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# Column

## The Luck Factor in Negotiation

*Kimberly Leary and Michael Wheeler*

The thesis of Malcolm Gladwell's best-selling *Outliers* is that preeminence in a field is not principally the result of genius. Rather it is the product of cultural heritage, opportunity (often linked to the prior factor), and perhaps most important in Gladwell's eyes, subject matter mastery that comes from 10,000 hours of hard work.

Gladwell cited Bill Gates as Exhibit A for that proposition. When Gates was in his teens, his private school offered training in computer coding. Gates immersed himself in it obsessively, as he freely admits. Later he became enormously successful.

But in the years since *Outliers* was published, Gladwell's theory about mastery has come under increasing criticism (Baer 2014), as have other aspects of his work, as well (Gottlieb 2019). Yes, computer training for high schoolers was rare in the late 1960s, yet hundreds of other students across the country—no, certainly thousands of them—must have been just as fanatical. And a subset of them may have been equally smart and privileged. Yet even with those advantages, those other people never made the front page.

But there is another way to tell the Gates story and it underscores the significant role that luck can play in negotiation. It involves an on-again/off-again business deal where Gates made a bad mistake, then out of the blue had a stroke of good luck. And that was followed by an even bigger mistake by his counterpart in the negotiation, IBM<sup>1</sup> (Wheeler 2013).

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The episode was a major turning point in Gates's career. One could argue that if any of those elements had gone differently, we never would have heard of him. If that is too bold a statement, it is still fair to say that Gates's ascendance would have been much slower and likely less impressive, were it not for those three critical moments in his IBM negotiation back when he was in his mid-twenties.

This mini case should chasten us not be too quick to celebrate great outcomes as the product of strategic brilliance. Luck, as a factor, good or bad, is not always evident right away.

Gates's experience sets the stage for us to distinguish among different types of luck, from that which is situational and contextual to the attitudes and temperaments we bring to the table. Circumstantial luck is causally unrelated to anything done by the negotiators or under their control. But some luck can be of our making—or at least shaped by the way in which we assess and engage with the dynamic nature of a negotiation. Here, luck is tightly connected to what the parties themselves do and say. Luck like this is important and may well drive critical moments in negotiation.

It is easy to see how external factors can determine the success or failure of a deal, especially if they are unforeseen and can only be accounted for after the fact. Looking back, some historians are given to counterfactual analysis. It can be an illuminating exercise.

With the benefit of hindsight, for example, we can see that the turning point of World War II may have been before the United States entered the conflict, several months earlier, on September 15, 1941. The German Luftwaffe had been unmercifully attacking Britain to soften it up for invasion. After several days of furious air battle, the RAF managed a gallant defense. Hitler suspended the attacks and concentrated his forces on the eastern front, attacking Russia. That turned out to be folly. At the time, however, no one could know the tremendous significance of the moment.

Outside events and random decisions by others can also determine success or failure in everyday negotiations. You would be lucky circumstantially if you concluded the sale of one of your lovely vacation homes the day before an unexpected market crash. Had the closing been scheduled for one week later, your buyer would have exercised her option to walk away from the deal, leaving you stuck with a property with much lower value. As it happened, though, luck was in your favor and not hers. But the timing of the closing had nothing to do with how either of you negotiated. Instead it happened to be set by how your respective lawyers' calendars lined up.

In Gates's case, by contrast, luck was a central factor in how the negotiation itself unfolded. In 1980, Gates (a Harvard College dropout)

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and colleagues set up a software company in Seattle.<sup>2</sup> Gates was approached by IBM to develop an operating system for a new line of computers, but Gates did not have experience in this and instead referred IBM to another small firm, Digital Research.

IBM's talks with Digital Research broke down initially over the issue of a nondisclosure agreement and then over the issue of royalties; IBM offered only a \$250,000 lump sum payment. Lucky for Gates, IBM came back to him.

Let us look at those first two critical moments together. Can we still call his initial decision to decline the work with IBM a mistake, when in the end everything worked out so well?

We were inclined to say, yes, it was a mistake. True, in the end, it did not cost Gates anything, but we only have one data point. If we had access to an alternative universe and could run the experiment multiple times, how often would a company like IBM give somebody like Gates a second chance? Not often is our guess.

There was another twist after IBM and Gates got together again. Both parties knew that another company, Seattle Software Products, had developed an operating system. IBM secretly backed Gates's acquisition of SSP's software, then called QDOS (an acronym for quick-and-dirty operating system). Again, luck came into play: SSP did not discover who was really behind the deal; otherwise, the price could have been far higher. Microsoft then tweaked the program and rechristened it DOS: Disc Operating System. You have probably heard of that.

Luck entered Gates's story a third time when he negotiated the contract terms with IBM. On the surface Big Blue got a great deal, par for the course given the relative sizes of the two companies. IBM agreed to pay a modest royalty on each copy that would be sold with its new machines. (Perhaps IBM had become more willing to accept a royalty arrangement after their lump sum offer killed the deal with Gary Kildall of Digital Research.) Whatever the reason for their change, the critical point was that IBM's rights were *nonexclusive*: Gates and his small company kept ownership of the DOS program.

Kudos to Gates and his colleagues, of course, for seeing that the real money would be in software, not hardware. But let us also acknowledge their great luck that their counterparts on the other side of the table were oblivious to that fact. Had IBM insisted on exclusive rights, their insistence might have forced Gates to concede—or IBM might have sought out still another developer.

We can only speculate on the consequences for Gates and Microsoft had they been unable to keep ownership of DOS. But there is no doubt that it was the cornerstone of the business. Gates and his partners still might have been successful, but the odds are not nearly so spectacularly.

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So perhaps we need to consider more fully whether it is useful after all to distinguish situational luck (external and perhaps unforeseeable factors) beyond the control of the parties on the one hand, and on the other hand, negotiation luck (direct consequences of what the parties do and say). The boundary between situational luck (beyond the ken or control of the parties) and luck triggered by the actions of the negotiators looks necessarily fuzzy. Sometimes both may be in play.

Consider this unlikely, but true circumstance. In August 1942, a struggling young Austrian composer named Frederick Lowe took a wrong turn while looking for the men's room and ended up in a conversation with the Broadway lyricist Alan Jay Lerner. That conversation was the start of a generative collaboration that produced hit shows like *My Fair Lady*, *Camelot*, and *Brigadoon* (Vierel 2015).

It is possible that if Lerner had stayed home that night or if Lowe had a better sense of direction, the two might have met up elsewhere and might have gone on to make great music together—but probably not. It is not possible to know the number of near misses out there and the collaborations that never came together.

The same exists in negotiation. Whether chance or luck, our ability to put together a collaborative deal depends on the people we happen to meet, the interests in play at the time, and the opportunities we can imagine together for collaborative gain. The adage that luck favors a prepared mind reminds us that critical moments may be shaped by the ability to improvise in the face of good or bad luck.

Research shows that having good luck is not a matter of pure chance. One needs to be in the right place at the right time, but the ability to discern that the right time is now depends on being open to experience.

British psychologist Richard Wiseman crafted a set of studies that allow us to look into the role of luck and experience. First, he identified people who described themselves either as lucky or unlucky. Those who saw themselves as lucky described themselves as recipients of good fortune. Others, however, were burdened with woe. Wiseman's research demonstrated that the lucky subjects saw themselves as more extroverted, relaxed, and open to new experiences (Wiseman 2003, 2008). Wiseman concluded: "The way they think and behave makes them far more likely than others to create, notice, and act upon chance opportunities" (Wiseman 2003: 32).

If we take Wiseman to heart, casual encounters become a platform for luck when people are curious about others and open to learning about their interests. A casual conversation might, for example, be a moment where an acquaintance mentions a business opportunity for which you are the perfect fit. But to know about the opportunity in the

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first place requires you to be open to experiences that might literally be in front of you.

In another study, Wiseman created a mock newspaper. His subjects were again self-described lucky and unlucky people. He asked them to count the number of photographs in the newspaper. One of the pages inside the newspaper included an ad that said,

“WIN A CHANCE AT £100 BY TELLING THE EXPERIMENTER YOU HAVE SEEN THIS.” Many of Wiseman’s lucky subjects claimed their prizes right away. Virtually none of the unlucky ones did so.

Wiseman believes that his lucky subjects made their luck because they were open to new experiences. By contrast, his unlucky subjects were those who dutifully completed the task that they were asked to do (counting photos in a newspaper) while perhaps steeling themselves against failure. The lucky and unlucky subjects inhabited different worlds.

For those who are not the kind of people who would ordinarily strike up a conversation in the checkout line or are not generally inclined to move beyond perfunctory greetings with our plane-seat mates, perhaps the lesson is that luck is more likely to surface when we push ourselves beyond the borders of comfort and default.

Likewise, in negotiation, believing ourselves to be lucky (or not) can set in motion a self-fulfilling prophecy. A dejected salesperson unable to close a sale may see the problem as not having enough good prospects. By contrast, a colleague, who assumes that luck is on her side, would have persisted and found a creative way to address the customer’s concerns. She would close the deal—and deepen her optimism about more good luck to come.

So it is with many of the decisions we make in negotiations. As events unfold, our options change, sometimes for the better, other times for the worse. The critical moments we face, and hence the decisions we must make, will be shaped by luck, good or bad. Philosophers, political theorists, and strategists have long acknowledged the large role that luck plays in every aspect of our lives. Even Nicolo Machiavelli, the cataloguer of each and every lever that a prince can pull in the pursuit of power, acknowledged he believed that “it is probably true that fortune is the arbiter of half the things we do, leaving the other half or so to be controlled by ourselves” (Machiavelli 2003: 79). What was true in Italian politics centuries ago is just as true in management today.

So does recognizing the luck factor help negotiators in any way? We believe that once we acknowledge how much depends on chance, we should do two things differently. First, such acknowledgment reminds us to regard decision making differently, no longer assigning brilliance to every decision that, viewed retrospectively, worked out well. That awareness

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can be a needed check on over-confidence (or even arrogance). In turn, it should prompt us to tap other skills and tools when we must make decisions where uncertainty is high. Our advice to negotiators is that having the flexibility to capitalize on changes in luck is likely more valuable than imagining we can predict how the unpredictable will play out.

For better or worse, the intelligence, values, and needs of whom-ever you interact with impact your success as much as your own resources. We all have highs and lows. Sit down one day with someone who is feeling upbeat and creative, and your prospects for success go up. But if you were to meet them on another day when they're feeling stressed, you may be in for a slog. On top of that, there are external circumstances that are beyond anyone's control (whether alternative deals for them fall through, as they did for IBM), and it is obvious that your destiny is not entirely in your hands. Understand this and you act differently, knowing that your own skill will be tested by how well you play whatever cards you are dealt.

A final thought about Gladwell's 10,000 hours mastery rule, as it does play a role in this story. The fact that Gates and his colleagues were skilled programmers got them noticed by IBM. So that was surely a necessary factor—necessary but not sufficient. Gates was twenty-five years old at that time. He had some business experience on top of his technical work. But there is no way that he had anything like 10,000 hours of negotiation training or experience. It seems that deficiency was not fatal. Lucky him.

## NOTES

1. The Gates story, expanded and analyzed here, appeared earlier as Wheeler (2013).
2. In 2007, Harvard awarded Gates an honorary doctorate.

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