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The Coherence Profiler

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BY ART KLEINER

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During the past year, as part of the research and development of the capabilities-driven strategy concept, a few companies have been looking more closely at their own coherence. The results are beginning to show a link between performance and strategy — but not in the way that many companies currently think of their strategy. The difference is coherence. You can see what that means, and compare your company to others in your industry, by taking a brief online survey: the Booz & Company Coherence Profiler, available at http://www.booz.com/global/home/what_we_think/cds/coherence_profiler.

The word *coherence,* to many businesspeople, suggests simply having your act together — doing business with better-than-average uniformity and coordination. But in the forthcoming book *The Essential Advantage: How to Win with a Capabilities-Driven Strategy,* by Paul Leinwand and Cesare Mainardi (Harvard Business Press, 2010), the word means something much more specific. For a company to be described as *coherent,* it must be resolutely focused on the interrelationship among three critical elements: its market position (its chosen "way to play" against competitors); its most distinctive capabilities, which work together as a system; and its product and service portfolio. In a coherent company, the right lineup of products and services naturally results from conscious choices about the capabilities needed for a deliberate way to play.

The questions in the Coherence Profiler, designed by Leinwand, Mainardi, and a Booz & Company team, take about five minutes to answer. They are designed to accomplish two things. First, the test provides a real-time diagnostic for those filling it out, identifying the relative level of coherence in any company or business unit. This gives managers an immediate sense of their business's effectiveness in applying their capabilities to growth strategies, cost cutting, and the setting of management priorities. It also provides a rapid benchmark against competitors: Businesses can see immediately how coherent or incoherent their business is compared with others in their sector.

Second, by collecting information across companies, the test is building a body of knowledge about strategic choice. When managers profile their companies, in other words, they become part of a broad-based research effort that is testing the link between coherence and performance. Although the data is gathered anonymously, participants can opt to submit their e-mail address separately — and they will then receive updates on capabilities-driven strategy and related research.

Leinwand and Mainardi have proposed that coherence yields a consistent premium in performance derived from four sources of value:

- **Effectiveness.** Day in and day out, you become

Art Kleiner
kleiner_art@
strategy-business.com
is the editor-in-chief of
strategy+business and the
author of *The Age of Heretics*
(2nd ed., Jossey-Bass, 2008).

more effective where it matters most. You "sweat" your capabilities, refining and developing your methods and processes. Because your capabilities reinforce one another in a system, they improve more rapidly than the capabilities of your less-coherent competitors. Your people become more skilled; your systems grow more adept; your profitability improves. As you advance, other companies find it more and more difficult to catch up.

• **Efficiency.** As you apply your capabilities more broadly across more products and services, your investment in each of them goes further and you can build them up with more power. Small parts of your business, those that could never afford, say, a highly distinctive merchandising system on their own, can take advantage of this capability along with the rest of your company.

• **Focused investment.** By allocating capital and expense more deliberately and effectively, you focus more on the capabilities that differentiate your company competitively and less on what Gary Hamel and C.K. Prahalad called table stakes — the necessary competencies and skills that every competitor brings to this market. You don't fund unnecessary R&D projects or marketing campaigns. You invest in depth where depth is needed, and go light where you should go light.

• **Alignment.** When you commit to a strategy and articulate it clearly, everyone has a common basis for the day-to-day decisions they make. Throughout your company, people in different businesses and different geographic areas are more likely to understand one another, and to make decisions independently that are nevertheless in sync. More-coherent decision making becomes part of your company's culture. The advantage this gives you over less-coherent competitors is palpable.

Each of these four sources of value reinforces the others. Alignment makes it easier to integrate people across the company, which leads to greater effectiveness as colleagues learn from colleagues. An ethic of careful investment leads people to find ways to use their capabilities in more parts of the organization. Before too long, your company can grow at a faster pace, and at lower cost, than it ever could before.

One final note: Although the Coherence Profiler is focused on the performance of individual companies, the results will also help test a hypothesis about the evolution of industries. The authors believe it will help show the ways in which specific segments reward their most coherent competitors. When you answer the questions and provide us your contact information, you will gain access to this research, which may ultimately reveal the underlying forces that separate short-lived from long-lived companies in your industry. +

Resources

Gary Hamel and C.K. Prahalad, *Competing for the Future* (Harvard Business School Press, 1994): Source of the "table stakes" idea.

Paul Leinwand and Cesare Mainardi, *The Essential Advantage: How to Win with a Capabilities-Driven Strategy* (Harvard Business Press, 2010): Overview and practical guide for developing your own company's coherence.

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