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## What If Everyone Played *Moneyball*?

One of my favorite books from recent years is *Moneyball: The Art of Winning an Unfair Game*, by Michael Lewis. It's an inside look at the business of baseball, an entertaining blend of sports and science. It also has some implications for the way we think about company performance in the business world.

Lewis's book describes how the Oakland Athletics—a small budget team in a mid-size market—have been able to consistently post outstanding results thanks to General Manager Billy Beane's use of statistical analysis. Rather than rely on traditional scouting reports or on conventional measures of player performance, Beane used a different set of measures to assess players. For example, instead of looking at a player's batting average, Beane placed greater importance on the On Base Percentage, which includes not only hits but the ability to coax bases on balls. By using a different set of measures than rival teams, Beane was able to spot bargains and assemble teams stocked with good players whose contracts were undervalued.

Traditionalists scoffed at Beane's use of statistics, insisting that the human dimension of baseball can't be reduced to cold figures. But the evidence suggests otherwise. Many cherished elements of baseball lore—such things as hot streaks, clutch performances, and more—fade under the scrutiny of statistical analysis. There's little doubt that Oakland's consistently strong record in recent years has been a result of the approach taken by Beane and his boss, Sandy Alderson.

Yet there's a second-order question that I find very intriguing, and that has a direct corollary to the world of business. It goes like this: *How many clubs can adopt the Beane approach before the benefits erode?* Otherwise stated: *What if all baseball teams played Moneyball?*

As long as only one team plays *Moneyball*, that team might enjoy a significant competitive advantage. The Athletics, in this instance, would evaluate players differently than the other 29 major league teams, and might be able to assemble a roster of very good and undervalued players—such as happened with the acquisitions of Scott Hatteberg and Kevin Youkilis. But what happens when a second team takes the same approach to player valuation? With two teams bidding, the market price for certain players is likely to go up. Of course, given the number of ballplayers looking for work, both teams may still find plenty of bargains and might both prosper. But now suppose that four teams play *Moneyball*, or eight teams, or maybe eventually twelve. At some point, the relative advantage that the Athletics enjoyed will be lost. What Michael Lewis describes as an *unfair game* now becomes a *fair market*—it's just that the nature of the market has changed from valuing one set of attributes to valuing a different set.

Where are we today? Over the past few years, Beane's disciples have begun to spread throughout major league baseball. Some of them run the Toronto Blue Jays, the Los Angeles Dodgers, and the San Diego Padres. Bill James, the grand-daddy of baseball statistical analysis, advises the Red Sox. The likely result is that the benefits of *Moneyball* will be diluted as multiple teams identify the same "undervalued" players and bid up their prices to a new market level. At some point, when what once was a unique approach becomes standard, the competitive edge it conferred may

vanish altogether. I don't claim that has happened yet, but sooner or later it will—and some clever econometrician can probably calculate when that point of saturation will come.

There's relevance in all of this for companies. The business world is full of books that claim to provide managers with a formula for success, often a series of actions that are said to lead predictably to high performance. Well-known business gurus like to claim that following these eight principles or those six steps will lead to success. One book, *What Really Works*, offered a "4+2" formula for high performance. Do these four things and two more, it claimed, and success was said to be "virtually guaranteed." But in business, like in baseball, success is relative, not absolute. If all companies in an industry follow the same steps, they won't all achieve success.

Of course, there are important differences between competition in baseball and in business. Baseball is an extreme version of a zero sum game. Every game has one winner and one loser, and over the course of a season, the total of wins equals the total of losses. If the Athletics improve their record, the records of all the other teams will, in the aggregate, get worse by an equal amount. Business is different. In prosperous years many companies can earn high profits. In other years, overall performance may sag for many companies. Furthermore, there are examples where the presence of competitors can stimulate demand for the industry as a whole—what Harvard's Michael Porter called *clusters*.

Yet many aspects of business performance *are* relative, even if not zero sum. Market share is by definition relative, since any increase in one company's market share means less in a percentage for the rest. We also know, from extensive research by PIMS and other empirical studies, that in many industries, market share is correlated with profit—not perfectly, but in a broad way. (That's why Jack Welch wanted all units of General Electric to be either #1 or #2 in their industries—performance often falls off when you get below #2.) We also know that an individual's purchase of, say, a car or a television has a relative nature—if you buy a Honda this year, you're unlikely to buy a BMW, too. Again, performance is relative, not absolute.

All of this is important because it underscores that it's not enough for companies to do *well*—they have to *better* than their rivals. In fact, a company can improve in absolute terms and still fall further behind its rivals. A good example here is General Motors. Compared to two decades ago, GM's cars are better in design, features, quality, and safety—just about any objective measure. So why is its market share continuing to decline, and its financial performance in dire straights? Because its rivals have improved at an even faster rate. In fact, GM's improvements in absolute terms may in large part have been stimulated by the significant improvements of Toyota, Honda, and other Asian car makers.

Why is this basic truth so often overlooked? Probably because the implications are a bit scary. It's comforting to believe that a given formula will lead predictably to success, no matter what anyone else does. It's troubling to acknowledge that a formulaic approach will not work because performance is relative, and therefore success comes to those who take risks to be different—because being different also implies the chance of failure. It's not a pleasant story, and is therefore avoided by many management gurus and business school professors who would rather tell appealing tales about guaranteed performance and sure-fire steps to success.

But in the world of business, as in the world of baseball, performance is fundamentally relative, and competitive advantages erode as successful techniques are diffused among rivals. Just like the Oakland Athletics' use of statistical analysis in *Moneyball*, new innovations confer a temporary advantage, but cannot provide the basis of lasting success.