTICES AT SUCCESSFUL COMPANIES ARE ALSO OFTEN FOUND AT FAILING ONES.

Exactly. There tends to be a sampling of success only. A lot of studies only want to figure out attributes of successful companies, but we should study failure more. For example, the airline industry is good at studying failures. After an accident, there's an enormous examination of what went right and wrong, and then pilots are trained how to handle emergencies.

IN YOUR BOOK, YOU ASK: "WHY CAN'T MANAGEMENT GURUS GET IT RIGHT? GIVEN THEIR ATROCIOUS TRACK RECORD, WHY DO MANAGERS KEEP BUYING INTO THEIR LATEST THEORIES?" WHAT'S YOUR ANSWER?

I don't know. I think managers live in hope. There's always hope for the next day. But while these books can help managers to re-think things, the danger is that they take them too seriously.

DOES IT BECOME TOO EASY TO USE BAD LUCK AS AN EXCUSE FOR FAILURE?

Sure. People do it all the time. You believe that if good things happen to you, it's because you're a successful and skillful person, but if bad things happen to you, it was bad luck. Before the crisis, CEOs took all the credit for their company's success, but then the crisis came along, and now they blame not themselves but the crisis. Their critics, on the other hand, find it difficult to accept that things resulted from bad luck. Everyone must realize that it's always some combination of the two. That also goes for things that turn out well. For instance, Microsoft's success was due to being in the right place at the right time.

The problem is that we as humans are driven to look for causes and explanations. We've advanced as a species by our ability to control aspects of the environment and our ability to predict what will happen. Because we can predict sunrises and tides, we think we have control over the world. But in the economic and business domains, we do not have as much control as we think. It isn't like weather forecasting, in which short-term predictions are fairly accurate and a forecaster making a prediction doesn't affect the rain. In business, your forecast has an effect on events.

IS ACCURATE BUSINESS FORECASTING EVER POSSIBLE?

I don't think so. There's a level of inherent randomness that I don't think you can predict. We just have to live with that. I wish managers would not underestimate the role of luck. Once they take chance into account, they can develop actions that take into account more consequences and, hopefully, avoid disasters. ■