mt

MANAGEMENT TODAY

The Corner Office / Spring 2011

pg.62

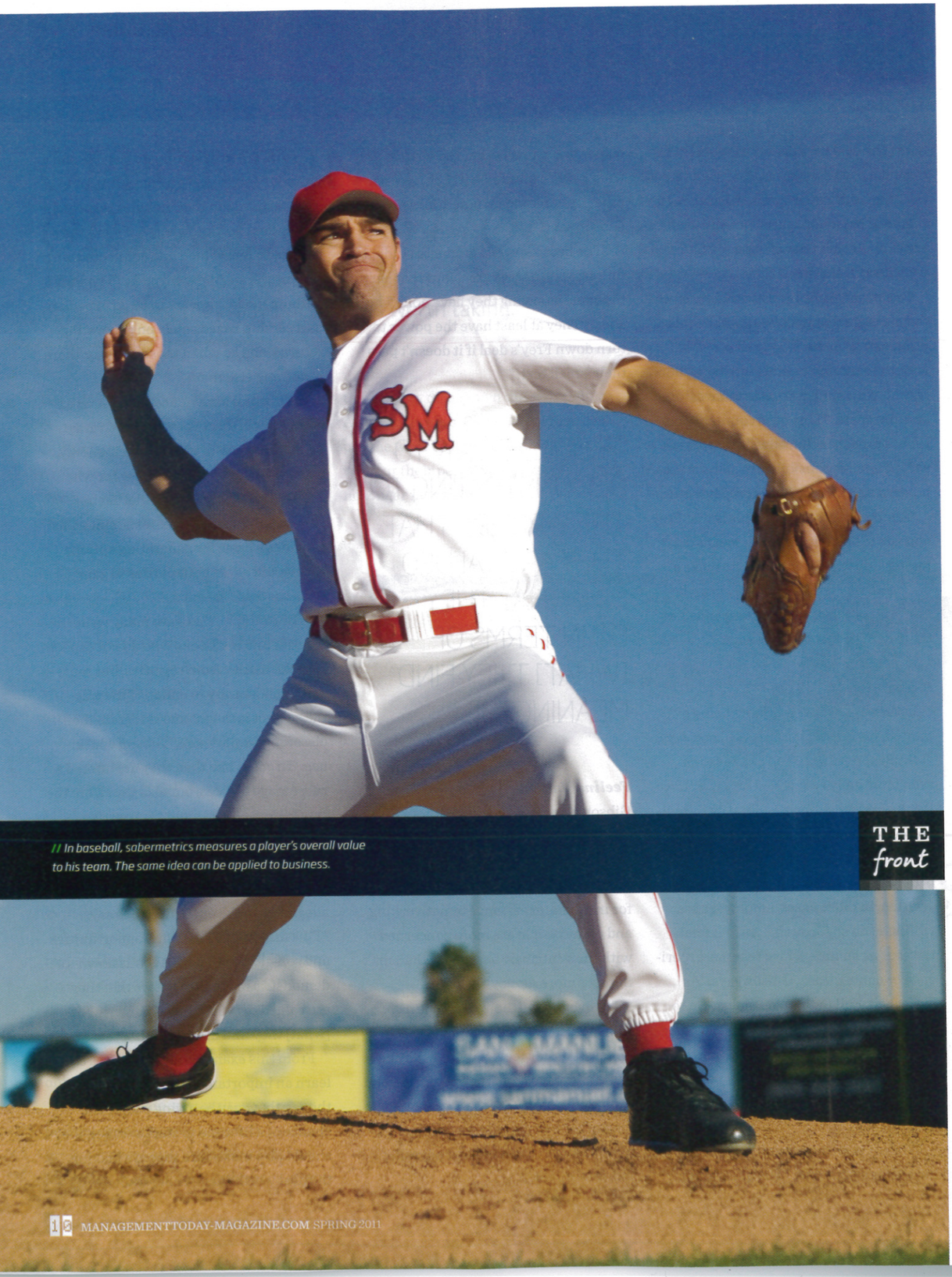
STAR Leader

Nestor Ibrahim won't compromise.

FEMALE EXECS pg.18 MAKE STRIDES

&

STRIKE OUT OUTMODED THINKING pg.10



// In baseball, sabermetrics measures a player's overall value to his team. The same idea can be applied to business.

THE front

Inside *Baseball*

THE front

The concept of "sabermetrics" has a lot to teach the world of business.

– *By Chris Petersen*

For generations, the measure of a baseball player's worth was primarily determined by three figures: batting average, home runs and runs batted in. Players who posted big numbers in any or all three of those categories could expect a huge contract from teams who believed those would translate into wins. Nevertheless, baseball history is filled with players whose gaudy numbers in those statistics failed to bring their teams any success. Case in point: Hall-of-Famer Andre Dawson, who in 1987 won the National League MVP award with the Chicago Cubs, by hitting 47 home runs and batting in 137 runs. The Cubs finished in last place.

Within the last 20 years, however, there has been a revolution of sorts in the way baseball approaches evaluating players. A pioneering band of number-crunchers from the Society of American Baseball Research (SABR) has changed the way many people see the game and how a player's individual performance contributes to the team. Coined "sabermetrics" after the group's abbreviation, this new mode of thinking has been adopted by the front offices of some major league teams and even was credited with helping the Boston Red Sox end their "cursed" championship drought.

"WHAT SABERMETRICS TELLS US IS TO RIGOROUSLY FOCUS ON AND REWARD [THE] IMPORTANT MEASURES."

What does all of this have to do with the business world? Sabermetrics uses statistical analysis to determine how much impact a single player has on his team's chances to win. For example, Player A may have a high batting average, but strikes out whenever he doesn't get a hit. Player B might have a lower batting average, but takes more walks and is on base more frequently than Player A. Because Player B is more likely to be on base when his teammates are at bat, Player B has a higher likelihood of scoring a run than Player A, making Player B more likely to help his team win. In short, sabermetrics is all about the bottom line.

Advanced Stats

So-called "advanced metrics" and the alphabet soup that come with them – OBP, WHIP, VORP, WARP, etc. – have become synonymous with sabermetrics in the world of baseball, but the greater concept has applications in business without the need for a calculator. Consultant James Berkeley, director of London's Berkeley Burke International, has been making the case that sabermetrics has a lot to teach executives about how to evaluate their top sales performers, for example.

Berkeley, who first became aware of sabermetrics with the publication of the book "Moneyball" about Oakland A's General Manager Billy Beane, says the first and most significant way the concept can be applied to business is in challenging conventional measures of skill. By changing the way managers and executives evaluate their employees, they give themselves more room for innovation and increase their chances for success.

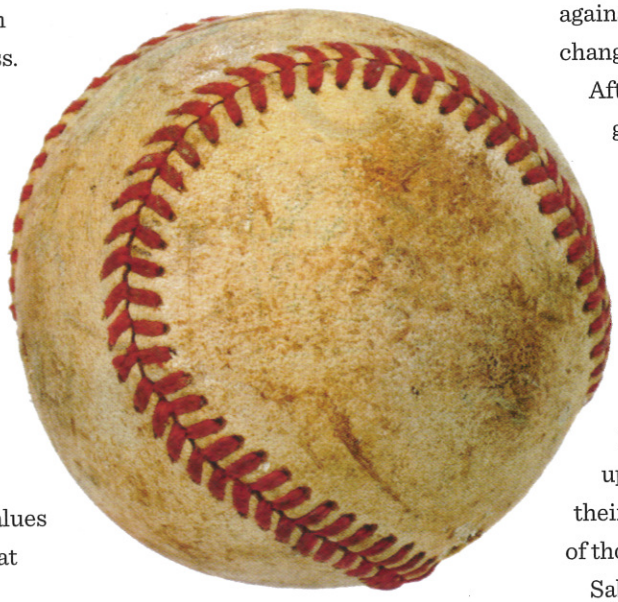
For example, Berkeley says, many businesses measure sales performance by the number of proposals generated in a year. Many of these businesses reward the salespeople who generate the most proposals, without any regard as to how many of those proposals result in actual sales. Just as in the Player A/Player B example, the salesman who "strikes out" more often is rewarded simply because his "team" values the wrong statistic more than one that impacts the bottom line.

"It conjures images of a sweatshop of enthusiastic sales executives and relationship managers churning out proposals like a sous chef in a Denny's," Berkeley says. "What sabermetrics tells us is to rigorously focus on and reward a small number of important performance measures, not the unimportant."

Straightening Out

That focus is especially important in the world of sales, as many sales managers tend to overwhelm themselves with what Berkeley calls "statistical overload syndrome." With so much information at their disposal, managers can find themselves looking at irrelevant information such as total proposals generated and giving them as much importance as statistics such as the number of successfully converted proposals.

"Consequently, monetary and non-monetary rewards systems rarely create the desired sales performance or behavior expected by C-level executives," Berkeley says. "We're coming from a situation today where customers are looking for non-traditional ways to engage expertise to achieve specific outcomes."



Another example of the value of the concept of sabermetrics benefiting businesses is in terms of assessing turnover and retaining talent. Berkeley says traditional metrics tend to focus on whether or not a position is simply filled over a 12-month period, but more companies are beginning to measure the impact turnover has on customer satisfaction.

"What we're finding is that, particularly in sales and marketing, people are looking at non-traditional ways of measuring that and they're looking at measuring the value," Berkeley says. "That really focuses on the value of that resource."

The Right Combination

Although making the effort to find which metrics are truly helpful for your business is what makes the sabermetrics concept valuable and applicable to the business world, Berkeley cautions against using the idea to make sweeping changes for the sake of making changes.

After all, in the world of baseball, games are still decided by the final score, not by which team uses more appropriate metrics.

"The value is not in sabermetrics itself, which has no intrinsic value to a business," Berkeley says. "It's in coming up with common-sense solutions. What companies lack is a process for coming up with common-sense solutions for their problems, and sabermetrics is one of those."

Sabermetrics is becoming increasingly popular as a framework for North American businesses to revise their analysis. Unlike other concepts, however, Berkeley says sabermetrics has the potential to be more than a fad because it is more of a philosophy than a system. "I would describe this as something that is beyond a fad in that when it's well thought-out and in the right environment it has sustainability over the long term," he says.

"Assessing value is a mix of art and science," Berkeley continues, adding that no metric can supersede the value of an employee who has the right attitude. "No sane executive would rationally hire an individual whose behavior was demonstrably destroying a brand's reputation for short-term sales success." •mt