

SUCCESS AND LUCK OF THE DRAW FREDERIK ANSEEL PODCAST TRANSCRIPT

UNSW Centre for Ideas: Welcome to 10 Minute Genius, an eight-part series created by the UNSW Centre for Ideas, to provide pause and create a space to engage with new ideas from UNSW Sydney's thinkers, dreamers and envelope pushers, as they help to make sense of the relentless information vortex in which we live. In under 10 minutes, or roughly the same amount of time it takes to make an elevator pitch to a venture capitalist, Professor of Management and Senior Deputy Dean at UNSW Business School, Frederik Anseel, explains how you can increase your chances of becoming successful.

Frederik Anseel: While some of us might feel envious of all the money lottery winners have, we don't tend to look up to them as role models. We wouldn't go to a TED talk of someone who won the lottery to find out how they did it. After all, what could we possibly learn from someone who just got lucky through random chance? In contrast, we lap up the advice of CEOs and entrepreneurs, sports stars and investors. Surely we can learn from them? After all, they've earned their wealth and success through hard work, skill and expertise, right? Well, maybe not. What if these two groups, lottery winners and successful entrepreneurs, aren't so different? What if luck matters much more to success than we think? Many of us, including me, are uncomfortable with the possibility that personal success might depend to any significant extent on chance. Haven't I worked hard for my successes? Haven't all successful people worked hard and taken risks? Yes, they have. But so have many others who won't have the same success.

Wealthy people overwhelmingly attribute their success to hard work, rather than two factors like being in the right place at the right time. It's called the self-serving attribution error. We attribute bad things happening to us to factors outside of our control. But for good things we credit ourselves, the stories we tell to ourselves will often implicitly favour such explanations.

Centre for Ideas

If you're running into the wind, you're very aware of it. But if you turn and the wind is in your favour, you feel great. But then you forget about it very quickly. Soon, you're no longer aware of the wind at your back anymore and conclude that you simply must be in great shape these days. That's how our mind works. We're more aware of barriers than of the things that boost us along. We don't notice luck, or privilege for that matter, because it's tail wind.

We can see luck creating success in business too. Now, in the world of business, venture capitalists are at the top of the food chain. People want to learn from them about picking winning ideas to invest in and get rich from. Lucky for us, VCs are happy to share their wisdom, headlining conferences, coaching aspiring entrepreneurs, and writing newspaper opinion articles. But are VCs actually better at predicting which early-stage companies will succeed than any other informed individual like me or you?

A few years ago, a group of researchers conducted an interesting experiment at a startup pitch competition in Nigeria. Each startup was rated by three different groups. First, startup experts like VCs and entrepreneurship professionals. Second, panels of economists. And third, a machine learning system. None of the three groups did much better than random chance at predicting which startups would eventually be successful. This is a pattern that now has been replicated in various countries and contexts. It is extremely hard to pick winners in a startup's early days. Those who do pick a winner got lucky. But luck doesn't just help a VC get that one big win. VCs who found an unexpected hit, like identifying Facebook or Uber, as great investments before anyone else did, usually never got lucky again. But because they found that lucky investment, the rest of the startup world starts believing that the investor had that special insight. This then becomes a self-fulfilling prophecy, because that initial luck creates new opportunities for more luck.

Founders and entrepreneurs seek out this insightful investor. Because an investment from this investor is not just an investment, it is a sign of success. And founders are willing to take a 14 percent lower valuation to get high prestige investors to put money into their companies. This means that a lucky VC not only has the best companies lining up to receive investment from them, but also does so at a discount. It's a self-reinforcing circle that reinforces their status as a winner. This is called path dependency, and the same process can be seen in

sports. In every elite group of Canadian hockey players studied at least 40 percent were born between January and March. That's not because Aquarians and Pisces have a better snapshot. At least that's not in the astrology charts that I've read. This pattern was reinforced to cut off ages for hockey leagues that put players from their first game as a kid onward into teams based on the calendar year they were born in. Those born in the first three months were older, and therefore slightly more developed than the other kids in their league, which meant they got chosen to play more often and at high levels, and therefore had even more opportunity to develop their skills than players born in latter months.

So if we know how this game of chance works, why are we so addicted to the lessons and stories of successful business people? Sadly, our brains are terrible at statistics, and cannot resist a good story. And the best success story of them all is made of survivorship bias.

Survivorship Bias is best described by looking at the work of Jewish Austrian Hungarian refugee, Abraham Wald. In 1943, the US military bombers were shuffling lots of losses by German counter air defence, and they called Wald in to do some statistical research on planes that had returned from battle to help. The military expected Wald to do some calculations and give them some suggestions on how to reinforce the spots of the plane that received the most hits by the German defences. However, mathematician Wald challenged this ID, and had a counter intuitive recommendation, don't protect the planes where they were taking the most damage, protect them where they haven't taken a bullet, which happened to be the motors and the cockpit. The planes he was studying were those that had returned to base, not those that crashed in battle. It stands to reason that if they had been hit in those places, they'd have made their end in the field too. Survivorship bias is what leads us to look to the success stories, or in this case, the returned planes, to figure out why they were successful, rather than considering lessons that could be learned from those that were not. Sounds familiar?

Perhaps this reminds you of asking a top entrepreneur, CEO or professor for that matter, for their secrets to success. Rather than asking those who didn't make it. The successful entrepreneur may have dreamt big, believed in themselves, gotten up early, meditated and written 100 emails a day. But that may not have anything to do with their success. Many others may have done the same and never succeeded in the same way. Just as millions of people

Centre for Ideas

buy lottery tickets each week, and never win. So does that mean that all success is down to luck? No, of course not. Effort, skill and expertise are important to success. But in situations where competition is fierce, and where a lot of competitors put in similar levels of skill and effort, luck makes all the difference and creates huge path dependency effects later. The rich get richer, the fortunate become more fortunate, giving them more opportunity to tell their success story. There is one thing we can learn from lottery winners though. The one thing they have in common, they bought a ticket. And while entering a lottery doesn't 100% guarantee you'll win, not buying a ticket does 100% guarantee you won't. Rather than using this lesson to take up gambling, you can apply to your career. Apply for that position, bridge that ID, take that meeting and enter that race. If there's one thing we can learn from lucky people, it's that you've got to be in it to win it.

UNSW Centre for Ideas: Thanks for listening. For more information, visit centreforideas.com, and don't forget to subscribe wherever you get your podcasts.