Arnoldo Hax is a world renowned expert in the fields of strategic management, operations management and operations research. Currently he is the Alfred P. Sloan Professor of Management Emeritus at the Sloan School of Management at the Massachusetts Institute of Technology (MIT), where he has been since 1972.

He is the author and co-author of ten books and hundreds of articles in scientific periodicals. His latest book *The Delta Model: Reinventing Your Business Strategy* provides powerful new concepts and practical tools to guide organizational leaders into a completely different way of looking at strategy, including examining the competencies of the firm, with an emphasis on using the extended enterprise as a primary way of serving the customer. Dr Hax has wide consulting experience. He has assisted several companies in the development of formal strategic planning processes and was senior consultant at Arthur D. Little, Inc.

AC: Hello and welcome. Can you tell us about your professional background and your role at the Sloan School of Management?

Arnoldo Hax:

I was born in Chile where I graduated with highest honours as an Engineer from the Catholic University. Later I received a Masters at the University of Michigan and a PhD at the University of California at Berkeley – both in Operations Research. After I finished my graduate work in 1967, I joined Arthur D. Little, a consulting company with tremendous skills in operations research, for three years. There I learned how to address practical issues and began to travel around the world.

From 1970-1972 I was on the faculty at the Harvard Business School where I learned more about management and, in particular, I was exposed to the case method as a central vehicle for teaching. In 1972 I joined the Sloan School, where I am still working, now as an Emeritus Professor. This has been a most remarkable working experience for me, which I have enjoyed immensely. At the Sloan School I evolved gradually from operations research, to operations management, and finally to strategy. I was also the Chairman of the Senior Executive Programme and the Sloan Fellows Programme. In addition I served for four years as Deputy Dean of the School. I was the recipient of the Alfred P Sloan Professorship, a most distinguished honour.

MIT is an extraordinary place, full of the most gifted people. It has been a privilege for me to work in this remarkable environment.

AC: I’d like us to start with a basic, fundamental question. How would you define strategy?

Arnoldo Hax:

I believe that the essence of strategy is to achieve customer bonding. That means that the driving force of both strategy and management is the customer. Every institution owes itself to the customer and it is fundamental for us to get to know the customer deeply and
to provide a unique and differentiated value proposition that will allow us to claim a form of leadership in our industry. I reject the notion of defining strategy as a way to achieve sustainable competitive advantage, this means to put the competitor at the centre. The danger here is that you tend to view strategy as rivalry and the way to win is to beat someone. That anchors us in the past, and most dangerously it creates an obsession about the competitor’s behaviour. Companies tend to imitate each other, leading toward commoditization. This is the worst thing that could happen to a business because the only way to differentiate now is to engage in a price war that ends up not benefiting anybody, except producing a standardized product at the cheapest possible price.

AC: Your primary research focuses on strategic planning systems. Can you outline some of the key challenges organizations face in this area?

Arnoldo Hax:

To me the strategic planning process is fundamentally a dialogue among the key executives of a company, leading toward a consensus in defining the purpose of the organization. The final output of the strategic planning process becomes a pragmatic strategic agenda (with full accountability and proper metrics) and an intelligent budget (that recognizes operational as well as strategic commitments). A well-designed strategic planning system produces a rigorous way of performing a comprehensive diagnosis of both the external and internal environment of the firm, and generates the outputs that I have described.

AC: In a 1990 article you noted that resource allocation is a firm’s most critical step in strategic implementation. Would you still stand by this?

Arnoldo Hax:

It is dangerous to be quoted out of context. I would still adhere to the principle that resource allocation is a critical step in the implementation of strategy, because it represents often an irrevocable commitment that defines the ways in which we will conduct our businesses. That’s why in the previous question I identified the generation of an intelligent budget as a key output of the strategic planning process. This is important because in most firms the budget is what represents the commitment for action, containing the “numbers” that we have to deliver. The budget is the key instrument for resource allocation.

AC: You talk a lot about value propositions. How do they link in with your work on strategy?

Arnoldo Hax:

I believe that the first step in the strategic planning process is what I refer to as “customer segmentation and customer value proposition”. We have to understand the customer in an individualized way. We cannot – and should not – treat customers equally because they do have different needs and capabilities. An important part of my recent work is to address this question on how to do effective customer segmentation and how to provide to each customer segment a value proposition that has four attributes:

- Uniqueness, which means that the value proposition should be distinct and differentiated from the rest.
- Sustainability, which means that the differentiated proposition has to be long lasting.
- Provider of added value, which means that we create significant benefits for the customers and for ourselves.
- Generator of customer bonding, which means that the customer and ourselves will have an unbreakable relationship based on mutual trust and mutual benefits.

“Every institution owes itself to the customer and it is fundamental for us to get to know the customer deeply and to provide a unique and differentiated value proposition...”
AC: You have said that strategy allows organizations to “achieve a viable match between their external environment and their internal capabilities.” Can you elaborate on this?

Arnoldo Hax:

The customer segmentation and value proposition, which I have addressed in the previous question, provides a way to understand the external market demands that are impacting the organization. The second task in my approach to strategy is what I call definition of “existing and desired competencies”. This is the supply side of the business. We now need to elaborate on the capabilities that are our claim for leadership and what we should add in order to continue our road toward excellence and leadership. These two tasks – customer value proposition and competencies – are the ones that provide the viable match between the external environment and the internal capabilities.

AC: You have extensive consulting experience throughout the world with both small and large organizations. Do your ideas about strategy translate well across different organization sizes and indeed different cultures?

Arnoldo Hax:

I believe strongly that there are some universal concepts that are associated with strategy. But at the same time we have to be thoroughly conscious about the differences that exist across various environments. One such situation is the nature of the firm. In a book I have just published – *The Delta Model – Reinventing Your Business Strategy* – I make quite clear the difference that exists on both the strategy concept and process among large corporations, small and medium sized enterprises, and not-for-profit organizations. The same is true when one addresses strategy in different kinds of cultures. I travel a great deal around the world and I do have both language skills and cultural experiences that help me to adapt both the content and the process of strategy to specific circumstances. It is obvious that the cultures in the US, the Latin American, the European, and the Asian countries are quite different. You would be a fool if you were to ignore those differences in the way you approach both strategy and management.

AC: In your book *The Delta Project* you challenge the managerial conventional wisdom and the Porterian view of strategy which defines the essence of strategy as achieving sustainable competitive advantage. Why did you adopt this approach?

Arnoldo Hax:

I have the utmost respect for Michael Porter, who is undeniably the most influential academic in the field of strategy. However, as I indicated previously, I reject the notion of defining strategy as a way of achieving sustainable competitive advantage. I have seen Porter’s frameworks being used in ways in which could be quite misleading. The celebrated Five-Forces Model, which puts the competitors at the centre, could lead toward treating strategy as rivalry, and also aggregates the customer under a single label called “the buyer.” I think this is not the proper way to do it. I have already stated the importance of treating the customer in an individualized, not aggregated-way. Moreover, the relevant scope of strategy is not limited to an individual firm in competition with all the other players, but is what I called the extended enterprise, which is composed by the firm, the critical suppliers, the customers, and most importantly, the complementors. These last players are firms that engage in the delivery of products and services which enhance our delivery of products and services to the customer. Rather than rivalry, we need to embrace the extended enterprise in an effective way.

The second important framework in Porter’s approach to strategy is the value chain. The problem here is that we tend to be inward oriented. It is “our” value chain that we are concerned with, and we aim at achieving competitive advantage if not in all, at least in those most critical activities of the value chain. Instead we should look at the value chain of the extended enterprise. What is relevant is how my value chain overlaps with the customer’s, and how I could complement my capabilities with external parties such as...
suppliers and complementors to provide coherent solutions to the customer needs. We are not selling standardized, commoditized products. Instead we are providing total customer solutions founded on a well-defined portfolio of products and services. This is a very different way of looking at strategy than a conventional Porterian view.

AC: You have been writing about strategy for many years. Generally speaking, in what ways has the technological revolution of the last 15 years or so influenced the world of corporate strategy?

Arnoldo Hax:

To me the most important new technology is the Internet. This has changed everything we do. In particular there are two things that we can now do quite comfortably that were unthinkable prior to this new technology. One, we could really link ourselves with the members of the extended enterprise, creating what has been described as a “virtual organization”. Two, it allows us to deal with every customer in a granular way. Strategy can now be done one customer at a time. This also was totally unthinkable prior to the Internet. We used to think of an abstraction that we referred to as the strategic business unit as the focus of strategy. This is no longer so. The relevant focus of strategy is the customer and the extended enterprise. It is the Internet that allows us to be as creative as we never imagined addressing these challenges.

AC: In business strategy terms, which companies/case studies do you admire most, and why?

Arnoldo Hax:

Just to mention a few, my list of admired companies includes Dell, Amazon.com, Wal-Mart, Microsoft, Intel, and eBay. What do these companies have in common? What I have just described; they operate within the extended enterprise and they deal with the customer in a fairly unique way. As a result they are rewarded with a tremendous financial performance.

AC: Do you have any plans to write any new books? If so can you share any information about them with us?

Arnoldo Hax:

It is nice that you ask me this question because I could use it to plug the new book I’ve just published! It is now available on Amazon.com and is entitled *The Delta Model: Reinventing Your Business Strategy*. In the book I present both the concepts of strategy that I have alluded to in my previous comments and, most importantly, I describe the tools and illustrate the proper implementation of these ideas. The book is both conceptual and very pragmatic.

AC: Finally, how do you think we will be writing about corporate strategy in a decade’s time?

Arnoldo Hax:

I hate to be a futurist. We know one thing about the future, and that is we will never be able to forecast it correctly. What is probably surprising to me is how enduring the principles of strategy have been. As you know, the most influential frameworks are Porter’s – which were developed 30 years ago – and the Resource-Based view of the firm – which was developed 20 years ago. I only hope that the Delta Model might bring a new lens to look at strategy in the coming decade.

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