A Natural Theory of Needs and Value

Cristian Mitreanu

RedefiningStrategy.com

October 15, 2018

"*Theory*, you say? Theory often gets a bum rap among managers because it's associated with the word 'theoretical,' which connotes 'impractical.' But it shouldn't. A theory is a statement predicting which actions will lead to what results and why. Every action that managers take, and every plan they formulate, is based on some theory in the back of their minds that makes them expect the actions they contemplate will lead to the results they envision." - Clayton M. Christensen and Michael E. Raynor (*Why Hard-Nosed Executives Should Care About Management Theory*, Harvard Business Review, 2003)
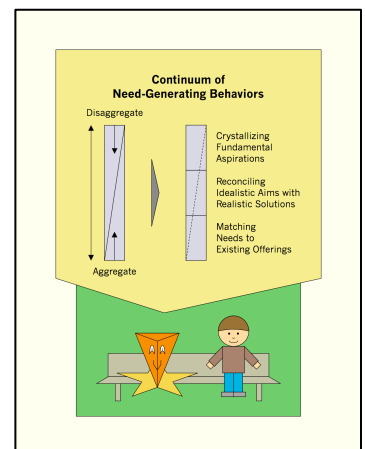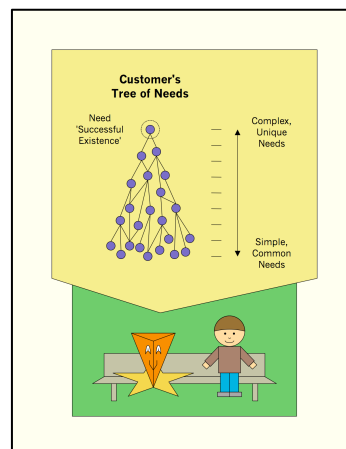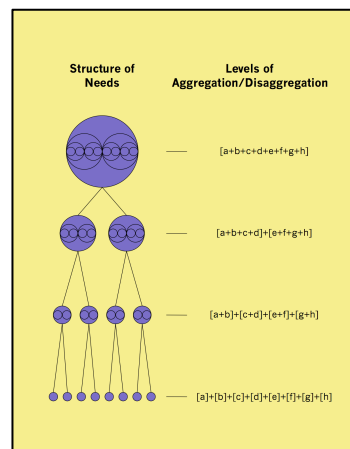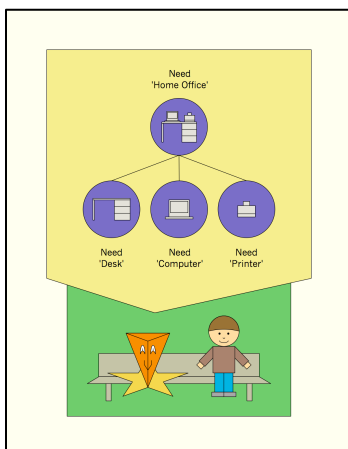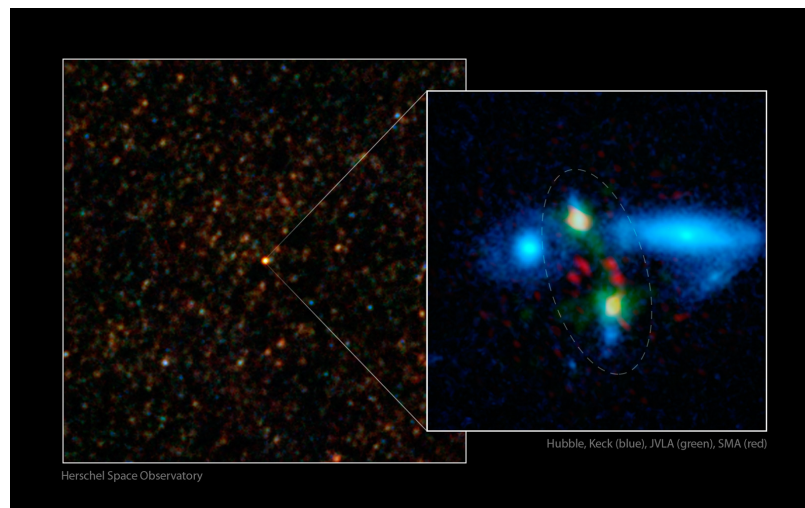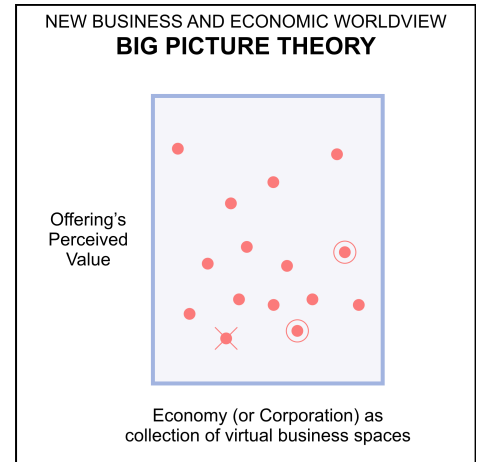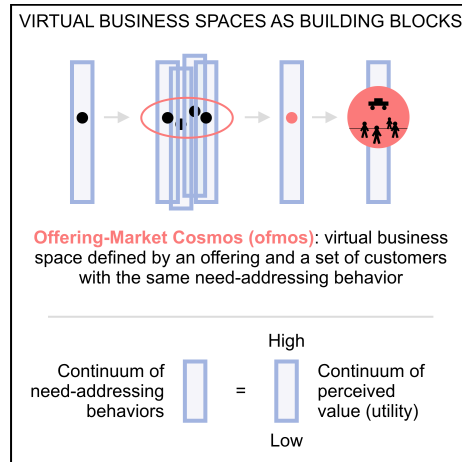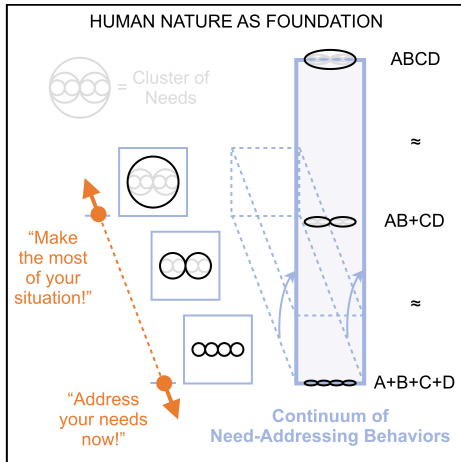
–

This is a revisit of the 2007 RedefiningStrategy.com article A Business-Relevant View of Human Nature. The main updates include the replacement of the term "issue" with the term "need" (on page 6, I left in and italicized the original paragraph that discusses the challenges of finding the appropriate terminology), the visuals on page 2, and the paper's layout.

The other significant update is the title, which more clearly suggest the paper's intent of providing a deeper insight into how humans behave and, subsequently, into how businesses and economies evolve over long periods of time. By calling it a "natural theory," I simply suggest that the theory is rooted in and built upon what we generally know about life forms, without the need to use any ideology or assumptions about what it means to be human. The first part of the paper builds this connection, although in a cursory manner.

The new perspective was originally developed through observation and thought experiment, and was refined over time (it was first mentioned in 2004 in Strategy, Redefined., and later detailed in the 2013 draft manuscript Spointra - Beyond the Fun). Nevertheless, the theory remains consistent with the existent literature and research (i.e., *Goal Constructs in Psychology: Structure, Process, and Content*, James T Austin and Jeffrey B. Vancouver, Psychological Bulletin, 1996).

C.M.

The visuals on this page were added to help with the understanding of the new perspective. On the first row, there are three panels excerpted from Cristian Mitreanu's Falling Walls Lab presentation "Breaking the Wall of Short-Termism," given at Stanford University on September 25, 2018. Here, it is important to note the equivalency between the continuum of behaviors and the continuum of value (utility), which is essential in implementing the theory as a tool for businesses and economies. The following image (Credit: NASA Jet Propulsion Laboratory) is included here for illustrative purposes only and is intended to provide a "tangible" visual aid for understanding how the continuum of need-addressing behaviors is constructed. Even though both planes of view show the same group of objects, the level of granularity increases as we bring them closer. In the far-away plane, the focus is on the collection of objects, as a single unit. And in the closer plane, the focus is on each constituent object — similarly to how the needs are being layered in the continuum of need-addressing behaviors. Finally, the last row consists of a set of pages excerpted from the book Spointra and the Secret of Business Success (The Aged Edition), providing yet another perspective on how the new theory is constructed.

HUMAN NATURE AS FOUNDATION

= Cluster of Needs

ABCD

≈

AB+CD

≈

A+B+C+D

"Make the most of your situation!"

"Address your needs now!"

Continuum of Need-Addressing Behaviors

VIRTUAL BUSINESS SPACES AS BUILDING BLOCKS

Offering-Market Cosmos (ofmos): virtual business space defined by an offering and a set of customers with the same need-addressing behavior

Continuum of need-addressing behaviors = Continuum of perceived value (utility)

High

Low

NEW BUSINESS AND ECONOMIC WORLDVIEW
BIG PICTURE THEORY

Offering's Perceived Value

Economy (or Corporation) as collection of virtual business spaces

Herschel Space Observatory

Hubble, Keck (blue), JVLA (green), SMA (red)

Need 'Home Office'

Need 'Desk' Need 'Computer' Need 'Printer'

Structure of Needs

Levels of Aggregation/Disaggregation

[a+b+c+d+e+f+g+h]

[a+b+c+d]+[e+f+g+h]

[a+b]+[c+d]+[e+f]+[g+h]

[a]+[b]+[c]+[d]+[e]+[f]+[g]+[h]

Customer's Tree of Needs

Need 'Successful Existence'

Complex, Unique Needs

Simple, Common Needs

Continuum of Need-Generating Behaviors

Disaggregate

Crystallizing Fundamental Aspirations

Reconciling Idealistic Aims with Realistic Solutions

Matching Needs to Existing Offerings

Aggregate

◆

Understanding the fundamental nature and substance of the human being has always preoccupied mankind. At the very least, this has been and remains a matter of survival. No wonder then that the quest for identifying human behaviors and characteristics that transcend cultures, time, and circumstances forms the bedrock of several areas of knowledge including anthropology, psychology, and sociology. The study of human nature is also prominent in economics. However, surprisingly enough, it has a relatively small presence in the realm of business, or commerce. And the surprise stems from the fact that business, in one form or another, has always played a major role in humans' lives, as they address many of their needs through commercial transactions.

This article introduces a theory of human nature that is particularly important to the business world because it provides a strong foundation for a better understanding of business, in general. Structured in three sections, the article begins with an analysis of the fundamental drives that characterize all living things. The second section builds upon these fundamental drives, crystallizing the unique view of human nature that is the centerpiece of the article. And finally, the last section highlights the major benefits that the new theory of human nature brings to the business world over traditional conventions.

I. On Living Things

In the scientific community, there is an ongoing debate as to what is the best definition of a living thing. Determining a set of characteristics that would universally describe life seems to remain a challenging task. It is possible, however, to universally define life from a behavioral perspective, and thus identify a unique set of basic characteristics that underlie all other characteristics exhibited by a living thing. Fundamentally, then, a living thing is an entity (i.e., carbon-and-water-based entity, like a cell or a system of cells) that: (1) lasts a finite period of time, through the consumption of energy that is extracted from matter available in its environment; and (2) is constantly driven by an inherent set of three fundamental drives, or inner urges.

The first part of the definition focuses on the

The Living Thing

Physical Entity

Perceive Environmental Composition — Make Most Out Of Resources — Remember Environmental Changes

Fundamental Drives

physical, or tangible, aspect of a living thing, describing an entity, or system, that is held together for a finite period of time through energy consumption. It refers to all physical interactions and chemical reactions (i.e., metabolism) that make this sustainability possible. It also refers to the living thing's capacity to grow, since at the very minimum some of its components must be regenerated over the living thing's lifetime. However, this physical aspect alone does not have the capacity to clearly differentiate life from other natural objects that are also sustained through the consumption of energy (i.e., stars). This is accomplished by the second part of the definition, which focuses on the fundamental drives of life. (**See the illustration "The Living Thing."**)

1. All living things strive to perceive the composition of their environment.

Enabling their own functionality, all living things are fundamentally driven to perceive, or sense, the composition of their environment. Constantly, they are perceptually and physically breaking down the environment into smaller components, at least to a degree that makes their life possible. In other words, they are perpetually disaggregating their environment to a degree that, at the minimum, allows them to identify and access the matter necessary to sustain the metabolic processes (i.e., food). For more complex and intelligent beings, this
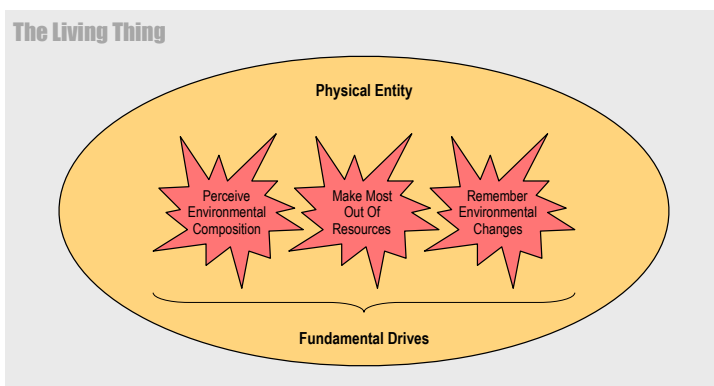
capacity of disaggregation is driven to levels at which the organisms are capable of perceiving not only components of the environment, but also structures within the environment and the sequencing of time. A great example from the animal world is provided by a popular experiment featuring an octopus, which repeatedly figures out that to get to the shrimp inside a glass bottle it must first remove the cork. This means that the octopus perceives not only the distinct objects involved (i.e., bottle, cork), but also the particular sequence in which they have to be manipulated. Plants are less complex. However, the process of photosynthesis, in which six molecules of water plus six molecules of carbon dioxide are converted into one molecule of sugar plus six molecules of oxygen, shows that they too are continuously driven to perceive, and thus, manipulate components of their environment. Similarly, the process of fermentation, in which bacteria in combination with yeasts (fungi) convert sugar into alcohol, proves that these microscopic beings are also fundamentally driven to perceive the composition of their environment.

2. All living things strive to make the most out of a given amount of resources, in a given environment.

Under the constant influence of its fundamental forces (four known: strong interaction, electromagnetism, weak interaction, and gravity), nature tends to do things in the most efficient way possible. And that holds true for organisms as well. Specifically, all living things are fundamentally driven to maximize the impact generated by the use of a given amount of resources, with respect to a set of given conditions. Examples are abundant, but particularly eloquent are the ones that show living things not only surviving but actually thriving in extreme conditions, where resources are scarce – animals living at the Earth's poles, plants living in the desert, and bacteria living in acidic environments. As an immediate consequence, it can be stated that every living thing will grow and develop at the maximum rate allowed by its particular organism within a particular environment, if no unexpected environmental changes occur. This fundamental drive, then, can be thought of as "organic inertia," to use an analogy to Isaac Newton's principle of inertia, which states that an object remains at rest or in uniform motion in a straight line unless it is acted upon by an external force. So, in an environment free of unexpected changes, a being that is expected to live two hundred years will live two hundred years, dying of what we commonly call "natural causes" – like the Galapagos giant tortoise, who has no natural predators. As for plants and microorganisms, similar examples can be easily found.

3. All living things strive to remember the changes that occur within their environment.

Constantly in touch with their environment, all living things are fundamentally driven to remember the changes that occur in their immediate vicinity. Their capacity to interact with the environment implies that they have the capacity to respond to stimuli. It follows then that, depending on the scope, duration, intensity, and repeatability of the stimuli, every living thing reaches a threshold after which the stimuli, or the change in the immediate environment, will be remembered. Newton's principle of action-reaction, which states that for every action there is a reaction, and the more popular "for every cause there is an effect, and for every effect there is a cause," pretty much describe the same phenomenon, which affects all objects in nature. Ivan Pavlov's experiment with a dog that learned to associate the sound of a bell with food, and thus ended up responding to the mere sound of the bell by drooling, tellingly shows the effect of this fundamental drive. The young, crooked trees that get straightened with the help of a pole are also great examples. And finally, the phenomenon of antibiotic resistance proves that bacteria too are fundamentally driven to remember environmental changes.

The three fundamental drives are not mutually exclusive. They are tightly interwoven, all exercising a constant and continuous influence on the living thing. This means that there is no preset causal relationship among the drives (one does not cause another), and that it is rather impossible to clearly discuss them in isolation from each other. However, as I mentioned at the beginning of the section, they are collectively exhausting. In other words, all other characteristics of a living thing, including reproduction and adaptation, stem from them.

Traditionally, the ability to reproduce is considered to be one of the basic characteristics of a living thing. However, it is possible to see now that the function of reproduction stems from the above fundamental drives, as reproduction is part of the growth, the capacity to produce new cells. Several examples of living things that do not have the capacity to reproduce (i.e., ant workers, mules, eunuchs) support the exclusion of reproduction from this set of fundamental characteristics of life. As for the sexual drive present in most living things, this behavior can be explained as an inheritance from the primitive organisms, which learned that living in colonies will increase an organism's chances of survival.

The other characteristic that is conventionally considered a basic trait of a living thing is the capacity to adapt. However, this characteristic too stems from the above fundamentals – the three inner urges drive not only an individual specimen's development, but the evolution of its specie as well. And this is an important find, because adaptation, as part of the evolutionary theory, can be used to argue against the invariance of human nature.

In this new light though, a view of human nature that is based on the above fundamental characteristics of life would be actually reinforced by, or consistent with, humans' adaptation trait, not combated by it.

II. A Theory of Human Nature

Humans are arguably the most advanced form of life on Earth. Driven by the fundamental inner urges of life, they have evolved into living things that feature some of the most complex physical and behavioral characteristics. Incidentally, they have developed a series of invariant basic human behaviors that, together, provide a unique view of human nature, which transcends cultures, time, and circumstances.

1. At any given time, every individual possesses one, and only one, all-encompassing need to address.

As a direct consequence of the fundamental drive according to which every living thing is striving to make the most of its current situation, at any given time, every individual is governed by an overall direction or purpose. Generically labeled "successful existence," this need is interpreted subjectively, each individual developing a unique description of it. Moreover, even for the same individual, the description tends to be different from one moment to another. So, although continuously changing, the content of the dominant need is always a personal, subjective interpretation of the term "successful existence."

Nonetheless, the dominant need should not be confused with the concept of "purpose (meaning) of life," which is concerned with an individual's life as a whole, and thus is the subject of an age-old debate. Whether there is an overall meaning of life, or not, is not relevant here. Also, it should not be seen exclusively as wellness, or any other sense of the term "success," regardless of how success is generally defined by a particular society or community, at a particular time.

For a better understanding, let us consider the case of Joe. In high school, Joe's dominant need was to become a successful professional athlete. Almost all his actions during those years served this purpose. Although he did not become a professional athlete, he did end up in college, studying to become an engineer. Still a student, Joe's dominant need now describes a man living happily with his wife and their children in a cozy house somewhere in the mountains. Later in life, Joe's dominant need will most likely be exclusively concerned with the legacy that he will leave behind after his death.

While this example highlights dominant needs that reflect the typical interpretation of success in many cultures, as mentioned earlier, "successful existence" can have meanings that are not commonly associated with success. For example, someone affected by crime might temporarily translate the dominant need into some form of revenge. Or, while many people interpret the dominant need as "going to heaven," the way some people choose to go about it (i.e., suicide) may be condemned by others living in the same community, at the same time.
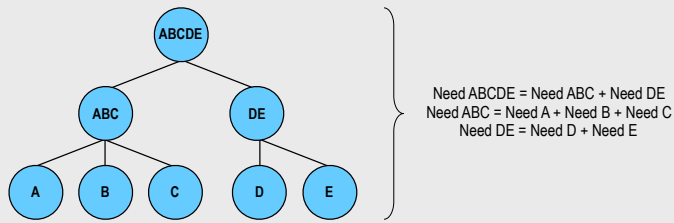
These observations reveal an important fact – a dominant need can only be defined broadly. Brief, and thus vague, descriptions like "becoming a rock star" or "going to heaven" are used for convenience. They make it easier for humans to communicate and relate to each other. However, although similar brief descriptions may be shared by several people, the dominant need of each individual is in fact unique and highly complex. Determined by one's unique abilities (physical and mental), environment, culture, upbringing, education, and all other life experiences, the details of the dominant need are difficult to identify even by the owner. One reason for this difficulty is the sheer number of factors influencing one's life. The other reason is the fact that humans are continuously learning. Every moment of their life brings about new knowledge, new interpretations. As a result, although the dominant need might seem common and lasting when broadly described, it is in fact unique, highly complex, and dynamic when details are put forth. And this takes us to the second basic human behavior.

2. Every individual possesses a dynamic hierarchy of needs that stems from the dominant need.

In attempting to address the need "successful existence," every individual generates a unique hierarchy of needs through repeated disaggregation – a direct consequence of life's inner drive to perceive the composition of the environment. This hierarchy is termed The Hierarchical Tree of Needs. (**See the illustration "The Process of Need Disaggregation."**)

Specifically, when attempting to address a need, an individual's obvious and natural instinct is to look for a solution that matches the need. However, if the need is

ABCDE

ABC   DE

A   B   C   D   E

Need ABCDE = Need ABC + Need DE
Need ABC = Need A + Need B + Need C
Need DE = Need D + Need E

highly complex and has no direct solution, the individual will move on to break down the need into subordinated, less complex needs that might already have existent solutions. If the new needs also have no known direct solutions, the individual will continue the disaggregation process. And so, this cascading process will continue until the resulting needs match existent solutions known to the individual.

——-

[Paragraph from the original 2007 paper:]

It is important now to explain the word choice "issue," which you have probably already questioned. Isn't the issue "successful existence" rather a goal or objective? Or, why not use the term "need," which is a more traditional convention? Although a term like "need," "want," "problem," "goal," or "objective" might be a better linguistic fit when referring to a particular issue in a particular situation, it is important to find a term that can be used generally, as we are discussing a system of similar entities. Unfortunately, the terms mentioned above imply various levels of specificity and urgency, which makes finding the best fit almost impossible (at least in the English language). As a result, the task becomes one of finding the least constraining term. So, I opted for "issue." However, although implying a higher degree of specificity and urgency, if preferred, or if necessary when translated into another language, the term "need" will do just fine.

——-

The basic element of the Hierarchical Tree of Needs, a need has several traits: (1) every need in a particular hierarchy at a particular time is unique; (2) if there is a direct solution for a need, there will be only one solution; (3) one need can be subordinated to multiple needs in the same hierarchy at the same time; and (4) if a need has subordinated needs, the need will be the equivalent of the sum of the subordinated needs. However, the last trait should not be seen as a perfect mathematical operation. In many cases, the subordinated needs will overlap, generating redundancies. For example, when attempting to address the needs "DVD player" and "CD player," both subordinated to the need "whole-home entertainment system," Joe discovered that the DVD player that he just ordered also has the capability to play CDs, a function that overlaps with the main function of the CD player he wants to buy at a later time.

The hierarchy of needs does not imply a preset succession that determines the order in which the needs are addressed. This is one reason for increased caution when using the term "goal," or other term that strongly suggests a milestone in time and, thus, succession. Nonetheless, due to their complexity and scarcity, the higher-positioned needs are usually addressed after the lower-positioned needs are addressed. More important, though, is the fact that the hierarchy of needs is dynamic, as every individual is under the continuous influence of internal and external stimuli. Consequently, an individual will continuously alter his or her hierarchy of needs by adding needs, discarding needs, or repositioning needs within the hierarchy.
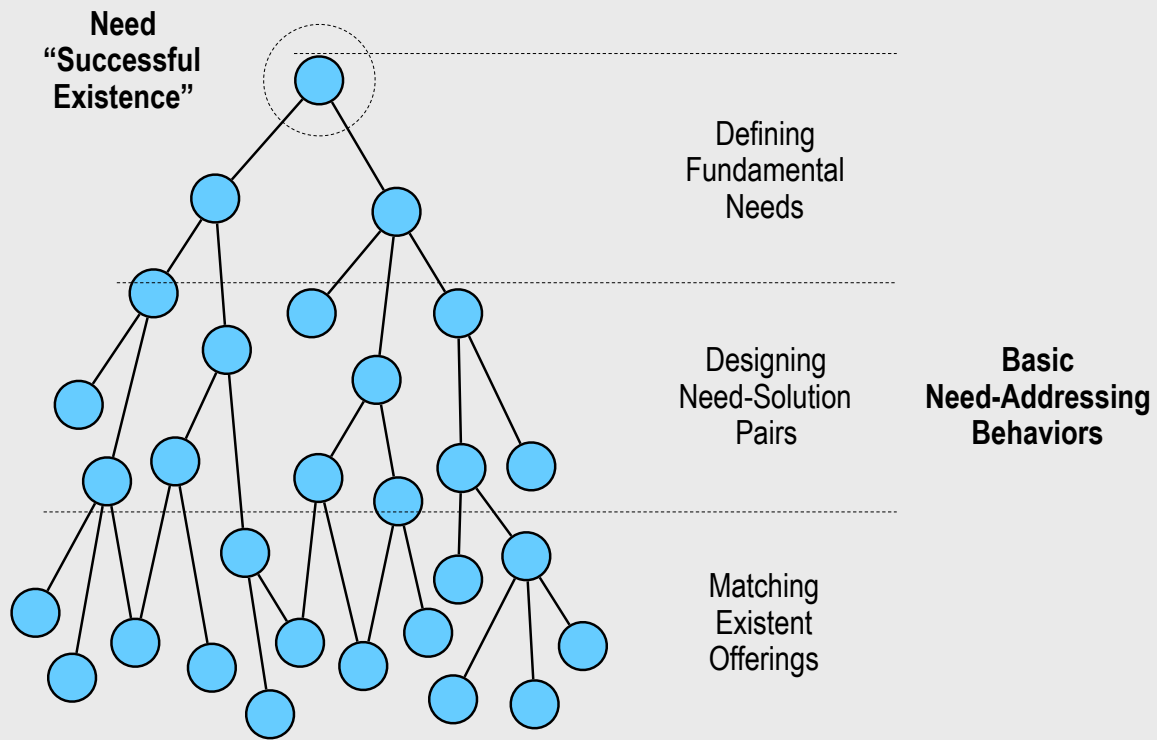
The processes of need addition and need deletion are relatively easy to understand. For example, several months before he went to college, Joe was in the process of acquiring a television set that would have been the centerpiece of his whole-home entertainment system. In other words, he was in the process of addressing the need "TV set." But before he made the purchase, Joe heard about a promotionally discounted video projector, a device that would allow him to watch his favorite programs projected on a large screen, or even a wall. In an instant, he decided to discard the need "TV set" from his need hierarchy and, instead, add the need "video projector." Sure, another way to discard a need is to actually address it – after purchasing the projector, the corresponding need was discarded. However, it is important to mention that the addition or deletion of a need will alter the hierarchy of needs in that particular vicinity. For example, by choosing the projector instead of a TV set, Joe has also altered the needs concerning the furniture piece that would house his entertainment system by eliminating the necessity of a TV stand.

Animated by life's fundamental inner drives, every individual strives to make the most of every need, as a component of the hierarchy of needs, which itself is determined by the dominant need. In other words, every need's contribution to the hierarchy of needs, as a whole, should be maximized. As a result, every individual enters, consciously or not, a two-step, cyclical process. First, the individual begins to accumulate need-related knowledge, often even before the need is added to the hierarchy of needs. Then, based on the accumulated knowledge, the individual will attempt to reposition the need within the hierarchy, or will simply discard it. Since an individual's accumulation of knowledge (as opposed to reduction of knowledge) is a natural phenomenon, the repositioning of a need typically means pushing it lower within the hierarchy.

3. Every individual employs one of three basic need-addressing behaviors when addressing needs.

As shown earlier, humans address needs that have no known solutions through disaggregation. However, depending on a need's position within the hierarchy of

The Hierarchical Tree of Needs

Need "Successful Existence"

Defining Fundamental Needs

Designing Need-Solution Pairs

Basic Need-Addressing Behaviors

Matching Existent Offerings

needs, the approach to its disaggregation will vary. Specifically, there are three different basic, or general, approaches. They are universal, which means that they transcend cultures, time, and circumstances. I refer to these approaches as Need-Addressing Behaviors, replacing the word "issue" with the word "problem" due to a better fit in this particular instance.

The need "successful existence" is unique for each individual. Highly idealistic and complex, this need has no direct solution. Therefore, every individual begins a cascading disaggregation process, aiming to generate needs that can be addressed by existent solutions. In other words, every hierarchy of needs begins with a unique need and ends with a multitude of needs that are common among individuals. And along this hierarchy, the individual will employ three basic approaches. (**See the illustration "The Hierarchical Tree of Needs."**)

First, all needs at the top of the hierarchy are unique, complex, and without known solutions. As a result, the disaggregation process is focused entirely on reducing their complexity. Specifically, the individual breaks down these fundamental and idealistic needs into other essential and idealistic needs, without any attempt to find direct solutions. All these needs are virtually unique for each individual. Fittingly, the basic need-addressing behavior that characterizes all needs positioned at the top of the hierarchy of needs is called Defining Fundamental Needs.
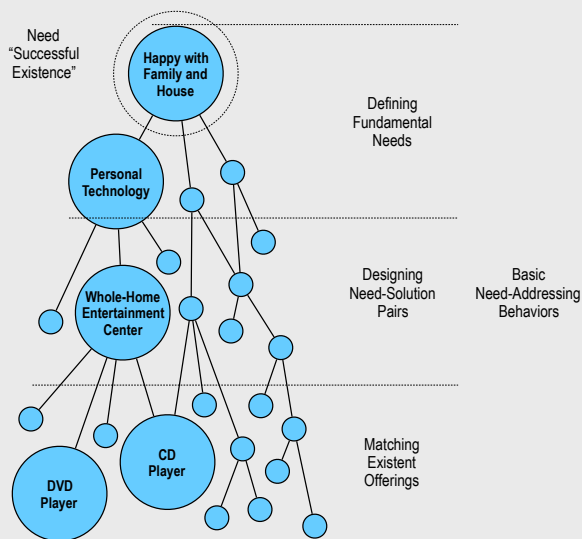
Second, possessing unique knowledge associated with needs and solutions that are common in his or her environment, the individual continues the cascading disaggregation process, reducing the complexity of the resulting needs. Increasingly, the urge to maintain the needs' idealistic character, which better serves the top need, is balanced by the urge to generate needs that have known direct solutions. As a result, the focus of the disaggregation process is shifted toward generating needs that resemble those common in the environment, while maintaining a degree of uniqueness specific to the individual. The resulting needs are scarce, and shared by a limited number of individuals. This basic need-addressing behavior, characterizing the mid-section of the hierarchy of needs, is called Designing Need-Solution Pairs.

Finally, as the cascading process of disaggregation continues, the focus will shift toward generating needs that have known direct solutions. These needs are common and readily available in the individual's environment. Suggestively, this basic need-addressing behavior, specific to the bottom of the hierarchy of needs, is called Matching Existent Solutions.

To illustrate these concepts, let us have a look at some of Joe's needs. At this time, his hierarchy of needs begins with the dominant need "happy with family and house." This need was disaggregated into several fundamental needs. Among them there is one labeled "personal technology," a need that encompasses all technological

Need "Successful Existence"

Happy with Family and House

Defining Fundamental Needs

Personal Technology

Whole-Home Entertainment Center

Designing Need-Solution Pairs

Basic Need-Addressing Behaviors

Matching Existent Offerings

CD Player

DVD Player

tools that would support Joe in his quest for a "successful existence." Expectedly, this need too was disaggregated into several other needs. One of them is the need "whole-home entertainment center," which enables all of Joe's audio-video-entertainment activities. Its disaggregation has generated subordinated needs like "DVD player" and "CD player," all of which are readily available in the marketplace. (**See the illustration "A Common Set of Needs."**)

III. New Fundamental Perspectives on Business

Since an individual's hierarchy of needs changes constantly, one might conclude that the view of human nature that I just presented is of limited use. Fortunately, humans are social animals that live mainly in communities. As a result, the above findings can be used to identify broad patterns that extend beyond the individual, and thus provide valuable new perspectives on the business world.

1. Fundamentally, the world of business is a world of needs, offerings, and solutions.

One of the most important, though least discussed, aspects of the business world is our basic view of it. Rooted in economics, the conventional view shows a space, a marketplace (i.e., local, national, global), populated by a multitude of customers and vendors engaged in economic activities, like buying and selling goods and services. It is a top-down view that reflects the mainstream economic thought that characterized Western society shortly after the Second World War, when business management began to consolidate as a distinct discipline. Ironically, the management field's continuing association with the branch of microeconomics, in particular, has not only constrained it to the microeconomics' implied top-down view, but has kept it more or less subordinated to mainstream economic

thought and practices. As a result, the average view of the business world remains significantly limited by its overwhelming focus on the interaction among the players (i.e., competition and competitive advantage), and its limited attention to human behavior, which is in fact the foundation, or cause, of every economic or business phenomenon.

While the discipline of economics is relatively new, economic thought can be traced all the way back to antiquity. Over the years, this body of knowledge has evolved to also include some valuable theories on human behavior. Unfortunately, these theories seem to have been lost in translation, or simply ignored, when economic knowledge was adapted for business. The average participant in the business world still struggles to understand that, "People don't want to buy a quarter-inch drill. They want a quarter-inch hole!" as Theodore Levitt put it four decades ago. It is an essential piece of knowledge that seems to remain largely confined to the sales and marketing arena. Sure, there is Abraham Maslow's ubiquitous theory of human motivation (1943), which argues that humans satisfy their needs in a roughly preset succession: physiological needs, safety needs, social needs, esteem needs, and lastly self-actualization needs. In spite of its popularity, however, this theory is of limited use, as (among others) its validity across circumstances, in particular, is questionable (i.e., an

The World of Business
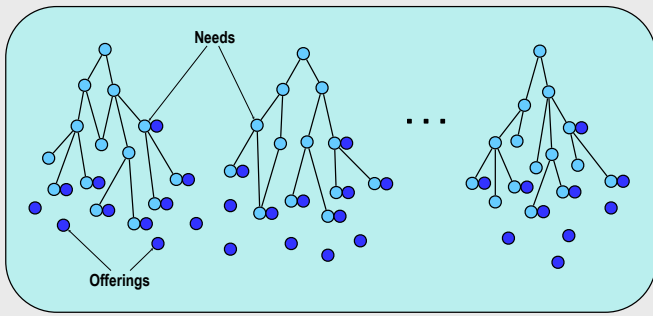
individual, whose self-actualization need is revenge, might choose to skip over safety, social, and esteem needs).

The theory presented in this article shows that, at any given time, every individual possesses a hierarchy of needs to address. In other words, under the continuous influence of life's fundamental drives, humans continuously strive to address their needs. Nonetheless, at any given time, every individual is surrounded by a multitude of offerings that can potentially address his or her needs. These offerings could be provided by other individuals or groups of individuals (i.e., vendors), or they may be readily available in nature. As a result, at any given time, every individual engages in a process of acquiring offerings that address their needs. These transactions, which are not limited to commercial exchanges, are the lifeblood of the business world, and are only possible if the parties involved (i.e., buyer and seller) perceive that the offering matches the need, in which case the offering can also be referred to as "solution." It is possible then to see the business world as the totality of needs, offerings, and solutions. (**See the illustration "The World of Business."**)

Reaching far beyond the typical view of the business world mentioned earlier, this realistic perspective is generally consistent with the so-called Austrian School of economic thought, which bases its views on human action. Carl Menger, whose work served as the movement's formal foundation, wrote in 1871, "Things that can be placed in a causal connection with the satisfaction of human needs we term useful things. If, however, we both recognize this causal connection, and

have the power actually to direct the useful things to the satisfaction of our needs, we call them goods. If a thing is to become a good, or in other words, if it is to acquire goods-character, all four of the following prerequisites must be simultaneously present: (1) a human need; (2) such properties as render the thing capable of being brought into a causal connection with the satisfaction of this need; (3) Human knowledge of this causal connection; and (4) Command of the thing sufficient to direct it to the satisfaction of the need." Nevertheless, the concept of The Hierarchical Tree of Needs presented here provides an even deeper understanding of human nature, showing how the human needs are interrelated. Furthermore, it allows for identification of the basic forces that shape the dynamic business world.

2. There are two basic forces that continuously reshape the business world – Commoditization and Innovation.

Making any predictions with regard to the changes that occur in an individual's hierarchy of needs is rather impossible. Nevertheless, there are universal patterns that characterize every human community, whether the community is physical or virtual. And to identify these patterns, it is important to take a closer look at how individuals address their needs.

Every individual's approach to a need is governed by two permanent conflicting impulses that spring from the fundamental drives of life. On one hand, there is the impulse to address the dominant need, and thus generate subordinated needs that conserve its idealism and uniqueness. On the other hand, there is the impulse to simply address needs, and thus generate needs that match existent solutions. This permanent tension, or tug of war, creates and sustains every individual's needs hierarchy, as an entity. It also causes the individual's approach to addressing needs to change, resulting in the three basic, or general, need-addressing behaviors that were identified earlier. Nonetheless, this change in approach is rather gradual, amounting, in fact, to a spectrum of behaviors that go from an exclusive focus on generating needs that conserve the dominant need's idealistic character to an exclusive focus on generating needs that match existent solutions. As a result, this spectrum can be seen as a continuum, on which every need in the individual's hierarchy of needs can be represented at any given time. (**See the illustration "The Continuum of Need-Addressing Behaviors."**)

Highly social, humans participate, consciously or not, in a multitude of communities during their lives. Staying in touch with their families, living in population centers (i.e., village, city), and being part of professional associations are just a few examples of community participation in which most people engage. However, because the very essence of a community is sharing, it means that people participating in the same community are most likely to share not only needs, but knowledge

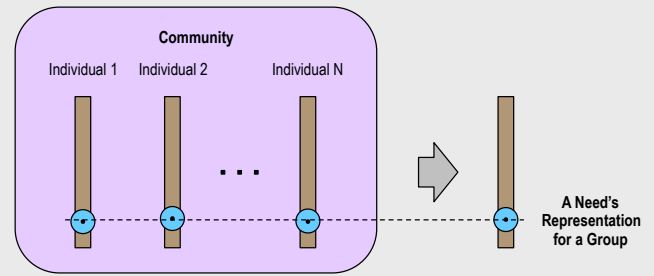The Continuum of Need-Addressing Behaviors
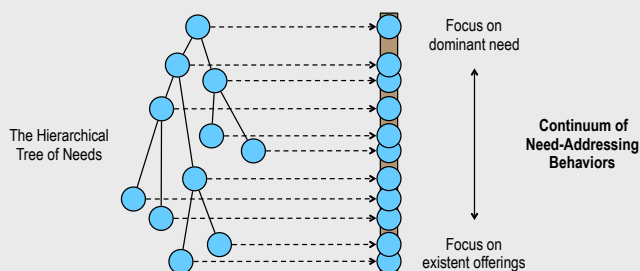
about those needs as well. Furthermore, similar knowledge about a need implies similar behavior relative to the need. In other words, a need that is shared by individuals with similar related knowledge will occupy an almost identical position on each individual's continuum of need-addressing behaviors. It is then possible and useful to use a single continuum of need-addressing behaviors on which to represent an need shared by a set of individuals with similar need-related knowledge. (**See the illustration "The Unique Representation of a Need for a Community of People."**)

Since every individual's hierarchy of needs is continuously changing, needs are constantly added, discarded, or repositioned within the hierarchy. So, even if a set of individuals share the same need and the same need-related knowledge, the actual time when each one of them will address or discard the need will most likely differ. However, most, if not all, communities are rather lasting entities, because they are created around one or more needs that are shared among participants and across time. This means that although the individuals that share the need might differ over time, there will always be a unique representation of the need for the group as a whole.

I mentioned earlier that the addition of a need to an individual's hierarchy of needs is accompanied by the accumulation of related knowledge, resulting in a downward pressure upon the need. In many cases, though, the need might have a solution provided by a vendor, which typically gets involved in the process. Attempting to make the most of the potential transaction, the vendor creates an opposing, upward pressure on the need by bringing slight improvements to the solution, making it more specific to the individual. As a result, if the transaction is to occur, it will take place when and where, relative to the individual's continuum of need-addressing behaviors, these pressures balance each other out. However, within a group of individuals that share this need, the transaction's position along the continuum tends to be the same for each individual, at any given time. So, not only do the pressures from all the individual transactions, including the potential ones, influence each other, but they cumulate, resulting in the two fundamental forces that act upon the group's need-solution pair. These forces are Commoditization and Innovation.

Lacking an underlying theoretical explanation, the two notions are traditionally used as labels rather than concepts. Typically, "commoditization" refers to the transformation of a unique offering into an undifferentiated offering, or commodity, without providing any additional insight. Some attempts to explain this phenomenon blame the increasing competition among vendors in a particular marketplace, ignoring the fact that competition too is an effect, not a cause. Similarly, "innovation" is used to superficially refer to the process of creating something new, which could be a feature or an offering. Using the theory of human nature presented earlier, it is now possible to see

The Unique Representation of a Need for a Community of People

The members of the community are sharing not only the need, but the need-related knowledge as well.

that these phenomena stem, in fact, from the fundamental drives that characterize the customer and the vendor, respectively. Knowledge-based, they are the two basic forces that continuously shape the business world.
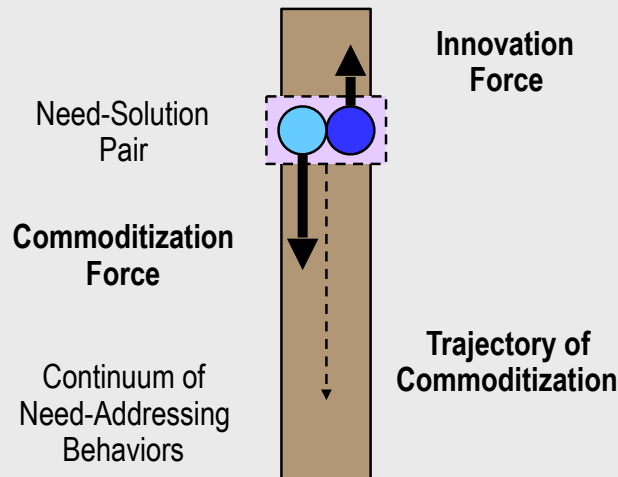
Adding to the perspective from the previous section, these findings show that the world of business is evolving under the constant influence of Commoditization and Innovation, which act upon every need-solution pair. And this includes all need-solution pairs pertaining to organizations as well, since the same case that was made above for personal needs can be easily made for corporate needs. Moreover, since the accumulation of knowledge about a need-solution pair tends to be continuous within a community, over time, the need-solution pair will be pushed lower by the dominant force of Commoditization along the group's continuum of need-addressing behaviors. In other words, every need-solution pair commoditizes over time. (**See the illustration "The Process of Commoditization."**) As a result, it is possible to see the world of business as a world of needs, offerings, and commoditizing need-solution pairs.

3. There are three basic ways of doing business.

Traditionally, offerings have been categorized as products and services. It is a convention that closely follows the historical evolution of the mainstream economic thought and practices, which themselves tend to reflect the societal evolution. However, the accelerated advances in technology are increasingly blurring the boundaries between the two categories by enabling the development of mixed offerings, which incorporate both tangible and intangible components (i.e., outsourcing the accounting function, means outsourcing not only the processes involved, but the necessary equipment as well). As a result, even though the business community seems to have adopted the new category, labeling it "solutions," the relevance of this whole approach to offering categorization continues to narrow.

Semantics are always challenging. The term "solution," in its literal sense of answer or explanation, can easily characterize any offering. And that is the case in this article, where a solution is any offering that has an associated need. Consequently, the label's openness to

Need-Solution Pair

Innovation Force

Commoditization Force

Continuum of Need-Addressing Behaviors

Trajectory of Commoditization

The members of the community are sharing not only the need, but the need-related knowledge as well.

subjective interpretation makes it difficult for the business community to clearly frame the new type of offerings.

In spite of appearance, though, this has never been a labeling problem, but one of perspective. Whether an offering is a product, a service, or a mix of the two, the traditional approach is to focus on the provider's resources, without much consideration for the offering's context. The way an offering is generated (i.e., product manufacturing) is widely held to imply a distinct general environment (i.e., intense competition and low margins) and, thus, a basic way of doing business (i.e., aggressively pushing a standardized offering). That is why solutions, as bundles of products and services that promise low competition and high margins, are so intensely pursued. Unfortunately, or rather fortunately, the passing of time constantly proves these assumptions wrong, emphasizing the changing way of doing business required by an offering for a particular set of customers, over a period of time.

To be sure, other concepts (i.e., Product Life Cycle, Boston Consulting Group's Growth-Share Matrix) have already revealed the fact that the suitable way of doing business associated with an offering changes over time. They are problematic, nonetheless, as they rely heavily on financial results (i.e., sales, profit). This direct connection to the effect rather than the cause makes them capable of describing what happened in the past, but gives them little power to prescribe what and how things will happen in the future. However, by using the theory of human nature presented here, this problem can be avoided, and a more realistic perspective, which has increased predictive power, can be developed.

In the previous section, it was shown that the dominant force of commoditization causes every offering

to evolve along the continuum of need-addressing behaviors, until it becomes irrelevant to the associated set of customers. As a result, it is possible to use a unique continuum of need-addressing behaviors as a reference for the entire world of business. And since the offerings that are not matching needs have no immediate relevance, and also can't be represented on the continuum, the business world can be seen as the totality of existent solutions, or offerings that match needs. (**See the illustration "A Dynamic View of the Business World."**)

Referencing the world of business to the continuum of need-addressing behaviors translates into the fact that each and every offering corresponds to one of the three basic need-addressing behaviors employed by humans. And since the average transaction takes place not only because the offering matches the need, but also because the vendor's approach suits the buyer's need-addressing behavior, it can be further deducted that there are three basic approaches, or ways of doing business, that a vendor can employ in relation to an offering. Specifically, at any given time, there is only one out of three basic approaches suited for a particular offering relative to a particular set of customers that share the corresponding need and the associated knowledge. For convenience, the three basic types of offerings and the associated approaches are labeled Type I, Type II, and Type III, each corresponding to the basic need-addressing behaviors Matching Existent Offerings, Designing Need-Solution Pairs, and Defining Fundamental Needs, respectively.

Building upon the characteristics of the basic need-addressing behaviors, it is relatively easy to identify the major characteristics of each of the three basic ways of doing business. The Type I offerings address needs that are common among a relatively high number of

A Dynamic View of the Business World

Continuum of Need-Addressing Behaviors

Commoditizing Need-Solution Pairs
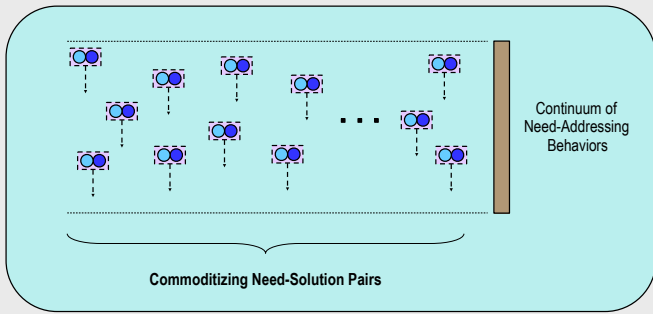
customers. The related knowledge is abundant and readily available to vendors and customers, implying that most business processes associated with these offerings are highly standardized. The typical go-to-market approach must push these offering into markets crowded with competing offers, indicating relatively low margins. The Type II offerings are what the traditional convention would call "solutions." Only a limited number of customers share needs corresponding to such offerings, so the related knowledge is scarce. The related business processes can be only partially standardized, and margins are relatively high. Taking these offerings to market requires a balanced push-pull approach. Finally, the Type III offerings are designed for unique customers, and there is no standardization in the associated business processes. And so, in a similar manner, this deductive process of elaboration can be further advanced.
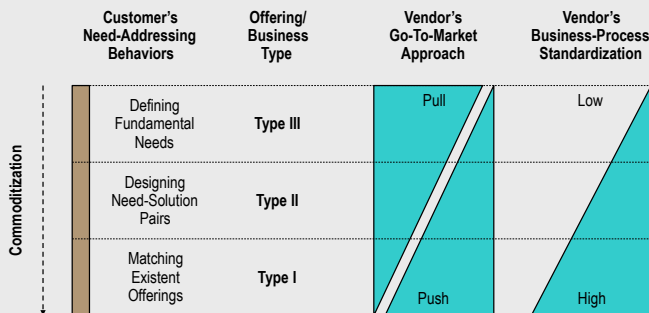
Its foundation in human nature also gives this new perspective on business increased predictive power. As explained earlier, every offering's commoditization relative to a group of customers translates into changing approaches employed by the vendors, and in changing customer need-addressing behaviors. Specifically, these changes are incremental evolutions along the continuum of need-addressing behaviors. And, since the continuum is actually a spectrum of behaviors, most characteristics (i.e., business-process standardization, etc) describing a business space defined by an offering and a group of customers with similar related knowledge will follow a roughly linear trajectory, unaffected by the offering's

speed of commoditization. (**See the illustration "The Basic Ways of Doing Business."**) Using this linearity, then, it is possible to generate pretty good pictures of the future states of such business spaces. More so, even situations when unexpected changes occur can be explained, as these events are typically causing needs to be abruptly repositioned in the hierarchy of needs (i.e., for a person who's plane just crashed in the desert, water suddenly becomes a high-level need). Nonetheless, once the conditions stabilize, every such business space returns to a linear evolution.

To conclude, a good understanding of human nature is essential for success. Consciously or not, we all use some theory, or set of principles, to guide our lives. The view of human nature presented here brings new insights into the basic human behavior, and, in the process, it helps develop a clearer picture of business, in general. Furthermore, since better insight typically translates into better principles and, thus, better practices, this novel theory has the potential to materialize into a *nudge* that would help the business community escape the vicious circle between decades-old principles and similarly-outdated practices, respectively.

◆

The Basic Ways of Doing Business

Customer's Need-Addressing Behaviors	Offering/ Business Type	Vendor's Go-To-Market Approach	Vendor's Business-Process Standardization
Defining Fundamental Needs	Type III	Pull	Low
Designing Need-Solution Pairs	Type II		
Matching Existent Offerings	Type I	Push	High

The variations apply to business spaces defined by an offering and a group of customers with similar need-related knowledge.