



MARCH 2005 - LEADERSHIP LETTER #2

Moneyball: The #1 National Bestseller; Radical Ideas for Investors and Leaders of All Kinds

Friends, Clients, Colleagues ...

I hope you found the first Leadership Letter interesting. I hope it was clear that I was suggesting that improving your organization (when necessary) is often best done by a small group of your **own** senior leaders, using the process indicated.

This **second** letter includes a book that will be of interest to baseball fans, investors and leaders of all kinds everywhere. My holiday reading included "**Moneyball**," an unusual and very enjoyable book for fans and non-fans alike! This letter includes my review of it, with lessons for investors and for leaders.

My other holiday reading was "**The Rhythm of Life**," by Matthew Kelly, a young, wise and inspiring speaker. Matthew's goal is to help us all to live every day with **purpose, passion, energy and balance**. This book is published by Fireside and endorsed by Stephen Covey ... I think you'll love it. I did.

Best wishes for you and yours at this special time of Lent and Easter,

Mel

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MONEYBALL:



THE #1 NATIONAL BESTSELLER

Radical ideas for investors and
leaders of all kinds

By Michael Lewis [© 2003 by Michael Lewis], published by W.W. Norton & Co. 2004
Recommended by the *Intelligence Report* (investors newsletter)



Michael Lewis has done something pretty amazing: made baseball of page-turning interest to someone who's seen only one major league game in 70 years!

Actually, the thing that makes it a page-turner is the work of Oakland A's general manager Billy Beane, who **consistently** won more games with a smaller budget than any other team.

He was prompted by statisticians who had the intelligence and curiosity to look beyond and underneath traditional baseball stats. People like Bill James, who identified events which actually **won** games vs. stats of events that are simply easy to count (from Henry Chadwick, "whose reference point was cricket").

Here are some samples of both kinds of stats:

**Traditional and Easy to
Count**

**Better Measures of
Winning Players/Teams**

○ **Batters:**

Hits, RBI's, Home Runs, Bunts,
Walks, Steals, etc.

On-Base-Percentage
(% of at-bats → on-base)

Steals and bunts, he discovered, make for an exciting game, but reduce the team's on-base-percentage! So ... steals and bunts were discouraged, while walks were encouraged vs. swinging for the fences.

continued ...

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Traditional and Easy to Count

Better Measures of Winning Players/Teams

○ **Pitchers:**

Fastball Speed, Change-Up, Curve Ball, Strike-Outs, etc.

Getting **Outs**—how they do it is beside the point.

Getting outs required pitchers to know every batter's "hole" (weak spot) and to have the control to pitch to it. Chad Bradford was very unorthodox in his delivery and had a "slow" fastball, but was master at getting "outs."

○ **Recruiting Talent:**

Look for good-looking athletes, fast runners, great arm, homerun hitters, etc.

Look at their **record** for ...

- Getting on base
- Putting others "out"

Billy Beane himself dazzled the scouts as a high school player with his talents ... the "curse of talent." Yet, his lack of confidence and his explosions at his own mistakes kept him from being a great player. But they made him a great GM.

LESSONS FOR INVESTORS (IDEAS FOR APPLICATION TO INVESTING)

§ Identify truly high performers via **measures** such as P/E, Price/Book, PEG, consistent sales and profit growth, wide "moat" (barrier to competitors), etc.

I marvel at the newsletters and promos that offer or promote stocks based on irrelevancies vs. measures like these ... which they don't even mention!

§ Look for a "fat pitch" (Warren Buffett) or "margin of safety" (Ben Graham) ... those situations where you can buy a great company or fund when its price has been pummeled but its quality has not.

In recent times that **would** have been ... P&G, J&J, Citigroup, GE, Conoco Phillips, Home Depot, URS ... but not at **this** time.

LESSONS FOR LEADERS (IDEAS FOR APPLICATION TO ORGANIZATIONS)

- Identify **activities and processes** that truly do contribute to your group's success: profitability, business development, recruiting, people development, client satisfaction and retention, organization development, etc. Don't readily accept conventional "wisdom" on such success.
 - For example, a 1999 DPIC study showed that their most profitable member firms are **less** likely to do strategic planning than their least profitable member firms. And, those most profitable firms that do it, do it very differently (and successfully).
 - Another example: Some businesses (like airlines or autos) are "too tough" to succeed in. Yet, Southwest Airlines, Jet Blue and Air Tran, as well as Toyota Motors and Nissan Motors are finding ways to succeed through uncommon strategies and effective management.
- Identify the **people and key players** that actually do or will contribute to your team's effectiveness, profitability and development. Be mindful that there are many attractive yet misleading criteria for selecting or promoting the people you need on "your bus" (the "bus" metaphor is from *Good to Great*).
 - "Intelligence" is by far the most often misleading criteria, by which leaders often mean IQ or mental agility. Now we can identify at least seven kinds of IQ including emotional intelligence (EQ) that are also essential. Other **critical attributes** include: determination, integrity, personal relationship building, resourcefulness, etc.
 - Like Billy Beane, human resources professionals are often aware that the best source of reliable data for potential hires is what someone **has done**—his/her track record. And so, Billy was more interested in college players than high school players (longer track record, more experience to examine).

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