

RESPONSE TO EDITORIAL BY BRYAN AND RAFFERTY

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The commentary on our article “Radical HRM Innovation and Competitive Advantage: The *Moneyball* Story” by Drs. Dick Bryan and Michael Rafferty provides a welcome opportunity to further explore the ideas we originally presented. The purpose of our article was “to investigate the *Moneyball* story to glean what lessons are contained therein . . . concerning innovation, resistance to change, and competitive advantage” (p. 112). The commentators’ points focus on the particular innovation that was implemented by the Oakland A’s—sabermetrics. Our response, therefore, also focuses on this aspect of our article.

While Dr. Bryan’s and Dr. Rafferty’s points were not laid out in a point-by-point manner, our reading indicates that they focus on three areas: generalizability, the criterion problem, and pricing. We address each of these independently.

Generalizability

An underlying theme that runs through the Bryan and Rafferty commentary addresses the important issue of the generalizability of sabermetrics to the practice of HRM. The commentators question:

whether sabermetrics is useful or just a diversion in HRM. Certainly, the clean lines of competition in sports make for clear data. . . . These repetitions are not so obvious or consistent in many other workplaces.

Drs. Bryan and Rafferty are certainly correct that baseball, both as sport and as industry, differs greatly from the competitive environment and HRM issues faced by most organizations. It is important to note, however, that generalizability concerns often constrain radical innovation. Consider the *Moneyball* story, wherein those working within the established paradigm used the generalizability/applicability criticism to ignore the value of an outside perspective. Sabermetrics resulted from challenging baseball’s extant paradigm by providing significant evidence that (1) the extant paradigm focused on the wrong player statistics and (2) different statistics and characteristics could be used for price and team performance advantages. Those within the establishment, however, ignored sabermetrics. Their criticism could easily be construed as arguing that the logic of derivatives could not be generalized to baseball. Obviously, this criticism among the baseball establishment was wrong.

The same basic logic that underlies derivative pricing is now being applied to strategic decision making through “real options” theory (Bowman & Hurry, 1993; Dixit & Pindyck, 1994, McGrath, 1997, 1999; Kogut & Kulatilaka, 2001). Real options logic is now also being generalized with regard to human resource investments (Bhattacharya & Wright, 2005; Cottom-Clark, Badders, & Wright, 2005). These applications generalize the logic of real options to HRM decisions.

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The Criterion Problem

A more specific question related to generalizability raised by Bryan and Rafferty deals with what industrial/organizational (I/O) psychologists have termed “the criterion problem.” The authors write:

it is one thing to find new measures of performance, but if an employee rates well by some criteria and less well by others, what is the appropriate weighting?

We address this question from two perspectives. First, while the multidimensionality of performance is a legitimate concern, multidimensional performance can be measured in work organizations. Early research within I/O psychology frequently used measures of “overall performance,” often ones that focused on a number of traits or attributes. Most often, performance was defined by having subject matter experts generate a list of the tasks, duties, and responsibilities (TDRs) and the knowledge, skills, and abilities (KSAs) necessary to perform the job. Resultant performance-appraisal techniques involved rating the TDRs and KSAs and summing for an overall performance measure.

Certainly, this approach presented initial difficulties in (1) properly weighting the various aspects of performance, (2) accounting for aspects of performance that did not fit neatly into a predetermined category, and (3) truly accounting for the multidimensionality of performance. Vast gains have been made in this area. For instance, the Army’s Project A provided a number of examples of how to define, assess, and predict a multidimensional model of performance (Campbell, Ford, et al., 1990; Campbell, McHenry, & Wise, 1990). Also, within the utility literature, the Cascio-Ramos estimate of performance in dollars (CREPID) method emerged as an approach to assess the value of different aspects of performance (Cascio & Ramos, 1986).

Second, we certainly acknowledge that the *Moneyball* approach, whether applied within baseball or other settings, is not perfect. However, even in situations where the multiple aspects of performance cannot be

assessed and/or appropriately weighted, identifying and exploiting undervalued characteristics of employees can still result in improved performance. For instance, Ployhart, Weekley, and Ramsey (2005) provide data suggesting that retail stores possessing human capital with a higher level of “service orientation” display significantly higher performance than those with lower levels. In spite of the lack of specific attention to the multidimensionality of performance, this research demonstrates that performance can be improved by attending to at least one dimension of that performance. Returning to *Moneyball* and sabermetrics, “The solution wasn’t perfect, it was just better” (Lewis, 2003, p. 135).

Pricing

Drs. Bryan and Rafferty suggest that for derivative pricing to have applicability, one must not only be able to separate out the different dimensions of performance, but also to accurately price those dimensions:

[The Oakland A’s] have the right collective characteristics at the right price. In order to achieve this correct combination, it is necessary to have a metric to measure exactly the relative values of the various performance attributes.

While *Moneyball* describes some specific techniques used by the A’s to attain a high level of performance at an even higher level of efficiency, the value of *Moneyball* to HRM practitioners is not to provide point estimates of values to produce a particular level of profitability. Rather, the value stems from the demonstration that more precise, not perfectly precise, identification and measurement of undervalued attributes can provide competitive advantage.

The seminal question that we invite others to consider is not whether we can perfectly measure the attributes that lead to performance in modern workplaces, but whether the logic of *Moneyball* can improve such measurement over current practice. We believe that the answer is yes.

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