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19 November 2007

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MPRA Paper No. 6560, posted 04 Jan 2008 00:08 UTC

A Business-Relevant View of Human Nature

by Cristian Mitreanu

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.

On Living Things

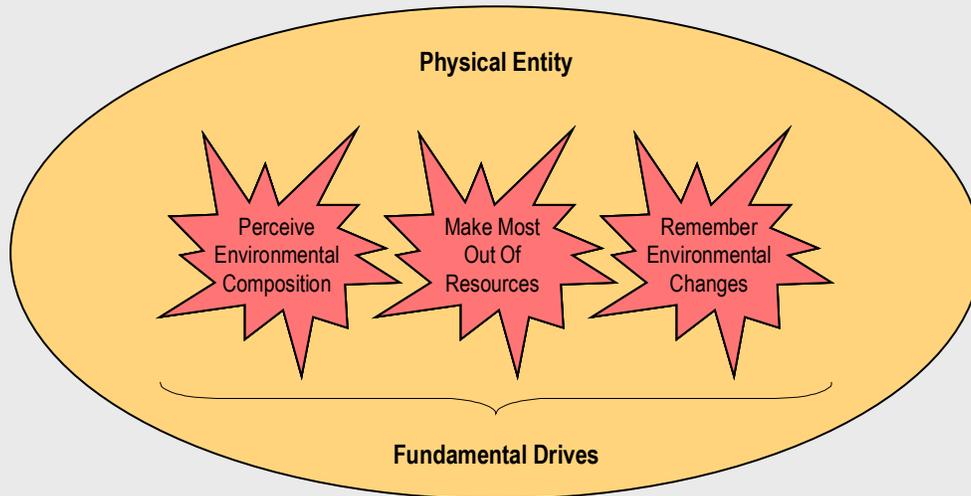
In the scientific community, there is an ongoing debate as to what is the best definition of a living thing. Determining a set of characteristics that would universally describe life seems to remain a challenging task. It is possible, however, to universally define life from a behavioral perspective, 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 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 exhibit "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.

The Living Thing



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.

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, dominant issue 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 issue 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 issue is always a personal, subjective interpretation of the term “successful existence.”

Nonetheless, the dominant issue 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 issue 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 issue 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 issue will most likely be exclusively concerned with the legacy that he will leave behind after his death.

While this example highlights dominant issues 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 issue into some form of revenge. Or, while many people interpret the dominant issue 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.

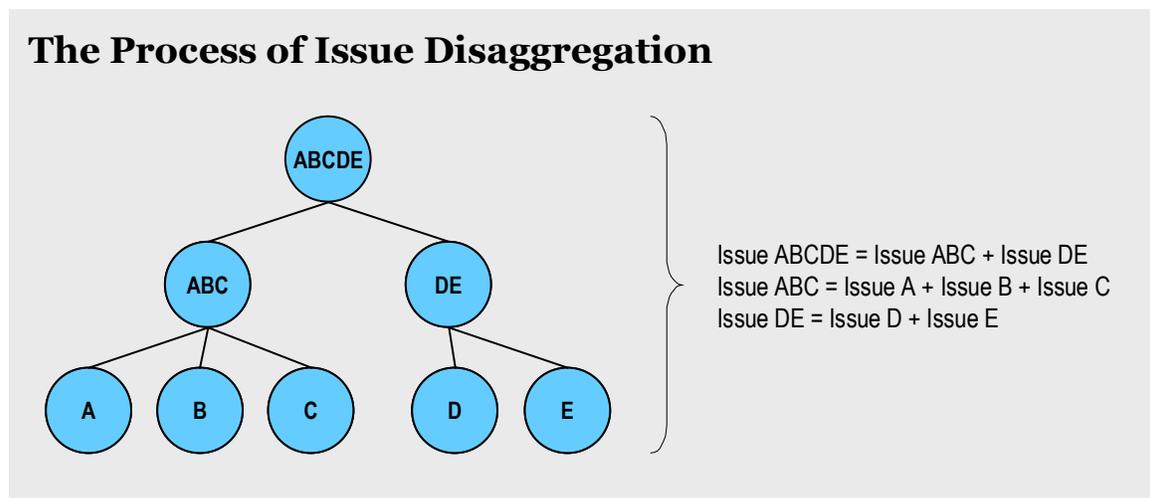
These observations reveal an important fact – a dominant issue can only be defined broadly. Brief, and thus vague, descriptions like “becoming a rock star” or “going to heaven” are used for convenience. They make it easier for humans to communicate and relate to each other. However, although similar brief descriptions may be shared by several people, the dominant issue 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 issue 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 issue 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 issues that stems from the dominant issue. In attempting to address the issue “successful existence,” every individual generates a unique hierarchy of issues through repeated disaggregation – a direct consequence of life’s inner urge to perceive the composition of the environment. This hierarchy is termed The Hierarchical Issues Tree. (See the exhibit “The Process of Issue Disaggregation.”)

Specifically, when attempting to address an issue, an individual’s obvious and natural instinct is to look for a solution that matches the issue. However, if the issue is highly complex and has no direct solution, the individual will move on to break down the issue into subordinated, less complex issues that might already have existent solutions. If the new issues also have no known direct solutions, the individual will continue the disaggregation process. And so, this cascading process will continue until the resulting issues match existent solutions known to the individual.

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 Issues Tree, an issue has several traits: (1) every issue in a particular hierarchy at a particular time is unique; (2) if there is a direct solution for an issue, there will be only one solution; (3) one issue can be subordinated to multiple issues in the same hierarchy at the same time; and (4) if an issue has subordinated issues, the issue will be the equivalent of the sum of the subordinated issues. However, the last trait should not be seen as a perfect mathematical operation. In many cases, the subordinated issues will overlap, generating redundancies. For example, when attempting to address the issues “DVD player” and “CD player,” both subordinated to the issue “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 issues hierarchy does not imply a preset succession that determines the order in which the issues 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 issues are usually addressed after the lower-positioned issues are addressed. More important, though, is the fact that the issues hierarchy is dynamic, as every individual is under the continuous influence of internal and external stimuli. Consequently, an individual will continuously alter his or her issues hierarchy by adding issues, discarding issues, or repositioning issues within the hierarchy.

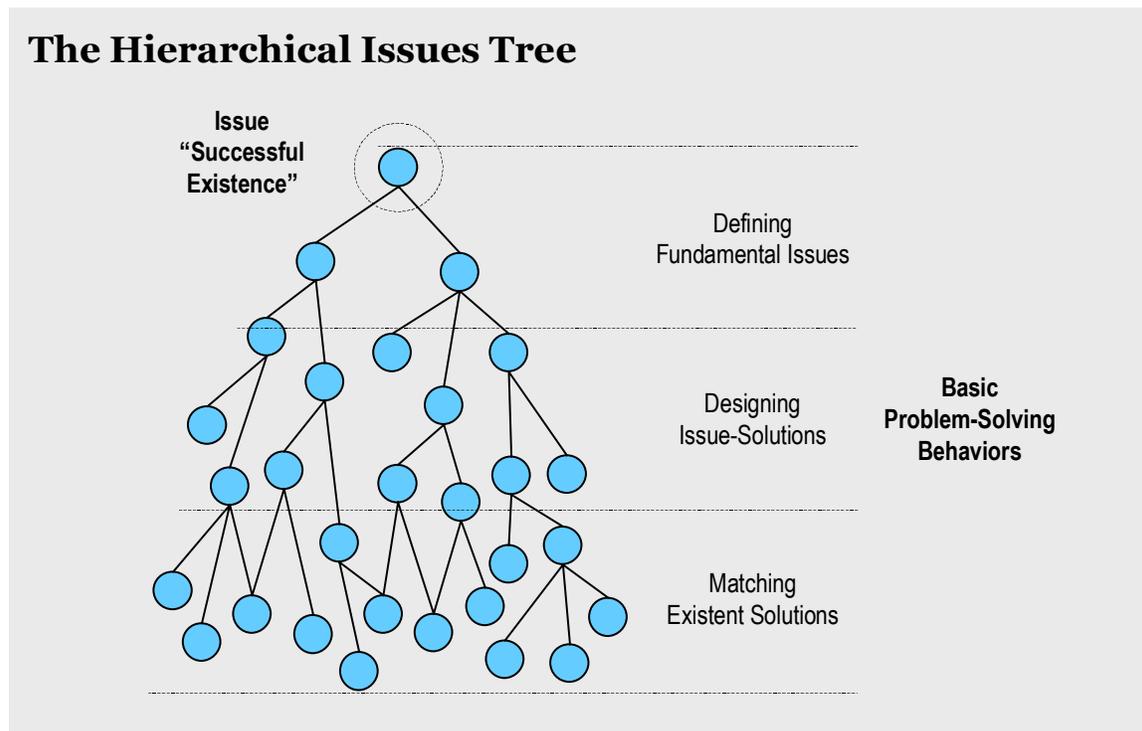
The processes of issue addition and issue deletion are relatively easy to understand. For example, several months before he went to college, Joe was in the process of acquiring a television set that would have been the centerpiece of his whole-home entertainment system. In other words, he was in the process of addressing the issue “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 issue “TV set” from his issue hierarchy and, instead, add the issue “video projector.” Sure, another way to discard an issue is to actually address it – after purchasing the projector, the corresponding issue was discarded. However, it is important to mention that the addition or deletion of an issue will alter the issues hierarchy in that particular vicinity. For example, by choosing the projector instead of a TV set, Joe has also altered the issues concerning the furniture piece that would house his entertainment system by eliminating the necessity of a TV stand.

Driven by life’s fundamental inner urges, every individual strives to make the most of every issue, as a component of the issues hierarchy, which itself is determined by the dominant issue. In other words, every issue’s contribution to the issues hierarchy, 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 issue-related knowledge, often even before the issue is added to the issues hierarchy. Then, based on the accumulated knowledge, the individual will attempt to reposition the issue within the hierarchy, or will simply discard it. Since an individual's accumulation of knowledge (as opposed to shrinkage of knowledge) is a natural phenomenon, the repositioning of an issue typically means pushing it lower within the hierarchy.

3. Every individual employs one of three basic problem-solving behaviors when addressing issues. As shown earlier, humans address issues that have no known solutions through disaggregation. However, depending on an issue's position within the issues hierarchy, 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 Problem-Solving Behaviors, replacing the word "issue" with the word "problem" due to a better fit in this particular instance.

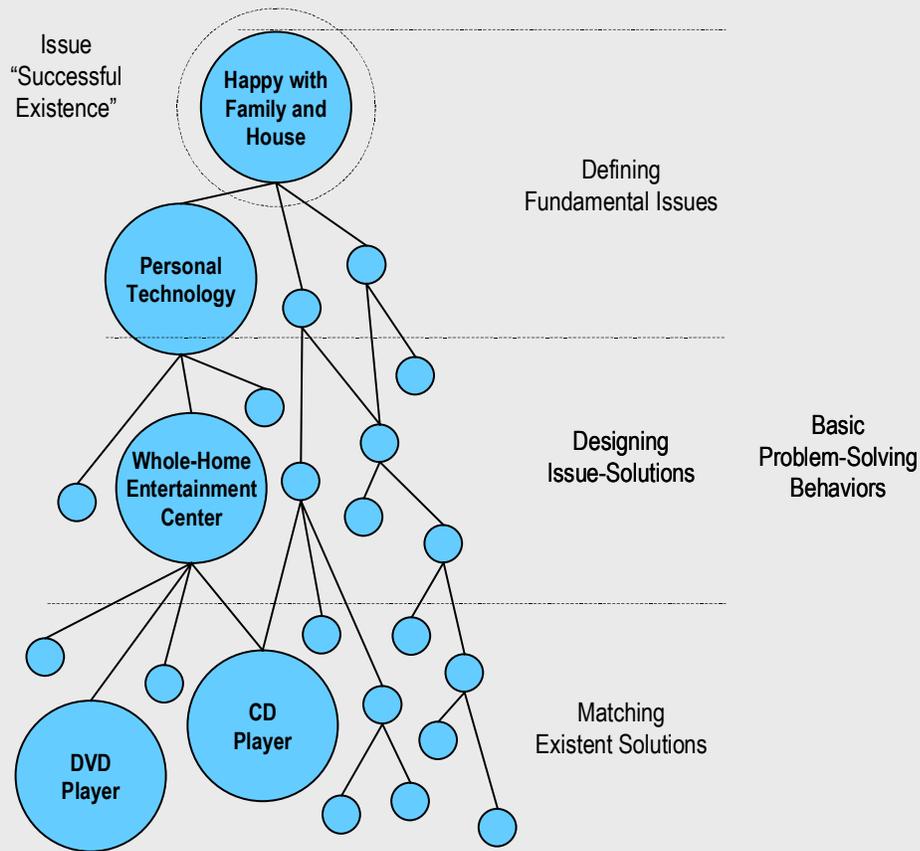
The issue "successful existence" is unique for each individual. Highly idealistic and complex, this issue has no direct solution. Therefore, every individual begins a cascading disaggregation process, aiming to generate issues that can be addressed by existent solutions. In other words, every issues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



First, all issues 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 issues into other essential and idealistic issues, without any attempt to find direct solutions. All these issues are virtually unique for each individual. Fittingly, the basic problem-solving behavior that characterizes all issues positioned at the top of the issues hierarchy is called Defining Fundamental Issues.

Second, possessing unique knowledge associated with issues and solutions that are common in his or her environment, the individual continues the cascading disaggregation process, reducing the complexity of the resulting issues. Increasingly, the urge to maintain the issues' idealistic character, which better serves the top issue, is balanced by the urge to generate issues that have known direct solutions. As a result, the focus of the disaggregation process is shifted toward generating issues that resemble those common in the environment, while maintaining a degree of uniqueness specific to the individual. The resulting issues

A Common Set of Issues



are scarce, and shared by a limited number of individuals. This basic problem-solving behavior, characterizing the mid-section of the issues hierarchy, is called Designing Issue-Solutions.

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

To illustrate these concepts, let us have a look at some of Joe's issues. At this time, his issues hierarchy begins with the dominant issue "happy with family and house." This issue was disaggregated into several fundamental issues. Among them there is one labeled "personal technology," an issue that encompasses all technological tools that would support Joe in his quest for "successful existence." Expectedly, this issue too was disaggregated into several other issues. One of them is the issue "whole-home entertainment center," which enables all of Joe's audio-video-entertainment activities. Its disaggregation has generated subordinated issues like "DVD player" and "CD player," all of which are readily available in the marketplace. (See the exhibit "A Common Set of Issues.")

New Fundamental Perspectives on Business

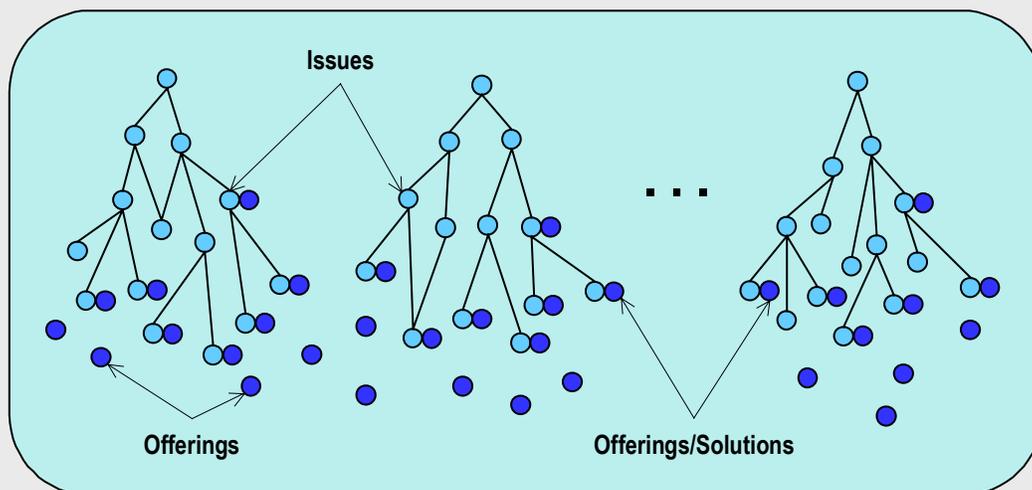
Since an individual's issues hierarchy changes constantly, one might conclude that the view of human nature that I just presented is of limited use. Fortunately, humans are social animals that live mainly in communities. As a result, the above findings can be used to identify broad patterns that extend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

1. Fundamentally, the world of business is a world of issues, 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 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 issues to address. In other words, under the continuous influence of life's fundamental drives, humans continuously strive to address their issues. Nonetheless, at any given time, every individual is surrounded by a multitude of offerings that can potentially address his or her issues. 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 issues. 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 issue, in which case the offering can also be

The World of Business



referred to as “solution.” It is possible then to see the business world as the totality of issues, offerings, and solutions. (See the exhibit “The World of Business.”)

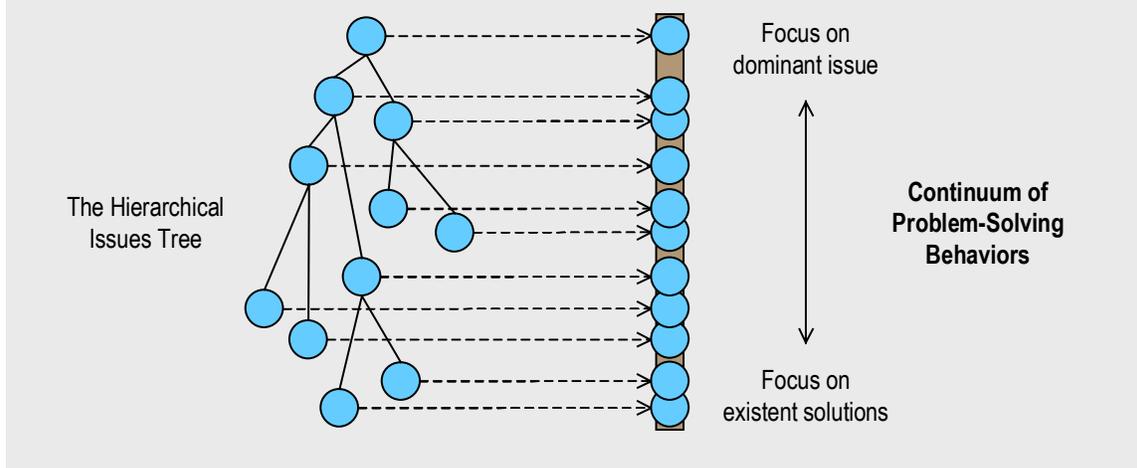
Reaching far beyond the typical view of the business world mentioned earlier, this realistic perspective is generally consistent with the so-called Austrian School of economic thought, which bases its views on human action. Carl Menger, whose work served as the movement’s formal foundation, wrote in 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 Issues Tree presented here provides an even deeper understanding of human nature, showing how human issues, or 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 issues hierarchy 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 issues.

Every individual’s approach to an issue 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 issue, and thus generate subordinated issues that conserve its idealism and uniqueness. On the other hand, there is the impulse to simply address issues, and thus generate issues that match existent solutions. This permanent tension, or tug of war, creates and sustains every individual’s issues hierarchy, as an entity. It also causes the individual’s approach to addressing issues to change, resulting in the three basic, or general, problem-solving 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 issues that conserve the dominant issue’s idealistic character to an exclusive focus on generating issues that match existent solutions. As a result, this spectrum can be seen as a continuum, on which every issue in the individual’s issues hierarchy can be represented at any given time. (See the exhibit “The Continuum of Problem-Solving 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

The Continuum of Problem-Solving Behaviors

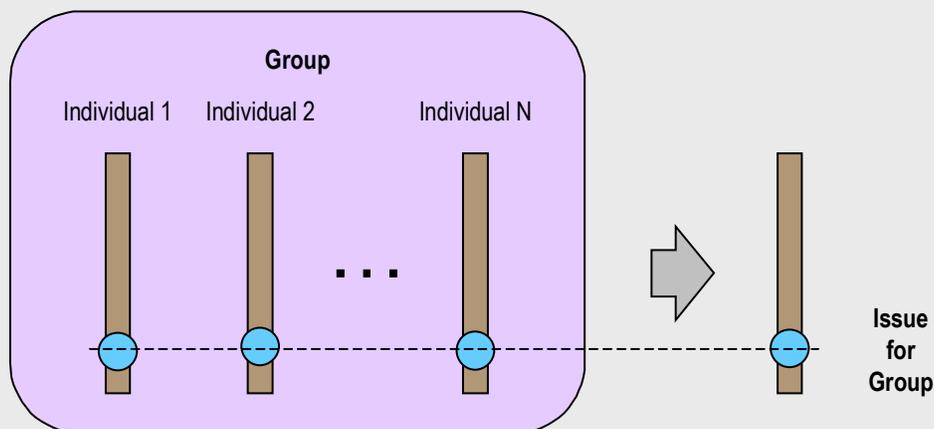


of community participation in which most people engage. However, because the very essence of a community is sharing, it means that people participating in the same community are most likely to share not only issues, but knowledge about those issues as well. Furthermore, similar knowledge about an issue implies similar behavior relative to the issue. In other words, an issue that is shared by individuals with similar related knowledge will occupy an almost identical position on each individual's continuum of problem-solving behaviors. It is then possible and useful to use a single continuum of problem-solving behaviors on which to represent an issue shared by a set of individuals with similar issue-related knowledge. (See the exhibit "The Unique Representation of an Issue for a Group.")

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

I mentioned earlier that the addition of an issue to an individual's issues hierarchy is accompanied by the accumulation of related knowledge, resulting in a downward pressure upon the issue. In many cases, though, the issue 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 issue 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 problem-solving

The Unique Representation of an Issue for a Group



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

behaviors, these pressures balance each other out. However, within a group of individuals that share this issue, 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 issue-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 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.

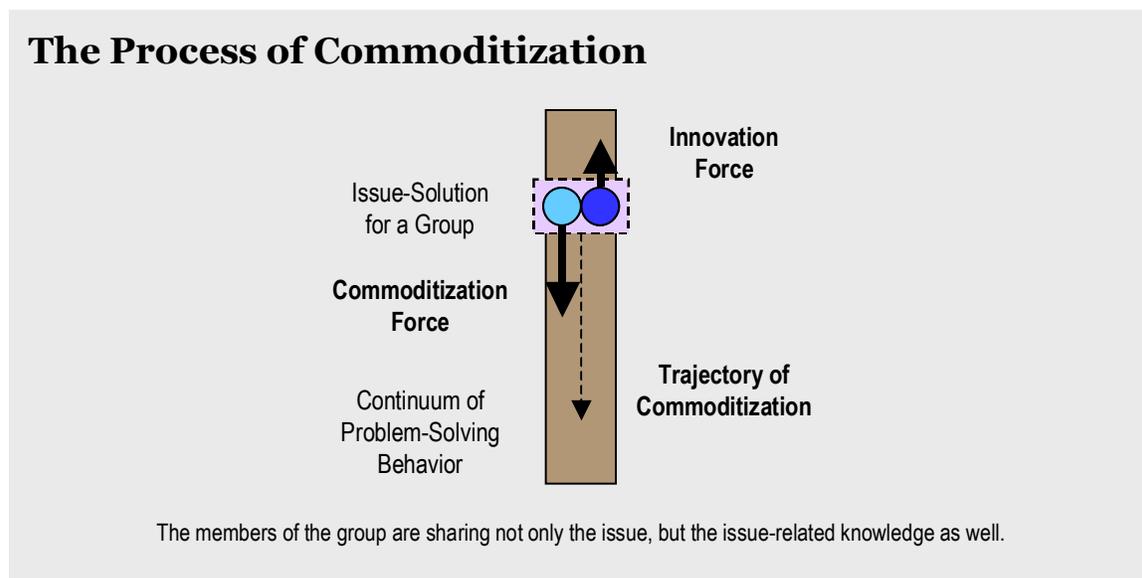
Adding to the perspective from the previous section, these findings show that the world of business is evolving under the constant influence of Commoditization and Innovation, which act upon every issue-solution pair. And this includes all issue-solution pairs pertaining to organizations as well, since the same case that was made above for personal issues can be easily made for corporate issues. Moreover, since the accumulation of knowledge about an issue-solution pair tends to be

continuous within a community, over time, the issue-solution pair will be pushed lower by the dominant force of Commoditization along the group's continuum of problem-solving behaviors. In other words, every issue-solution pair commoditizes over time. (See the exhibit "The Process of Commoditization.") As a result, it is possible to see the world of business as a world of issues, offerings, and commoditizing issue-solution pairs.

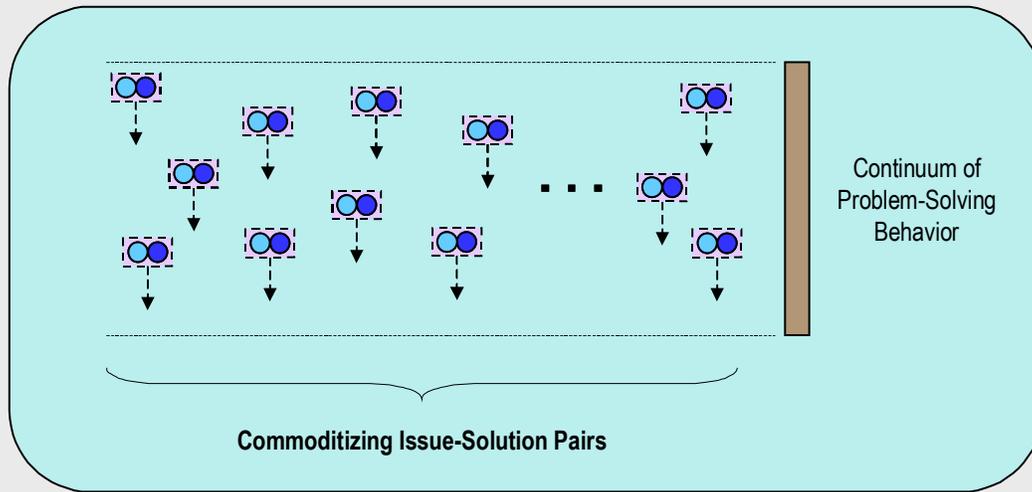
3. There are three basic ways of doing business. Traditionally, offerings have been categorized as products and services. It is a convention that closely follows the historical evolution of the mainstream economic thought and practices, which themselves tend to reflect the societal evolution. However, 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 issue. Consequently, the label's openness to 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



A Dynamic View of the Business World



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.

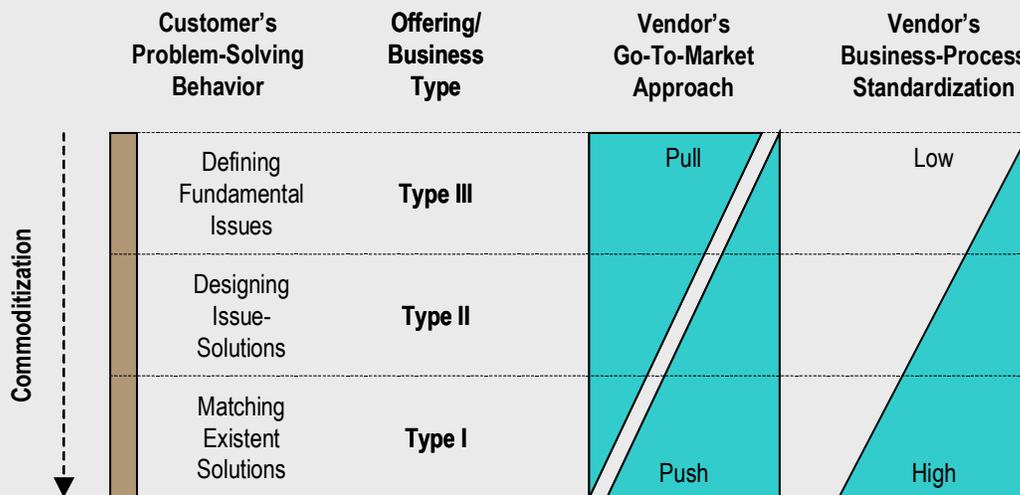
In the previous section, it was shown that the dominant force of commoditization causes every offering to evolve along the continuum of problem-solving behaviors, until it becomes irrelevant to the associated set of customers. As a result, it is possible to use a unique continuum of problem-solving behaviors as a reference for the whole world of business. And since the offerings that are not matching issues 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 issues. (See the exhibit “A Dynamic View of the Business World.”)

Referencing the world of business to the continuum of problem-solving behaviors translates into the fact that each and every offering corresponds to one of the three basic problem-solving behaviors employed by humans. And since the average transaction takes place not only because the offering matches the issue, but also because the vendor’s approach suits the buyer’s problem-solving behavior, it can be further deduced 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 issue 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 problem-solving behaviors Matching Existent Solutions, Designing Issue-Solutions, and Defining Fundamental Issues, respectively.

Building upon the characteristics of the basic problem-solving 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 issues that are common among a relatively high number of 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

The Basic Ways of Doing Business



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

convention would call “solutions.” Only a limited number of customers share issues 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 problem-solving behaviors. Specifically, these changes are incremental evolutions along the continuum of problem-solving 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 exhibit “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 issues to be abruptly repositioned in the issues hierarchy (i.e., for a person who’s plane just crashed in the desert, water suddenly becomes a high-level issue). 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.