BEYOND THE FUN

(A Letter)

DRAFT-May 19, 2013

Dear Follower of Spointra,

I hope you are not taking life too seriously. Although it could be mistaken for one, *Spointra and the Secret of Business Success* is not a children's book. Or, at the very least, it is not a book for children. Beyond the playful disconnect between its format and its content, the book — in both its original print edition and this "aged" update — is basically a graphic novel that sheds a new light on some of the fundamental workings of the way people, businesses, and economies respectively behave. Its main purpose is to help you become more successful in your professional career as well as your personal life. By revealing what drives human beings, how they structure and address their needs, and consequently how businesses and economies work, *Spointra* was designed to be a powerful tool that could increase your chances of success in a world that might seem more unpredictable than it really is. And all that, while having a little bit of fun.

It was early on in my life when I first heard that it is usually better if one does not take himself or herself too seriously. At that time, this was like stating the obvious — of course, it's good to have fun, for most of the time. I had a pretty good sense of humor and loved jokes. So, this seemed like a dry joke that maybe I didn't fully get, but its message was more than okay with me. And for a while, I didn't bother to give it a second thought.

But eventually, the more subtler, underlying truth began to creep up on me. The saying is more than just an empty “Don’t worry, be happy!” call to action. No matter how serious you get about your life, things will most likely take some unexpected turns. With this sobering fact in mind, the popular nugget of wisdom seems to be actually describing a mechanism of coping with the unpredictability of how one’s life will unfold. It suggests a solution for dealing with the perceived uncertainty of the world in a more or less disengaged way. It is about the fuzzy line between what you can control and what you cannot. And, in that respect, the advice “You should not take yourself too seriously!” could be identified as one of the guiding philosophies behind this book.

That is not to say, however, that there is nothing you can do, as your life advances into the future. The world around us has a rather probabilistic nature. The Earth will most likely continue to revolve around the Sun for quite some time, especially when compared to the average length of the human life. Similarly, it is almost certain that the continents will long continue to drift at the same pace and in the same direction, as they do today. But, as we focus our inquiry on a more granular level of the world, the amount of uncertainty increases. For example, while we have gotten better at it, predicting the weather will always involve some amount of uncertainty. While the sheer number of variables to measure makes this a difficult task, contributing factors and phenomena that take place at very small scales (i.e., molecules in a gas) will always have significant unpredictability associated with them. But, the general patterns of how things unfold are there. What changes with the perspective is the probability that they will unfold that way. And that also applies to the human behavior, whether at the individual or group level. While you cannot fully predict the future and how we get there, there are probabilistic patterns that indicate how the world is most likely to change over time, which ultimately could empower you to increase your chances of success in business and life. And that is the deeper guiding insight behind *Spointra and the Secret of Business Success*.

The book is unique in that it aims to capture the smallest amount of knowledge that explains the largest amount of phenomena in the business world. Referencing the Pareto Principle, a rule of thumb stating that 80% of the effects tend to be generated by 20% of the causes (Juran, 2004), *Spointra* could be simply described as the 20% that explains the 80%. Just like the original 2007 print version, this new edition is set to answer big

questions. What drives and motivates human beings? What are the fundamental dynamics in the marketplace? How can organizations achieve lasting success? And with a few minor updates to the original story and the addition of this very letter, it was designed to do so effectively and efficiently. The story remains largely the same (with the most notable update being the replacement of the term “issue” with “need”) particularly because I wanted to preserve as much as possible the experience offered by the first edition, which was only published in 500 copies. Nonetheless, the letter was added not only to complement the story with more detailed explanations, but also to anchor the set of theories into the existing scientific literature. And so, the book introduces a fundamental theory of business, which explains how humans, businesses, as well as economies fundamentally work. Furthermore, the theory can also serve as a “skeleton” for all your knowledge in this area. As a result, although it was designed to be accessible to all adult readers, regardless of their levels of business knowledge and experience, the book with its numerous visual and abstract representations might appeal more to those with technical inclination or engineering background.

The new perspective on fundamentals is the key value proposition here. In Albert Einstein’s words, “if a person masters the fundamentals of his subject and has learned to think and work independently, he will surely find his way and besides will better be able to adapt himself to progress and changes than the person whose training principally consists in the acquiring of detailed knowledge” (Einstein, 1954). However, something more special is at play in our case. The set of existent and new theories assembled in the book provides a holistic view on everything that has a commercial character. By tying together behaviors at the individual level with those at the organization level and, even further, with those at the economy level, the new theory enables you to see the big picture. And that is an important and valuable skill because “synthesis is the very essence of management. Within their own contexts, managers have to put things together in the form of coherent visions, unified organizations, integrated systems, and so forth. That is what makes management so difficult, and so interesting” (Mintzberg, 2004).

The basic tasks performed by a manager are widely accepted to consist of setting objectives, organizing, motivating and communicating, measuring, and developing people (Drucker, 1986). While valuable, this view tends to reduce the discussion about

the fundamentals of business to a set of basic functional management techniques, leaving aside the capability of meaningfully putting all pieces together into a comprehensive big picture. The "synthesis" part that I mentioned above is typically ignored. Unfortunately, this is how most of the business community has been operating for the past several decades. But, with the new set of theories presented in the book, the discussion can now begin with a holistic view of business. In fact, since most functional skill and techniques are already widely detailed in the existent literature, *Spointra* places the spotlight primarily on the new worldview that contains and underlies most of them. And, in doing so, it changes the way we learn business. Contrasting the conventional business skill learning process, which is one of accumulation of concepts and theories toward an elusive and unclear big picture, the new process begins with it. Regardless of your initial level of knowledge, you can now acquire a meaningful, holistic view of the business world that will only become more detailed over time. (See FIGURE 1.)

At the societal level, this new development could translate into more meaningful skills for a much larger part of the population. While most adults participate in the business world, at least as customers, and would thus benefit from deeper business knowledge, even those in management roles are currently underserved by the conventional business education offerings. Ignoring the topic of quality for a moment, the American system grants roughly 360,000 undergraduate and 180,000 graduate degrees annually (Aud et al., 2012) for a market that has about 16 million managers (U.S. Bureau of Labor Statistics, 2012) and 22 million small business owners (U.S. Census Bureau, 2013). So, given the fact that the way we do business and run economies dictate most everything, the new approach to business skill learning could simple mean a better world. Nonetheless, the book's appearance can be deceiving. And while there are advantages to that approach, there are also associated risks, of which the most important is the failure to connect with the reader. Consequently, I wrote this letter with the main purpose of providing some further details and hopefully answer some of the questions that you might have while reading the story. In the next few pages, then, I will elaborate a little bit on four important topics: the philosophical underpinnings of the book, the state of business knowledge and education, the fundamental theory of business presented in the book, and the various levels of value that *Spointra and the Secret of Business Success* brings to you.

I. ON THE PHILOSOPHICAL UNDERPINNINGS

In spite of how esoteric or detached from the practical world this topic might initially appear, there are a few essential considerations that should be clarified before the insights presented in the book are being discussed. Is the world predictable? Do we actually need theories? What is a good theory? Is there such a thing as a fundamental theory? These are questions that, along with their respective answers or assumptions about the answers, reveal the underlying rationale that provides the logic for putting together all of the constituent concepts and theories. This is the treacherous realm of *philosophy of science* — an area of inquiry where major debates about the way we perceive the world around us and the knowledge that comes with it will most likely remain unsettled, generally fueled by a mix of genuine inquisitiveness and personal interest. But to fully appreciate and judge my arguments, it is important to understand some of the key philosophical underpinnings. Any incoherence at this level of analysis would transpire into the way the new insights have been developed and assembled. Furthermore, even if you disagree with the philosophical foundations, being aware of them enables you to better assess and potentially extract value from the new insights.

Attempting to explain how the Universe works might come across as intimidating or even ignorant, given the fact that humans have not travelled physically further than our own Moon. Nevertheless, over the centuries, we have acquired a fair amount of knowledge about it, at least when it comes to our visible surroundings. While on the grand scheme of things most of the stuff consists of the unknown *dark energy* and *dark matter*, there is sufficient evidence to suggest that we could think of the Universe roughly as a system of discrete entities or objects. Imagine galaxies, solar systems, planets, living things, and so on. “Whereas earlier generations thought that living things must contain something more than complex molecules (some ‘vital substance,’ say), or that there must be something more to thinking beings than intricate brains (an ‘immaterial mind,’ for example), contemporary biology and contemporary neuroscience showed that there is no need for such hypotheses. Given the firm consensus of contemporary science, there is a constitutive hierarchy: all molecules are made out of fundamental particles; all organic

systems are made out of molecules; people are organic systems; and societies are composed of people" (Encyclopædia Britannica, 2013).

The Universe is estimated to be almost 14 billion years old (Peplow, 2013). It began as an extremely small and hot entity, which expanded rapidly and continues to expand today. Within the first 300,000 years, "all the ingredients of creation were present: time, space, energy, and the basic particles of the material universe, including protons, electrons, and neutrons, now mostly organized into atoms of hydrogen and helium. Since that time, nothing has really changed. The same energy and the same matter have continued to exist. All that has happened is that for the next 13 billion years these same ingredients have arranged themselves in different patterns, which constantly form and dissipate" (Christian, 2004). This widely-accepted view is conventionally referred to as the *Big Bang theory* and it provides a sufficiently solid foundation for the developments presented in the book. Consequently, we could now think of the unfolding Universe as a very large arrangement of domino pieces, where the falling of one piece triggers a chain reaction that leads to an increasing number of simultaneous impacts. So, what started with one event can now be seen as a system, where an enormous number of objects and particles interact, combining with each other or breaking apart.

Does this mean that the evolution of the world around us is predetermined? Does it mean that, if we could have access to all the data about all the objects in the Universe, we could precisely determine its future evolution based on its history? Not really. Over the past century, "the Newtonian view that all seemingly unpredictable phenomena (such as the formation and movements of clouds) are actually in essence as predictable as clocks has been replaced by the opposite view that all physical phenomena (including all phenomena seemingly as predictable as clocks) are in essence as unpredictable as clouds. The two major events responsible for this shift in perspective have been the development of the field of quantum mechanics and the discovery of chaos" (Cziko, 1989). In actuality, however, a more realistic description of the way the world is changing is that of "*punctuated equilibrium*: an alternation between long periods when stable infrastructures permit only incremental adaptations, and brief periods of revolutionary upheaval" (Gersick, 1991). In other words, the predictability of how things generally change is probabilistic, with the probabilities being higher during the periods of relative

environmental stability. And, since most things in the Universe are systems, we can also say that "the 'historical' path along which the system evolves [...] is characterized by a succession of stable regions, where deterministic laws dominate, and of instable ones, near the bifurcation points, where the system can 'choose' between or among more than one possible future" (Prigogine & Stengers, 1984).

Now, predictability means patterns. And to make the most use of an identified pattern, we develop theories, which are essentially prediction mechanisms that tell us how things are most likely to change when some particular past and present conditions are met. It is, in fact, the only systematic way to increase one's chances of success. "The ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influence, are usually the slaves of some defunct economist" (Keynes, 1936). But, since theories do not guarantee success, as chance tends to always play a role in the outcome, it is important to be able to discern among theories. "Good theories are valuable in at least two ways. First, they help us make predictions. Gravity, for example, is a theory. As a statement of cause and effect, it allows us to predict that if we step off a cliff we will fall, without requiring that we actually try it to see what happens. Indeed, because reliable data are available solely about the past, using solid theories of causality is the only way managers can look into the future with any degree of confidence. Second, sound theories help us interpret the present, to understand what is happening and why. Theories help us sort the signals that portend important changes in the future from the noise that has no strategic meaning" (Christensen & Raynor, 2003b).

Generally speaking, theories are developed through an iterative process, where an hypothesis about a phenomena is repeatedly tested and refined by comparing its predictions with the observed outcomes. Nonetheless, as I mentioned earlier, things could get complicated at this level of inquiry. Even the act of observing and describing the world can be debated. I, for one, adhere to "a view in which the mind does not simply 'copy' a world which admits of description by One True Theory. But my view is not a view in which the mind makes up the world, either (or makes it up subject to constraints imposed by 'methodological canons' and mind-independent 'sense-data'). If one must

use metaphorical language, then let the metaphor be this: the mind and the world jointly make up the mind and the world" (Putnam, 1981). So, what is then a good theory? "For the truths about nature are too many, and most of them are not worth knowing. Even if one focuses on a small region of the universe — a particular room, say, during the period of an hour — there are infinitely many languages for describing that room and, for each such language, infinitely many true statements about the room during that time. Simply accumulating truth about the world is far too easy. Scientific progress would not be made by dispatching armies of investigators to count leaves or grains of sand. If the sciences make progress, it is because they offer an increasing number of significant truths about the world" (Encyclopædia Britannica, 2013). In other words, a good theory is one that is "driven by changing expressions of natural curiosity and by our practical needs" (Kitcher, 2001).

In light of these statements, one may wonder if there are any theories that could transcend the society's priorities of the day or the periods of stability described by the notion of "punctuated equilibrium." Those who subscribe to Thomas Kuhn's view that the scientific world progresses through a series of distinct underlying *paradigms* (Kuhn, 1962), tend to "reject any idea of *convergence* in scientific knowledge. Since we are not talking about the same things as previous scientists, we are not getting more and more knowledge about the same microscopic or macroscopic objects" (Putnam, 1981). However, in order to be able to even talk about *future*, there must be some sort of commonality of knowledge. The very act of assessing the relative value of theories relies heavily on comparison, which requires some common ground that would transcend distinct paradigms. If so, then, could some of these theories be referred to as *fundamental*? While the notion of "a theory of everything" is generally dismissed (Kitcher, 2001; Prigogine & Stengers, 1984; Putnam, 1981), I think that it is useful to view theories through the perspective of *more* or *less* fundamental. Some theories have the capacity to explain a larger amount of phenomena, while others are narrower in scope. The "more fundamental" ones will also tend to serve as underlying platforms for the others. And it is those theories, which we could call fundamental, that tend to transcend a larger number of paradigms over time.

To illustrate this point, let us take Peter Drucker's idea that all businesses are

operated on a set of assumptions called *the theory of the business*, which must be constantly revised as the environmental conditions change (Drucker, 1994). With that in mind, we can imagine a large set of companies that have been around for a very long period of time. Over those many years, they all had to change their theory of the business numerous times. Furthermore, all the assumptions that were employed by these companies were codified and recorded for future analysis. Now, would we see assumptions that were employed more than others? Common sense suggests so. The bigger question, however, is whether or not we can find assumptions that have survived most changes. But if we think that the only thing that remains constant is human nature or, at least, a set of basic human behavior characteristics, the odds of finding such assumptions become quite high. And those assumptions will include theories that we could refer to as *fundamental* — which supports my decision to refer to the set of theories presented in the book as "a fundamental theory of business."

The thought experiment, with its collection of assumptions and the implied diversity of business approaches built on them, brings into the spotlight the role that *examples* play in the business world. At a superficial glance, their utility or value is rather obvious. Whether we try to compare the performance of the same company over time, or its performance relative to its competitors, we develop descriptions of various business instances. And, depending on the context, these approximations of the observed world range from simple stories to highly structured accounts that play a key role in pattern recognition and, subsequently, in theory development. But their use in business has a dark side that has grown more problematic over the years. While examples and the more elaborate *cases* have always been an essential tool in business education, they made even more sense in the discipline's infancy, since very little of the business phenomena was meaningfully codified at that time. Unfortunately, they became increasingly seen "as being most valuable when they encouraged students to abandon the search for theory and to learn how to make realistic and difficult decisions on their own," creating a vicious cycle, as "generalizable business theories did not spring forth from case studies" (Gleeson et al., 1993). The lack of integrative, "big picture" theories led to an over-reliance on cases, which in turn diminished the perceived need for such theories.

Beyond the classroom, however, the consequences have been even more troublesome.

Attracted by the lucrative field of management consulting or driven by the need to consolidate their respective professional careers, an increasing number of industry professionals have been putting forth a swelling amount of business advice of questionable quality. Enabled by the discipline's lack of an integrative theoretical underpinning, they have been employing selective evidence ("cherry-picking") to create compelling stories that tend to obscure the need for a solid theoretical foundation (Rosenzweig, 2007). Nevertheless, by their very nature, examples are always narrower interpretations of the actual accounts that they describe. As a result, especially when referring to broader issues (i.e., a struggling company's sudden turnaround), the process of identifying all key causal relationships can be very difficult due to the sheer number of factors involved. Besides, not only that human behavior is partially irrational (Kahneman, 2011), making it rather impossible to talk about a fully predictable chain of events, but the way we see our surroundings is more limited than we think (Simons & Chabris, 1999), and even what we see and experience tends to be remembered differently (Kahneman & Riis, 2005). And it is this duality of value brought on by examples — they can be useful, yet misleading learning tools — that I tried to avoid through the book's format. Since the presented theory is mostly an assembly of narrower already-accepted theories, rather then a generalization based on a limited number of cases, I was able to keep the number of examples to a minimum and allow the reader to focus on the soundness of the overarching logic.

The way we see the world around us is also determined by the very mechanisms that we employ to observe it. Some of them are hard-wired in the human brain, causing us, for example, to perceive fast moving objects where they might be after we process the information, not where they actually are at that very moment (Maus et al., 2013). Other such mechanisms have been developed by us. "Societies have always been shaped more by the nature of the media by which men communicate than by the content of the communication. The alphabet, for instance, is a technology that is absorbed by the very young child in a completely unconscious manner, by osmosis so to speak. Words and the meaning of words predispose the child to think and act automatically in certain ways" (McLuhan et al., 1967). So, it should come as no surprise that the meaning of words, or *semantics*, are very important in business. Communication can be stifled by differences in

perceived word meanings, and some meanings can have a constraining character. With that in mind, however, my goal was to make the story and this letter as enjoyable as possible. In a more relaxed approach, some words have been used broadly (i.e., "business"), while loose synonyms have been used interchangeably (i.e., "offerings" and "solutions" to refer to products, services, or a mix of the two). As a result, to fully enjoy your "Spointra" experience, I would highly recommend that you stay aware of any preconceived notions about business and leave any "baggage" behind.

II. ON BUSINESS KNOWLEDGE AND BUSINESS EDUCATION

The discipline of *management*, as a field of scientific inquiry, is relatively young. Mirroring the socio-political developments that followed the Industrial Revolution in the Western world — and, particularly, the emergence of large-scale organizations — the need to better understand and define the job of the manager really came into the spotlight in the late 1800s (Drucker, 1986). While the idea of management could be traced back to the roots of the modern economics, when Adam Smith published his 1776 book *The Wealth of Nations*, the first foundational building blocks for what we could call modern management were developed at the beginning of the twentieth century. And one of the most influential was Frederick Taylor's 1911 book *The Principles of Scientific Management*, which advocated for engineering rigor in order to increase efficiency and "secure the maximum prosperity for the employer, coupled with the maximum prosperity for each employé" (Taylor, 1913). Nonetheless, the roots of management knowledge can be pushed even further back into the history, if we look at some of its components (i.e., psychology, accounting) in isolation.

Now, in spite of a strong start, the first half of the twentieth century was not very prolific. Quite telling, the most extensive management library that was assembled before World War II contained no more than seventy volumes that could be categorized as management. And that covered everything that was written to date, in any language, except Japanese (Drucker, 1986). Sure, two global conflagrations and a major economic downturn could have such an effect. However, the society was moving forward and, with it, the discipline of management was also being further developed. Most notably, in the

years between the two wars, management began to be taught. Although business schools were in existence since 1881, when Wharton School was founded at the University of Pennsylvania, business education was still highly fragmented, with different schools emphasizing different skills (i.e., commerce, banking, accounting). It was only in the thirties that Harvard Business School began to teach courses in management (Drucker, 1986), long after they began to offer a Masters of Business Administration (MBA) degree in 1908; the second such program after Dartmouth College set up theirs in 1900 (Mintzberg, 2004). Also, around the same time, James McKinsey and Lyndall F. Urwick started the management consulting industry by establishing a company focused on fundamental management concerns, such as business policy and management organization.

Harvard Business Review, a publication that would end up playing a key role in bringing research to practitioners over the years, was founded in 1922. In its very first issue, the article *Essential Groundwork for a Broad Executive Theory* written by the school's dean Wallace Donham gives us a good feel for what the environment was like during those years and where things were headed: "Unless we admit that rules of thumb, the limited experience of the executives in each individual business, and the general sentiment of the street, are the sole possible guides for executive decisions of major importance, it is pertinent to inquire how the representative practises of business men generally may be made available as a broader foundation for such decisions, and how a proper theory of business is to be obtained. The theory of business, to meet the need, must develop to such a point that the executive, who will make the necessary effort, may learn effectively from the experiences of others in the past what to avoid and how to act under the conditions of the present" (Donham, 1922). Reading like a mission statement, the article acknowledges the lack of a generalized theory of business and, inspired by the field of *law*, spells out the publication's plans to build a "mass of facts upon which alone business theory can properly develop." But, throughout, it also reveals the obsession with the scientific method; a concern that will significantly shape the field of management in the years to come.

After World War II, the first major milestone was Peter Drucker's 1946 book *Concept of the Corporation*, which was based on a study of the organization

commissioned by Alfred Sloan, Chairman of General Motors. It provided the very first inside look at the inner-workings of a large company, revealing and analyzing matters such as power structures, politics, and information flows (Drucker, 1993). Then, for the next few years, things seemed to have been advancing in a natural direction. With the American economy booming, and with more and more people getting involved in business in one way or another, it was expected to see the body of knowledge advancing toward a better understanding of how to successfully perform an increasingly larger set of activities over increasingly longer spans of time. And so, in just a few years, a "big picture" subdomain of business knowledge began to emerge. The abstract of a 1956 article describes the new trend: "A growing number of top business executives have lately become interested in the concept of long-range planning, i.e., the planning of a company's major strategic moves five or more years in advance. As might be suspected, however, information about this subject is hard to come by. Businessmen are generally reluctant to talk about any of their firms' long-range plans, which are almost always closely guarded secrets; and since long-range planning was, until ten years ago, a rarity in business, it is not surprising that as yet there are no 'classic' treatments of it in the literature. Nevertheless, there are books and articles containing some valuable discussions of the new strategy" (Ewing , 1956).

Even the knowledge about what makes a good business school made significant progress. While recognizing that "the tasks of a business school are to train men for the practice of management (or some special branch of management) as a profession, and to develop new knowledge that may be relevant to improving the operation of business," ideas on the necessity of preventing a school's natural tendency of evolving toward a compartmentalized structure, and thus of increasing its interdisciplinary approach, are being put forth (Simon, 1967). However, as it always happens, the environment and the immediate circumstances had a significant and lasting effect on those developments. As the American post-war economy was expanding, the Western society was growing increasingly concerned with the threats of the Cold War. After observing the benefits of investing in scientific research during World War II (i.e., the development of the atomic bomb), policy makers were now convinced that the government should play a key role in supporting such scientific endeavors (Khurana & Spender, 2012). And while most of the

federal funding went to life and physical sciences, a slew of philanthropic foundations focused on the social sciences. Fearing communism and a recession, the leaders of these organizations were driven to raise the scientific respectability of the social sciences.

Numerous other factors were not only supporting this idea, but were also implicitly pointing toward the same solutions. There was the emerging view that the results of the social sciences must be quantifiable, just like those in natural sciences. Then there was the increasingly popular concept of *rational choice*, which assumes that humans are objectively balancing costs and benefits to take the action that maximizes their personal advantage. The influx of retiring military officers entering the corporate management ranks was also a factor. Somewhat related, there was then the widespread notion that the victory of the Allied forces was an example of what a large organization can achieve with technology and rigorous planning. In short, it was a perfect storm of circumstances that converged toward a more rational and scientific approach to management. And that was the environment in which the business school was reinvented. Developed at the Graduate School of Industrial Administration (now Tepper School of Business at Carnegie Mellon University) and diffused worldwide by the Ford and Carnegie Foundations, the new model caused business schools to saddle "themselves with a research model that emphasized narrowness of scope as well as methodological rigor" and, as a result, to be dominated by neoliberal economics and associated ideas such as *rational man* and *deregulation* (Khurana & Spender, 2012).

This top-down perspective on management was generally perceived as a perfect fit. *Business policy* and later *strategy* quickly became the "big picture" area of management. On the one hand, it worked well for the managers of the large and highly-bureaucratic corporations, which were dominating the business landscape. On the other, in business schools "it was thought of as the capstone course; it came last in the sequence, after marketing, finance, production, and organizational behavior. Having seen all the pieces, the student was supposed to put them together" (Montgomery, 2013). However, although this area of inquiry was initially about general management and synthesis, the ideas put forth in Michael Porter's 1980 book *Competitive Strategy* will eventually lead to its reduction in scope. "With this shift from policy to strategy, and from concern for synthesis to focus on analysis, the one field in the business school that was supposed to

be about general management itself became narrowly specialized" (Mintzberg, 2004). In short, management became strategy.

Over the years, various schools of thought on strategy emerged, some prescriptive and others descriptive (Mintzberg & Lampel, 1999). Nonetheless, it will be the prescriptive ones (design, planning, and positioning), which were all championed primarily by researchers from Harvard, that will become dominant for the years to come. "Among the schools of thought on strategy formation, one in particular underlies almost all prescriptions in the field. Referred to as the 'design school', it proposes a simple model that views the process as one of design to achieve an essential fit between external threat and opportunity and internal distinctive competence. A number of premises underlie this model: that the process should be one of consciously controlled thought, specifically by the chief executive; that the model must be kept simple and informal; that the strategies produced should be unique, explicit, and simple; and that these strategies should appear fully formulated before they are implemented" (Mintzberg, 1990).

Unfortunately, these developments were all part of the same vicious cycle. The conventional business school model "led to an explosion of management research literature and PhDs" and "has produced little in the way of insights about the real dilemmas facing business managers" (Khurana & Spender, 2012). At the same time, the popularity of the top-down, prescriptive approach to the "big picture" among business leaders has continuously reinforced the way business schools are set up. In short, historical circumstances and the emergence of the field of strategy has led the business world, researchers and practitioners alike, to a dead-end of relevant knowledge (Mitreanu, 2009; Khurana & Spender, 2009). Instead of seeing strategy as the latest materialization of the quest for enduring success in business, the community of researchers remains largely trapped behind that very concept (Mitreanu, 2006b; Mitreanu, 2006c). But in a world where products have increasingly shorter life spans and the knowledge to codify a company's emergent (bottom-up) behavior is rather missing, the top-down approaches to the "big picture" that use product categories or industries as frames of reference have become increasingly irrelevant.

During the first decade of the third millennium, and especially after the global economic crisis of 2008, these issues have become widely discussed and many believe

that “business schools are at a crossroads and will have to take a hard look at their value propositions” (Datar et al., 2010). But things have gotten pretty far already. “Today, Harvard doesn’t even have a course called General Management. Nor do most other business schools. Many students have come to view entrepreneurial management courses as the capstone experience of the MBA curriculum, where you learn about defining businesses, moving them through growth, changing course, and doing it again. But entrepreneurship courses don’t teach people how to run a large company; they teach them how to create and finance a startup” (Montgomery, 2013). And it might be that these programs are inherently flawed. “The typical business school today is about specialization, not integration, concerned with the business functions, not the practice of managing. Courses exist *about* management, but they are not particularly mainstream” (Mintzberg, 2004).

In the meantime, as the community of researchers remains stuck in an “intellectual stasis” (Khurana & Spender, 2012), managers and all those involved in business must operate within an environment that is flooded with ever-growing volumes of business-related content. Enabled by the advent of the Internet and the related publishing technologies, many of them have become not only consumers of knowledge, but producers as well. Concepts and ideas, of all shapes and quality levels, are constantly being passed around, almost giving the impression that our understanding of how businesses work has made significant advances over the past several years. But just like business school students, without an overarching framework or a “big picture” theory, these practitioners have to deal with the difficult task of putting the pieces together themselves. Unfortunately, “some of the biggest business blockbusters of recent years contain not one or two, but several delusions. For all their claims of scientific rigor, for all their lengthy descriptions of apparently solid and careful research, they operate mainly at the level of storytelling. They offer tales of inspiration that we find comforting and satisfying, but they’re based on shaky thinking” (Rosenzweig, 2007). On the bright side, these seem to be the right conditions for a new era in business knowledge and education to begin to flourish.

III. ON THE FUNDAMENTAL THEORY OF BUSINESS

I refer to the set of theories and concepts presented in the story as “a fundamental theory of business.” By building upon Peter Drucker’s phrase “theory of the business” (Drucker, 1994) and by thinking broadly about all activities that pertain to commercial exchanges, I opted for the simple term “theory of business.” A theory that is *fundamental* in the sense that it underlies most, if not all, phenomena associated with doing business. Matters such as product choice, go-to-market approaches, operations, finance, and others are all embedded in or could be deducted from this set of theories. As for the article “a,” the choice reflects not only my acknowledgement of the fact that there could be more than one generally-accepted set of theories with similar explanatory power, but also a nod to the fact that the value of a particular theory to a particular individual is relative, and so is the notion of fundamental.

From a technical standpoint, the approach to developing this theory is not much different than that of solving a problem of classical mechanics. Imagine that you are being tasked with explaining the dynamics of a collection of objects in space. Assuming that the objects are interrelated, in other words a system, the first thing you typically do is find a frame of reference. Then, you look for the common rules and properties that govern the motion of all objects in the system. And then, you attempt to describe how the movement of the individual objects looks like in aggregate, as a system. Similarly, in this case, I first identified a frame of reference that is rooted in human behavior, unlike the conventional focus on product category. Then, I showed how any organization could be broken down into a collection of virtual business entities that incorporate products and customers. And, finally, I identified how motion of these entities describe the evolution of an organization over time. And that is pretty much how the storyline flows.

Without repeating what is already presented in the story, I think that it is also important to further detail some of the key aspects of the theory. And the first and probably the most important area to discuss is the one that relates to human behavior. As I established in the previous earlier in this letter, the Universe unfolds just like a giant domino chain with lots of ramifications. And so is life. It most likely began with the binding of a few elements that triggered a chain reaction that eventually led to the highly diversified life forms that we know today (Christian, 2004). The chemical reactions at the

molecular level led to more complex reactions in aggregate, which further manifested as behaviors at the specimen level. And it is such reactions and behaviors that continue to drive the evolution of life on Earth, from the development of an individual specimen to the evolution of the entire species it belongs to.

Of course, this is a simplified view, as the process most likely spanned billions of years (Christian, 2004). There could have been many false starts and bottlenecks along the way, and there is also a possibility that the process might have started somewhere else in the Universe. But all these scenarios are not relevant here. What matters is the fact that life, as we know it, is part of the same process. We have overwhelming evidence that indicates that all known life on Earth is carbon-based and shares the same basic building blocks (Christian, 2004). In other words, all life forms belong to the same "domino chain." Which means that it highly probable that all living things, throughout most of the process, were not only made of the same basic stuff, but were also fueled by the same basic chemical reactions and, thus, the same basic behaviors. And, although there is no universal agreement on the specificity of these behaviors, it seems rather evident that the process of natural selection has filtered through only those that are primarily dedicated to keeping the metaphorical "domino chain" going.

Surviving and reproducing are the two obvious drives that are hard-wired in all life forms. While it is impossible to know what various living things experience when such behaviors are employed with successful outcomes, it is safe to say that the state of their respective organisms is far from something that could be associated with pain. It is a logical implication of the evolution process, and the words chosen to describe it are not intended to suggest *consciousness*, nor is that necessary. Nonetheless, when it comes to humans, the basic behaviors are primarily aimed at an end state called *subjective well being* (Diener et al., 1999). The subjectivity involved might seem different, but the setup is consistent with how all living things function and it can be explained by the superiority of the human brain, in terms of memory and processing power. Under the influence of both our innate abilities (nature) and our environment (nurture), we mentally construct complex models and scenarios of the real world and then act upon them. Everything being subjectively interpreted by every individual.

One of the most common tools used in analyzing and understanding human behavior

is the concept of *goals*. Austin & Vancouver (1996) define goals as "internal representations of desired states, where states are broadly construed as outcomes, events, or processes." Accordingly, that means that the state of subjective well being is basically a goal; an overarching goal that guides an individual's existence. And that is the first major idea in the fundamental theory of business, although the overarching goal is being referred to as the *need "successful existence."* As I mentioned earlier, semantics are important and, here too, there is a reason behind the different terminology. In the first iterations of the theory, I decided to use the term *issue* because I needed a word that could take on many meanings, such as need, problem, want, objective, or goal (Mitreanu, 2007). Over time, though, I came to the conclusion that the term *need* is a better fit; a change that also constitutes one of the major updates from the first version of the book. And as for the label "successful existence," it is a word choice that seems to better capture the need's overarching and subjective character.

The need "successful existence" is constantly being adjusted — a consequence of the individual's continuous interaction with the environment and the processing of the resulting information, as well as that which comes from memory. This phenomenon is fueled by the basic drives that characterize all life forms, and particularly by the drive to make the most out of the individual's given physiology and his or her environment (Mitreanu, 2007). Although not commonly singled out as a basic property of life, this drive can be identified and logically deducted from the fact that an organism is a contiguous living system, where the whole is the sum of its parts, and the overall behavior is the sum of all its components' respective behaviors. The chemical reactions and particle interactions that take place at the micro levels determine the organism's behavior. Governed by a small number of fundamental forces (the known ones are gravitation, electromagnetism, strong nuclear, and weak nuclear), and filtered through by the process of natural selection, these interactions translate into benefit-maximizing behaviors within given environments. In fact, the *principle of minimum energy,* which is derived from the *second law of thermodynamics*, states that systems tend toward a minimum-energy configuration (Callen, 1985). And here too, the idea of consciousness or complex behavior could be explained by the complexity of the organism.

This finding is consistent with the "domino chain" perspective on life on Earth and it

is better observed within the life span of a specimen. While simple observations of the natural world reveal plenty of anecdotal evidence, such as a pet that over-eats and gains weight just because the owner puts more food in the bowl, this fundamental property of life is supported by a number of compelling scientific experiments. One such experiment demonstrates how honey bees mature faster in the absence of an older population (Ben-Shahar et al., 2002). Free of the inhibition exerted by the adult bees, the young ones will transition earlier in life from hive work to foraging, experiencing profound changes, with various genes getting turned on. It is an example that shows how two virtually identical specimens would develop differently in separate environments, each making the most of its particular circumstances.

Other examples, such as the slime that "has the ability to find the minimum-length solution between two points in a labyrinth," connecting two food sources (Nakagaki et al., 2000), and the dogs that learn to anticipate food by associating it with various external stimuli (Pavlov, 1927), provide strong evidence of the innate drive to maximize efficiency and, thus, the benefits allowed by a set of given conditions. As for humans, the field of *decision theory* provides even more solid support. And I am not talking about theories that rely on the assumption of rationality and value-maximizing approach to decision making. *Prospect theory*, and its subsequent development *cumulative prospect theory*, shows that humans tend to frame possible outcomes relative to the status quo, as gains and losses, while generally being more concerned with the potential losses (Kahneman & Tversky, 1979, 1992). This model of decision making in conditions of uncertainty is also consistent with the idea of *bounded rationality*, where individuals make rational optimizing decisions only after they have simplified the available choices (Simon, 1955). Just like a computer algorithm that makes step-by-step decisions according to a given set of rules, both models show how humans make the most of the given circumstances and incomplete information.

Now, going back to the theory described in the story, the drive of making the most out of a set of given conditions is essential. Whether you feel comfortable seeing it is an hypothesis, implicitly proven by the evidence presented above, or just accepting it as an assumption, the drive is a key building block in our theory. On the one hand, it causes an individual to constantly adjust the need "successful existence," aiming toward a

perceived, ever-changing ideal approach to how to make the most of his or her life circumstances. On the other, it causes the individual to strive to address that need immediately. And this creates a tension that is vividly exposed in the so-called "marshmallow experiment," where "preschool children could obtain a less preferred reward immediately or continue waiting indefinitely for a more preferred but delayed reward" (Mischel, 1972). While the overall finding that children who can resist *instant gratification* are more likely to succeed in life is important and supportive of the rationale behind this book, implying that a broader spatio-temporal view of the world is a key factor to success, it is the children's struggle that is relevant here. Documented in video recordings, this experiment offers a graphic demonstration of the tug of war caused by the drive to make the most out of the given circumstances on the need "successful existence."

The theory goes on, then, to show that humans respond to these pressures with *need-addressing behaviors* that combine disaggregation and matching of needs to potential solutions that we are aware of and exist in our environment (Mitreanu, 2007). However, the weight of each component varies, depending on the need that is being addressed. At one end, we exclusively employ disaggregation to address the overarching need "successful existence." Then, gradually, the process shifts to defining needs by exclusively matching existent solutions or offerings in the marketplace. And this all happens simultaneously top-down, where an ideal future state is broken down into clearer components, and bottom-up, where needs that match existent solutions are being adopted and inserted into the overarching need. As a result, we generate a hierarchical structure of needs called the *tree of needs*. Continuously changing, as we interact with the environment and process information, this structure includes all possible needs, regardless of the level of commitment we have to them. It is fluid and volatile, and some of its areas become clearer only when we focus on them.

Nonetheless, in spite of the natural impossibility of identifying a full picture of a tree of needs, the structure's characteristics provide some certainties. By definition, all needs are part of the overarching need "successful existence." Except for the top need and those that are part of the top and bottom levels, they all are subordinated to higher level needs (superordinate needs) and have their own subordinate needs. As a rule of thumb, a need's

subordinate needs roughly add up to the need, with a certain "amount" of unknown (hard-to-define need) making up for the difference. In other words, with each higher level of needs, the amount of unknown embedded in a need increases. Realistically, things are a little bit messier, with numerous needs overlapping. But it is the vertical order that is essential here, as the hierarchy stretches along the *continuum of need-addressing behaviors*, which is one of the new concepts introduced in the story. (Figure 3)

This perspective on defining, structuring, and addressing needs is consistent with and supported by a significant body of research on *goals*; in spite of the fact that "consensual agreement on the definition and use of *goal* in the psychological literature does not exist" (Elliot & Fryer, 2008). As with the top-down and bottom-up approaches described above, the literature on how goals or needs, in our case, are established shows that the process could be triggered externally, internally, or jointly (Austin & Vancouver, 1996). Further, a review of the same literature reveals that the ideas of hierarchy and structure of goals, in the context of studying motivation, have been around for decades, if not longer. Nonetheless, while most studies understandably call for a distinction between *goal setting* and *goal striving* (Bagozzi & Dholakia, 1999), the concept *tree of needs* does not. While increasing the fluidity and volatility of the structure of needs, making it harder to study, this view provides a more realistic framework and is more valuable in the context of studying how businesses work. For example, by adding the "goal striving" part, the need "notebook" could become the need "notebook from the downtown store" or the need "notebook from the online store," revealing differences that would significantly change other needs around them. And that could mean different approaches and different solutions.

Clarifying all these aspects about needs and human behavior is essential, because they provide insights into numerous business phenomena. But most importantly, they provide the foundation for the "big picture" theory that explains how businesses work. Departing from the conventional approaches, where things are explained relative to either product categories or the company's resources, the continuum of need-addressing behaviors provides a longer-lasting frame of reference for all business dynamics. As the story and the theory develops, advancing from the analysis of an individual's behaviors to a perspective that looks at sets of individuals in aggregate, the next major concepts that are

being introduced are *ofmos* and the broader *tofmos*. Based on the fact that humans are social beings, constantly plugged into physical or virtual communities, the idea here is that needs tend to be common among the members of the same group.

A tofmos is a virtual business space defined by a need (or the corresponding offering) and a set of customers with the same associated need-addressing behavior. As knowledge about a certain need is naturally shared within a community, the representation of that need on the continuum of need-addressing behaviors will tend to be the same for all members involved (Mitreanu, 2007). And given the fact that communities as well as needs tend to have a measurable life span, we can think of this set of individuals and their activity associated with the need as a lasting virtual entity. Furthermore, when the need has a corresponding offering, we can then think of this virtual space as a lasting entity that has a stream of profit or loss associated with it. Uniquely represented on the continuum of need-addressing behaviors, I call it *tofmos* — a term derived from the words "total," "offering," "market," and "cosmos."

But a tofmos evolves over time. Through usage and communication, the knowledge level associated with the defining *need-offering pair* increases within the community. It is a learning process that is driven by the innate pressure of making the most out of the given circumstances. And so, with each new use, individuals will position the need lower within their respective tree of needs, assigning it to an increasingly specific purpose. At the same time, higher-level needs — needs that are more relevant to the individual (closer to the ideal need "successful existence"), but less clear — are being inserted above it. To put it differently, as the knowledge associated with the offering increases, the perceived utility decreases toward a level where the offering is valued solely for a minimal set of attributes or functions. As a result, the representation of the tofmos on the continuum of need-addressing behaviors will shift toward the lower end. Nonetheless, the existence of the tofmos and its unidirectional movement is dependent on the continuity of the general environmental conditions. If those change, we might be dealing with an entirely new tofmos. For example, if an offering becomes scarce due to a natural disaster, its corresponding need would now be a new, higher-level need.

This phenomenon is called *commoditization*. Consistent with our theory, as it was implicitly derived from the earlier concepts, the phenomenon is also supported by the

concept of *learning curve* (Newell & Rosenbloom, 1981). And here, it is important to mention that, depending on the level of analysis, things might appear differently. For example, if we analyze a specific model or version of an offering, the tofmos defined around it will commoditize gradually and unidirectionally along the continuum of need-addressing behavior. If we analyze in aggregate three successive models of the same offering, with the new ones bringing additional functionality and replacing their predecessors, the tofmos will jump upwards with the introduction of each new model, as the vendor too attempts to make the most of its situation. And things get even more complicated when we analyze multiple vendors and their offerings. Nonetheless, if we smooth out all these seeming irregularities and look broadly at the process, commoditization will always take place gradually and unidirectionally.

In most real-life business or commercial transactions, at least one of the parties involved is an organization, a group of individuals. And that might make you wonder whether these dynamics still apply. They do. Whether we are talking about customer organizations or vendor organizations, the final decision with regard to a transaction almost always lies with one individual or a small group of individuals (i.e., a group that makes decisions through vote). And because of the very nature of organizations, where interconnectedness is one of the basic characteristics, the knowledge employed by each side of the transaction tends to be a distillation of all the knowledge available within its organization. Furthermore, since the main reason people join organizations is because it helps them make the most of their given situation, organizations too tend to exhibit the same fundamental behavior. Simply put, while buyers strive for the best value, vendors strive to maximize their returns. And these are pressures that materialize as the process of commoditization, on the one hand, and what is typically referred to as *incremental innovation* (Garcia & Calantone, 2002), on the other.

The share of a tofmos that corresponds to one particular vendor is called *ofmos*. In other words, an ofmos is the virtual business space defined by the offering that defines the tofmos, the vendor that sells the offering, and the set of customers with the same associated need-addressing behavior and with a preference for the offering sold by the vendor. For simplicity, you can think of a tofmos as being defined by a product category and the total associated market, while a constituent ofmos is defined by a vendor's

product and its market share. And that leads us to the fact that every organization can be seen as a portfolio of commoditizing, profit-and-loss-generating ofmos, which is the "big picture" part of the promise in the story. (In the book's first edition, the text box that captures that insight in the illustrations read, "Every offering commoditizes toward irrelevancy.")

Finally, to understand what it takes for an organization to be successful, and to develop an explanatory model for that, it is useful to divide the continuum of need-addressing behaviors into three sections or categories of behaviors. Then, building upon the idea that a company's approach to business is a mix of deliberate and emergent actions (Mintzberg & Waters, 1985), the rationale advances on to discuss a company's *Focus* and its *Center*. The first concept is based on the idea of *intent* (Hamel & Prahalad, 1989), which is prevalent in the conventional management literature and practice. In our case, a company's Focus refers to the deliberate or implicitly deliberate act of setting and running a company with an approach that fits with a relatively-narrow range of need-addressing behaviors. Driven by a certain vision or simply by the imperative of successfully taking to market a set of core offerings, vendors tend to concentrate their limited resources toward developing organizational structures, go-to-market approaches, and cultures that best match one of the three categories of need-addressing behaviors.

Constrained by their limited resources, vendors also tend to develop portfolios of offerings and markets that create higher synergies. As a result, a company's portfolio of ofmos will tend to concentrate into one area that will generate most of its revenue and profit. Consistent with the notion of *resource congruence* (D'Aveni et al., 2004), this is the company's Center. But as the ofmos that define it, the Center commoditizes too. And so we arrive to the greatest challenge that the companies have to deal with in order to, at least, survive. Keeping the Focus and the Center aligned is the "formula for success" described in the story. Nonetheless, as I indicated in some of my presentations (Mitreanu, 2006a), a more comprehensive framework for success can be structured as a four-tiered pyramid, where each tier represents a broader task that supports the narrower task above it. First, a company must become *customer-need-centric*. And this means not only a good understanding of what the customer needs are and how they are structured, but it also means having a pervasive information system that effectively allows this knowledge to

flow throughout the organization. Then, the company must achieve and maintain *Alignment*, which can be done by adding and deleting ofmos to adjust its Center, or by changing its Focus. And then, the last two tasks are targeted at increasing the company's *operational efficiency*, one at the ofmos portfolio level and the other at the ofmos level. (See Figure 4.)

IV. ON THE BOOK'S VALUE

There are many possible ways to look at the value that this book could bring to you. However, the most stringent problem currently facing the field of management is its inability to provide meaningful support when it comes to synthesizing the large amounts of knowledge and information surrounding a manager. And it all ties back to how business education works. "Think of this as the IKEA model of management education: The schools supply the pieces, neatly cut to size; the students do the assembly. Unfortunately, the schools don't supply instructions. Worse still, the pieces don't fit together. They may look neat, but in fact they are cut every which way. And the students don't know what to build, because that depends on the situation, and in the classroom there is no situation, or else several a day in cases" (Mintzberg, 2004). In light of this, my main goal is to provide you with a "big picture" theory that explains how businesses fundamentally work. On the one hand, the benefit is obvious, because the individual "who knows only the skills and techniques, without understanding the fundamentals of management, is not a manager; he is, at best, a technician" (Drucker, 1986). On the other, whether you are a manager or not, this holistic worldview can provide a solid foundation for understanding numerous business and economic phenomena and, thus, help you make better decisions in an increasingly complex world.

Some of our ancestors believed for a long time that the Earth was flat. Consequently, when they attempted to sail from Europe to India, all available options pointed East; just like the trip that was typically done on land. But at one point, they learned that the Earth was round. And so, enabled by the new worldview, they added new potential solutions to their problem. Sailing West was indeed one of the options that they took, accidentally discovering new territories (i.e., America) and wildly enriching their countries. Similarly,

the worldview presented in this book could help you put various decision in a broader context, increasing your chances of success. And the empowering comes from the fact that the worldview (i.e., “this is how the world works”) provides a foundation for your story (i.e., “this is our service and how it fits in the world”), which finally provides a container for your approach or decisions (i.e., “this is how we go about it to make it happen”). Now, since there is much more to this broad theory or set of theories, I decided to break down the potential total value into tiers that reflect your interaction with the book and the increasingly deeper insight that you would get over time.

The FIRST tier of value is provided by the actual book; the virtual object. Assuming that you have absolutely no interest in understanding how humans, businesses, and economies work, you have still gotten yourself a virtual piece of art with an unique design and story behind it. Although you could argue that the chain of events that leads to a certain point in one’s life could generally be traced back to his or her birth, I believe that a more reasonable origin for the history of this book is my relocation to the United States in December 1999. And it was the struggle that followed that is relevant here. Aside from the difficulties that are common among those who move to other countries and cultures, there was a particular type of struggle that I would consider the main culprit. After leaving behind a rather successful business development career in Romania, which included the development of various partnerships and a national distribution network for telephone systems, it was natural to try to find a similar position in the United States. Even though I was not successful in my attempt, my efforts of emphasizing consultative sales skills and industry experience in office technologies led me to the realization that the two did not go together in the new market. Some of the products I had experience with were being sold in electronics stores, with no need for consultants. It then dawned on me that the market conditions for these products will eventually look the same in Romania.

It was as if I was given point A and point B, somewhere in the future, and I had to figure out what mechanism or dynamics would take us from A to B. Of course, although this puzzle was on my mind, it was only in the second part of 2002 that I began to seriously contemplate the idea of putting some of my thoughts on paper. What followed was four years of research, writing, publishing, and lots of temporary assignments. And

then, in 2006, I decided to assemble some of my key findings in a book. Nonetheless, it is important to mention that this was the era of the 2001 business book *Good to Great* by Jim Collins, which had sold millions of copies over the years, in spite of its criticism (Rosenzweig, 2007). It was everywhere. And for me, as a temp visiting numerous offices, the book seemed to be on every other manager's desk. With its red jacket and the word "great" in capital white letters, it stood out like a badge — and maybe some people used it that way. It was bad. So, I wanted to do something different. I envisioned a book that a confident executive with a sense of humor would display on his or her coffee table. By blending the characteristics of a business book, a coffee table book, and a graphic novel, I decided on something that could be described as "a children's book for business professionals."

There were other factors contributing to this choice as well. The self-publishing industry was taking off, bringing the number of new titles into the thousands every year. The adaptation for film of the graphic novel *300* by Frank Miller and Lynn Varley was to be released in 2007, promising to increase the general acceptance of the graphic novel as a publication for adults. Animated sitcoms such as *South Park* by Trey Parker and Matt Stone and the newer *Family Guy* by Seth MacFarlane were quite popular, indicating that content intended for adult audiences can be successfully presented in a visually minimalistic fashion. As for the book's main purpose, the idea was to create something that could equally play the role of an introductory book for the new theory as well as a reference book for those who have become familiar with it. And so, in April 2007, *Spointra and the Secret of Business Success* was published in a limited edition of 500 copies. The press release read, "Using a balanced combination of text and artwork, enhanced by a minimalist style, the story fits into 56 pages. This conciseness and focus on communicating the bare mechanics of business, escaping the traditional reliance on business cases, is enabled by the fundamental character of the theory, and allows for a fast reading. More important though, it stimulates independent thinking and invites repeat readings that will reveal the secret of business success layer by layer."

Printed on thick glossy paper, hardcover bound, and individually shrink-wrapped, *Spointra* was meant to be a high-quality graphic novel or coffee table book. Some purists complained that the book is not a graphic novel, but in the most literal sense it is more so

than it is a picture book. Then, quite a few people didn't know what to make of it when they first saw it (i.e., "This is not appropriate for children!"). Of course, most of the misunderstandings were my fault. By now, I believe that the fact that this is a tongue-in-cheek, humorous presentation of a very serious theory is pretty clear. Unfortunately, the first edition did not benefit of these explanatory notes that have been added to the update. My goal, initially, was to let the reader explore and discover on his or her own various concepts and the symbolism embedded throughout. Inspired by the simplicity of the 1963 children's picture book *Where the Wild Things Are* by Maurice Sendak, I wanted to keep things as simple and concise as possible, and that might have created some communication problems. Nonetheless, by adding this letter at the end and not in front of the story, I hope that the book's new edition will allow you to explore and discover, providing a valuable and fun experience, just as I initially envisioned.

The SECOND tier of value provided by the book stems from its insight into how individuals work — what drives them and how they go about it. This theory of human needs and motivation is probably the most important part of the entire set of insights that make up the fundamental theory of business. It is not only the foundation for the rest of the theories presented in the book, but it also underlies other social phenomena (i.e., negotiation). And in an environment where the life of most products grows increasingly shorter and the conventional product-centric perspective on business becomes increasingly narrow, this insight could significantly improve your chances of success, regardless of your role in the business world. "The classical example of this is the buggy whip industry. No amount of product improvement could stave off its death sentence. But had the industry defined itself as being in the transportation business rather than the buggy whip business, it might have survived. It would have done what survival always entails, that is, changing. Even if it had only defined its business as providing a stimulant or catalyst to an energy source, it might have survived by becoming a manufacturer of, say, fanbelts or air cleaners" (Levitt, 1960).

Largely a consequence of the trajectory that business education took after WW II, the general use in the management process of the already existent scientific insights relating to human needs is rather insignificant. In the startup or new product development world, the concern for needs does not go far beyond the discussion on what makes the product a

"want" or a "must-have." As for the products that have been already launched, most of the attention shifts to competitive analysis and the improvements that can be made in relation to the competition. And this problem was vividly on display in the early 2000s, when Apple took the portable MP3 player market by storm. The success of the iPod, which had fewer features than its direct competitors, has puzzled many at the time. Media outlets were doing feature-by-feature comparisons and things just didn't make sense. Some thought that it was Apple's brand, others thought that it was the product's sleek design. But few understood that iTunes, Apple's free music player application, was actually complementing the iPod to create a more valuable product that would address a combined, higher-level need. And that insight would be more apparent, once the concept of tree of needs is being employed.

Ironically, in spite of the fact that economists and psychologists have been generating numerous insights relating to needs and goals for well over a hundred years, the most widespread such finding is *Maslow's hierarchy of needs*, which hypothesizes that "there are at least five sets of goals, which we may call basic needs" and humans tend to address them in a certain order (Maslow, 1943). It is a concept that has not only been questioned over the years (Tay & Diener, 2011), but it seems to have been of little value in the business context as well. The insights from this book, however, provide valuable help not only when it comes to inter-personal dynamics (i.e., people are motivated by unexpressed, higher-level needs), but also when it comes to understanding how products and their customer value is determined by the needs behind them. In the sixties, Theodore Levitt is known to have said, "People don't want a quarter-inch drill, they want a quarter-inch hole." More recently, Clayton Christensen has been championing the idea that successful products are "hired" to address a customer's *job-to-be-done* (Christensen & Raynor, 2003a). With the *tree of needs* we can now go even further and think more holistically about needs and how they are structured. "Goals play an essential role in the purposive behavior of consumers, but scholars only recently have begun to examine the motivation for goals, their selection and modification, and their pursuit and attainment" (Bagozzi & Dholakia, 1999).

The THIRD tier of value comes from the insights into the basic dynamics that continuously shape the marketplace; that is the interplay between *innovation* and

commoditization. Typically analyzed as processes or phenomena, innovation and commoditization can now be also seen as forces or pressures (Mitreanu, 2007). Under this perspective (where the terms are spelled with the first letter in upper case), these are the forces that arise solely from the interaction of vendors and customers within the marketplace, excluding "outside" factors such as government regulation changes and natural disasters. In other words, fueled by the same fundamental drive of making the most of a given situation, Innovation is the pressure generated by the vendors in their attempt of maximizing their returns, while Commoditization is the pressure generated by the customers in their effort of capturing as much value as possible. It is a view that broadens the two concepts by introducing the distinction between the associated pressure that is exerted on the offering-need pair and the effect of that pressure. Furthermore, within the framework described by the theories presented in the book, the effect of the two opposing forces is now apparent, providing a dynamic view of the offering-need pair's evolution relative to a set of customers.

Whether you choose as frame of reference the continuum of need-addressing behaviors or the *Offering Map*, which is a two-dimensional canvas with the continuum of need-addressing behaviors as the x-axis and the continuum of offering complexity or functionality as the y-axis (Mitreanu, 2006a), these dynamics can now be represented graphically. And although the theory is still in its early stages, with representations that are rather illustrative (i.e., not precisely quantified), we know that the offering-need pairs will always commoditize due to the accumulation of associated knowledge within the marketplace. It is an insight made possible particularly by the newly-introduced concept of tofmos — a virtual business space defined by an offering and a set of customers with the same need-addressing behavior relative to the offering. On the one hand, the concept provides a novel type of unit of business and economic analysis, which allows us to see the commercial activity within a marketplace as a collection of evolving tofmos. On the other, it provides the container for the analysis of the two forces and their effects. As a result, consistent with the notion that learning or accumulation of specific knowledge within a system at equilibrium (i.e., the general environmental conditions remain roughly constant) is incremental (Gersick, 1991) and follows a *learning curve* that is generally S-shaped (Bills, 1934), the effect of Commoditization will always be unidirectional and will

overpower the effect of Innovation over time.

Innovation has been studied for quite some time now. While "engineering, marketing, management and even economics provide unique spins," innovation could be described as "an iterative process initiated by the perception of a new market and/or new service opportunity for a technology-based invention which leads to development, production, and marketing tasks striving for the commercial success of the invention" (Garcia & Calantone, 2002). It follows then that, based on their *innovativeness* or degree of "newness," innovations could comprehensively be classified as radical, really new, discontinuous, incremental, and imitative. These categories are all covered by the set of theories presented in the book, although they become more valuable at deeper levels of analysis, especially when it comes to matters related to a company's internal synergies. Nonetheless, it is important to note that the process of innovation that takes place inside a tofmos is consistent with the notion of incremental innovation. And all the other categories are associated with the process of creating tofmos. But the new framework expands the concept. By thinking of innovation as the vendor's underlying effort of maximizing its benefits from the given circumstances, it becomes clear that a more holistic view should come from the customer value perspective. In this case, innovation can also occur when the environmental conditions change. Just like water that is generally free becomes priceless during a natural disaster, so an existing product could become a new, more valuable one without any actual changes to it.

A more substantial contribution to the existing body of knowledge are the new insights into the process of commoditization. Although it is widely understood as the process of transformation of a premium offering into a *commodity* or generic, undifferentiated product, this conventional definition does not go much deeper than that. With the theory presented here, however, we can now see that commoditization is fueled by the humans's fundamental drive of making the most out of the given circumstances and occurs as a result of the accumulation of product knowledge within a community defined by its members's similar behaviors relative to that product. Specifically, with each use of the product inside the community, the associated need is being pushed lower along the continuum of need-addressing behaviors, as individuals increase their capacity of extracting value from that transaction and, at the same time, adjust the higher levels of

their respective structures of needs by inserting new individually-relevant specifications. In the process, the need is being stripped of complementary (and most-often unarticulated) meanings, eventually arriving at something that is rather an exact match of the product's core functionality. And this is a significant finding, as any offering commoditizes. Metaphorically speaking, commoditization is like *gravity* for the business and economic world.

The FOURTH tier of value encompasses the book and its entire set of theories, which I refer to as a fundamental theory of business. Leaving aside the promise of "the secret of business success," which is a playful exaggeration that fits into the fun aspect of the book, this is where you are provided with an explanation of how businesses work and what it takes to achieve enduring success. Offering a holistic framework for increasing a company's chances of achieving and indefinitely sustaining success, the novel "big picture" theory brings forth a perspective that unifies the organization's intent and its emergent approach to business. It is a first in the field of management; a development that could be a significant addition to your personal knowledge as well as to the entire discipline. And its timing cannot be underestimated. As I mentioned earlier, business education has reached a point where its value proposition is being questioned and an inter-disciplinary approach that is useful to the practicing managers has long "dissolved and disappeared as the business school economists institutionalized their impoverished conceptions of firms as simple production functions and their activities as fully rational goal-seeking" (Khurana & Spender, 2012).

At the same time, companies are increasingly struggling in their efforts of maintaining long-term success. "The first Standard and Poor's index of 90 major US companies was created in the 1920s. The companies on that original list stayed there for an average of 65 years. By 1998, the average anticipated tenure of a company on the expanded S&P 500 was 10 years. If history is a guide, over the next quarter century no more than a third of today's major corporations will survive in an economically important way" (Foster & Kaplan, 2001). Although the negative trend is partially influenced by how the financial markets and the process of corporate governance have evolved (i.e., increasing short-term orientation), its significant drop makes it most likely that the change is primarily a reflection of the actual corporate performance over time. In other

words, business leaders see a decreasing general capability of building healthy companies that constantly exceed their operating costs and stay in business for extensive periods of time. And continuous revenue growth is not a factor here — the two conditions are sufficient to ensure that long-term owners will gradually accumulate wealth, which is generally one of the main reasons they became owners in the first place.

It is for those who are interested in this notion of enduring success in business that the new holistic set of insights is highly relevant. Over the past two decades, the management tools with the highest rates of usage and satisfaction have consistently included strategic planning, mission and vision statements, and benchmarking (Rigby & Bilodeau, 2011). Ironically, determining what a business should become and how it can best achieve that goal, or defining the company's business and its objectives, or improving performance by identifying and applying best practices to operations and sales are all conventional tools that tend to trap a company within a product category or industry. And as product life spans become increasingly shorter, conventional "big picture" tools become increasingly unsuited for the task. Because "continued success no longer hinges on momentum. Rather, it rides on resilience — on the ability to dynamically reinvent business models and strategies as circumstances change" (Hamel & Välikangas, 2003).

Anchored in human nature, the fundamental theory of business expands the manager's view across and beyond the existing product categories or industries, well into a future where products can barely be envisioned. Providing a comprehensive yet dynamic platform, on which existing tools can be put in perspective, the new theory can bring additional meaning and structure to a company's quest for enduring success. In the new light, where maintaining the alignment between a company's intent and its emergent approach to business is key, *divestiture* raises in importance to levels similar to those occupied by innovation (Dranikoff et al., 2002). The *resource-based view of the firm* (Wernerfelt, 1984), a perspective that has been more popular with the research community, now becomes an integral part of the framework to be particularly employed when analyzing the company's synergies. And the notion of *competitive advantage*, as a company's edge in terms of either lower costs or higher differentiation (Porter, 1996), is rendered irrelevant. Companies compete per se (i.e., head-to-head competition) inside tofmos, where differentiation is, by definition, minimal (i.e., brand equity). Nonetheless,

the way a company chooses to compete inside a tofmos is dictated by its handling of the entire portfolio of ofmos (i.e., sell a product at a loss to enter a new market). As a result, it makes little sense to meaningfully talk about "advantage" at this level of analysis. Furthermore, such discussion is even less meaningful at the portfolio of ofmos level, as companies tend to significantly differ from each other in that respect. While analyses focused on broad performance indicators (i.e., profit margins) are common, particularly in the financial markets, side-by-side comparisons are rather difficult and provide limited insight.

It is also important to note that the new theory shows that the rationale behind the notion of *generic strategies* such as *low cost* and *differentiation* (Porter, 1980), which remains quite popular among managers, is fundamentally flawed. The problem could be traced back to the concept's roots in the field of *industrial organization*, which requires groupings of companies based on their output relatedness or product similarity, thus resulting in comparisons between companies that offer products of different levels of complexity and value to the customer. Nonetheless, with the new perspective, we can now add additional clarity to previous criticism (Kim & Mauborgne, 2005; Mintzberg & Lampel, 1999). On the one hand, we know that companies compete directly at the tofmos level, where price is the primary factor. On the other, we know that the nature of the offerings varies, depending on their respective levels of commoditization. And here is where the confusion might set in, as type I offerings could be seen as "low cost" relative to type II or type III offerings, with the latter giving the illusion that companies are not striving for the lowest cost. In fact, they do, but the nature of the offerings prevents further standardization of the associated underlying processes (Christensen & Raynor, 2003a). In conclusion, companies are always pursuing low cost and differentiation, simultaneously, which is a view consistent with the idea of *blue oceans* or marketplaces where "demand is created rather than fought over" (Kim & Mauborgne, 2005).

My point here is that a product- or competition-centric view of business and some of the most popular management tools are narrow, at best. While competitive analyses provide value in "head-to-head" situations, companies must learn to assess competition in a broader sense, at the customer needs level. Some managers, particularly those in smaller companies and startups, have found refuge in the concept of *business model*

(Mitreanu, 2006c), which provides a detailed snapshot of a business. Nonetheless, "all new business models are variations on the generic value chain underlying all businesses. Broadly speaking, this chain has two parts. Part one includes all the activities associated with making something: designing it, purchasing raw materials, manufacturing, and so on. Part two includes all the activities associated with selling something: finding and reaching customers, transacting a sale, distributing the product or delivering the service" (Magretta, 2002). Consequently, this concept too does not provide a dynamic view of the business world, lacking the rationale of how a company will transition to its next offering, and then to the next, and so on.

The fundamental theory of business sheds new light on the limitations of many existing concepts and deepens our general understanding, particularly when it comes to 1) broadening the business "big picture" and 2) offering an integrative platform for various management tools. But probably the most important benefit, at this time, is its potential to displace the ubiquitous "plan then execute" approach to managing a business. Characterized by an inherent gap between objectives and execution (the environment changes by the time the plan goes through) and disconnected from the company's emerging behavior (new buyer and vendor approaches are required as an offering commoditizes), the top-down perspective causes an organization to become rigid and slow. With the new framework, it becomes apparent that the most critical task that companies must perform in their quest for enduring success is achieving and maintaining *ofmos portfolio alignment*. And that means that they have to develop the capacity to smoothly and continuously adjust their ofmos portfolios. As a result, to increase their chances of success in an ever-changing environment, companies must become more nimble. Instead of taking the traditional cascading approach, where grand plans and objectives trickle down through the organization, business leaders can now see and manage their respective ofmos portfolios as a collection of more-or-less-autonomous projects, where more responsive management techniques can be applied. Such tools include *agile methodology*, which is particularly popular in software development, helping teams deal with uncertainty through incremental, iterative work cadences and continuous feedback loops (Cohn, 2009).

But can it be done? Can a company transition smoothly from one product category or

industry to another, over and over again? Better yet, can that be done by following some sort of formula or framework? Most likely. In spite of the common belief that there is "fundamental uncertainty at the heart of the business world" (Resenzweig, 2007), and even considering that unpredictable high-impact events can significantly alter the status quo (Taleb, 2007), the world around us can be predicted to a significant degree, especially during periods of stable environmental conditions (Gersick, 1991; Kuhn, 1996). In fact, most theories that underlie the framework presented here have been tested and are widely accepted by the scientific community. Nonetheless, the transition to the new approach to management has already begun. Some researchers have identified a possible model in private equity firms because they "think of their business as a revolving portfolio of companies in various stages of development. They realize that they will sell some of their properties each year and buy others" (Foster & Kaplan, 2001). IBM's transformation over the past two decades is also a great example in that respect (Palmisano, 2004). At a more granular level, companies such as General Electric, Qualcomm, and Intuit have started using agile methodologies (Blank, 2013). Also, the society seems to be moving in a direction, where high-skill professionals could be contracted or employed on a project-by-project basis, further enabling the new management approach (Greenstone Miller & Miller, 2012). And if we add our increasing general capability of collecting and processing data, our probabilistic "formula for success" seems to be highly appropriate for the future.

The FIFTH and last tier of value comes from an insight that has not been articulated in the book, but can be easily deducted from it. Taking our understanding beyond the levels of individual, phenomenon, and organization, the set of theories presented here also provides a new economic worldview or a new perspective on how economies work. And that is important because the economy constitutes the broader context for an organization's activity. Furthermore, "over the previous two and a half centuries, three different economic worldviews, in succession, reigned" (DeLong, 2007). Adam Smith's view, which focused on matters such as trade and the power of the market, dominated the economic landscape of the late 18th and early 19th centuries. The second era was that of David Ricardo and Karl Marx, who were mainly preoccupied by the laws of the market and their general impact on the quality of life. Their view dominated the late 19th and

early 20th centuries. Then, spanning the middle and late 20th century, the third reign was that of John Maynard Keynes, who argued that government can supplement the market forces to achieve stable and full employment. Nonetheless, throughout the end of the 20th century and beginning of the 21st century, the general economic views that guided most Western societies gradually shifted toward a Smithian perspective, which was more aligned with the prevalent ideas of *free market* and *deregulation*.

In practical terms, the last several decades could be characterized as a continuous "tug of war" between those favoring a "small government" and those advocating for more government participation in the business and economic affairs. Although evidence suggests that a more realistic perspective lies somewhere in the middle, as many governments have successfully used approaches that blend elements associated with both opposing views, our general understanding of how economies work provides little guidance here. And this is where the new economic worldview brings more clarity, getting us closer to a more realistic representation. Reaching at the very core of what constitutes commercial activity, the new model is rather simple, being built around transactions and the associated customer value. As already illustrated in the book, any economy can now be seen as a continuously-evolving collection of commoditizing tofmos (virtual business spaces defined by an offering and a set customers with the same associated need-addressing behavior). And it is the dynamics described by the tofmos, particularly their size and distribution along the continuum of need-addressing behaviors, that provide valuable insights into the state of the economy.

The commoditization of a tofmos is generally characterized by a gradual increase in the number of associated customers and revenue, followed by a sharp decline at the end of its life span. Some tofmos are rendered obsolete by new offerings, ending their lives even more abruptly. Others persist for extended periods of time in highly-commoditized states, as their defining offerings evolve into various types of commodities (i.e., electricity, gasoline). As for the associated profit, the curve typically peaks earlier and declines slower than the revenue. Now, although these dynamics bear a strong resemblance to those associated with the concept of *product life cycle*, with its stages of *introduction*, *growth*, *maturity*, and *decline* (Day, 1981), the concept of tofmos differs fundamentally from the conventional product-centric view. By definition, a tofmos is tied

to the perceptions associated with an offering in a relatively stable environment. If the "outside" conditions change significantly, for example, causing the perceptions relative to the offering to change as well, then a new tofmos is created. Consequently, the life span of a tofmos has a rather predictable evolution. As knowledge associated with the defining offering accumulates, the tofmos commoditizes, generating a revenue stream that will roughly describe an S-shaped curve. In contrast, the conventional product-centric view does not account for changes in perceptions, severely limiting the concept's prescriptive power.

In a frictionless or little-regulated environment, the collection of tofmos that defines an economy tends to naturally bunch up at the "commoditized" end of the continuum of need-addressing behaviors. And it is not just because all tofmos commoditize over time, but it is also because the participants in the marketplace exacerbate this tendency. While customers are the main force behind the process of commoditization, vendors strive to make the most of the given circumstances through incremental innovation that would slow down commoditization and by creating new ofmos, whether that means creating new tofmos or entering existing ones. Unfortunately, from the vendor's perspective, it tends to be easier and, thus, more lucrative to enter exiting tofmos or to create new ones that could be quickly commoditized, than to create new high-level tofmos that would also prevent the "bunch up" tendency. In other words, economies tend to naturally evolve toward a state where most of the revenue, which is generated through the entire commercial activity (i.e., Gross Domestic Product), comes from highly commoditized offerings. And that has significant implications because more "commoditized" revenue means more automation, less workers, less high-skill, more low-skill, more volume, and lower profit margins. But it also means that, in the process, the overall wealth tends to grow concentrated in an increasingly smaller segment of the population — a trend that would eventually threaten the existing social order and democracy.

At this point, it is important to note that the role of an organized society (i.e., a nation state) and its economy is to continuously provide the average individual with freedom (within the limits that preserve the society) and a decent quality of life (relative to the entire population). Translating that into our theory, the society's primary goal becomes one of maintaining a more balanced distribution of its total revenue along the continuum

of need-addressing behaviors. But, realistically, can it be done? As I explained earlier, taking a “small government” approach does not work, as the economy’s natural tendency is to destroy the fabric of society. The new set of theories also provide an explanation for why a “planned economy” approach does not work either. The collapse of such society would be caused not only by the totalitarian government and its effect on individual liberty, but also by the economic system that inherently gives rise to underground economies and corruption, as emerging unmet needs are creating significant business opportunities. Furthermore, even a larger government presence within the business and economic affairs, as informed by the Keynesian view, does not help. Most of the associated policies tend to maintain the status quo, simply delaying the “bunching up” of the economy.

The new model, however, suggests that a more balanced distribution of an economy’s revenue across the three basic types of offerings and the associate business approaches can be achieved by creating a continuous flow of tofmos. With the right enabling conditions, new high-level tofmos (i.e., type III offerings) can continuously emerge, while low-level tofmos (i.e., type I offerings) are smoothly disappearing. Coincidentally, these findings are highly consistent with Joseph Schumpeter’s economic worldview, which revolves around the process of *creative destruction* that “incessantly revolutionizes the economic structure from within, incessantly destroying the old one, incessantly creating a new one” (Schumpeter, 2008). The alignment between his view and our theory is even more apparent, as he further indicates that "in capitalist reality as distinguished from its textbook picture, it is not that kind of competition which counts but the competition from the new commodity, the new technology, the new source of supply, the new type of organization (the largest-scale unit of control for instance) — competition which commands a decisive cost or quality advantage and which strikes not at the margins of the profits and the outputs of the existing firms but at their foundations and their very lives."

Nonetheless, the new insights are even more pervasive. Challenging the conventional practice of using *growth* as a primary measure of economic health, the new model shows that the concept can be misleading. The economy’s total revenue will also grow when companies cut back on innovation efforts and the creation of new businesses, while

focusing on increasing the productivity of the existent ones. In other words, growth could also be a sign that the economy is rapidly "bunching up." And that leads to another flawed conventional practice, which is the use of *austerity* measures (i.e., cuts in government spending) to "de-bunch" the economy. As the theory suggests, an economy that is already heavily concentrated in the "commoditized" zone will tend to stay that way, with the overall economic health continuing to deteriorate. The only natural possibilities of reversing this trend are either through significant changes in the environmental conditions (i.e., war, natural disaster) or through radical innovations that would lead to full-fledged technological revolutions (i.e., new industries). But, in broader terms, the benefit of this new development is much more significant. Although its impact on your daily life might not be apparent, the way we organize societies and run businesses directly affects the average individual's quality of life and freedom. Where and how resources are being used determines how issues such as democracy and poverty are being addressed. And, from that perspective, a theory that gets us closer to explaining how societies or civilizations flourish and fall is very important.

SOME FINAL THOUGHTS

To conclude this letter, we should remember that theories are basically tools at the manager's disposal. They are the means to the ends in the decisional process and, thus, some of them might be better suited than others for the situations at hand. "The fundamental concept in my particular understanding of scientific practice is that of a *model*. Models, for me, are the primary representational entities in science. Scientists, I claim, typically use models to represent aspects of the world. The class of scientific models includes physical scale models and diagrammatic representations, but the models of most interest are *theoretical* models. These are abstract objects, imaginary entities whose structure might or might not be *similar to* aspects of objects and processes in the real world. Scientists themselves are more likely to talk about the *fit* between their models and the world" (Giere, 1999). So, you can think of theories as maps (Kitcher, 2001). While the geography and the degree of detail might be different from one map to another, the most useful ones tend to be those that provide the most guidance for your

current trip. Nonetheless, when dealing with numerous decisions and extended periods of time, maps that provide the bigger picture become increasingly valuable. And, in that respect, the set of theories presented here constitute not only a holistic view of the business and economic world, but also an integrative platform for other theories and concepts.

Theories or models can also be seen as shortcuts that substitute a series of deductive steps in the decision process. In this case too, our theory provides significant value not only through its broader scope, but also by offering a parsimonious or simpler alternative to other possible attempts of assembling the big picture. Nevertheless, this perspective reveals the importance of critical thinking. To be able to successfully employ multiple theories and observations, one must be adept of what, I think, are the two core skills in decision making. On the one hand, you must continuously strive to identify the causal relationships between various events within the business and economic environment. While the environmental complexity and, in many cases, the ease with which correlation can be mistaken for causality could increase its difficulty, this is an essential skill. "Explanation should be thought of as the phenomenological mark of the operation of a particular kind of cognitive system, the theory-formation system," which "is devoted to uncovering the underlying causal structure of the world" (Gopnik, 1998). On the other hand, you must continuously strive to develop lists or subsets of items that are *mutually exclusive and collectively exclusive* or *MECE* (Rasiel, 1999). It is an essential skill that helps you identify the components of a whole, without overlaps or gaps. And, together, these two skills enable you to see the world as a "domino chain," allowing you to make predictions or to intervene and make changes in order to maximize your chances of success.

The history of business and economic thought is also important, because it tells us how we got here. As I briefly pointed out earlier in this letter, the way we do things tends to be shaped not only by the current circumstances, but also by the legacy of how things were previously done. Consequently, as an institution or custom becomes more popular, a system of incentives to keep it that way solidifies around it. But, more often than not, that leads to the "folly of rewarding A, while hoping for B" (Kerr, 1995). And that is the case with business education, which has been the dominant degree of the 20th century in the

Western society. In spite of the fact that the business environment has changed significantly over the years, particularly due to technology, business education has remained largely the same (Mintzberg, 2004). Furthermore, the success of the conventional business school model has significantly impacted the efforts of advancing the discipline of management. As a result, we continue to see a general shift toward narrower concepts, which tend to better approximate the real world. Over the past couple of decades, the general conversation about the big picture seems to have been moved from strategy to disruption, but with little consideration for the aftermath of this special type of innovation.

The fundamental theory of business introduced here provides a broader perspective on business and an integrative platform that allows us to expand the meaning of "big picture." Probabilistic and dynamic, the model synthesizes most factors affecting a business and its environment. It is also versatile, enabling you to perform analyses with different levels of granularity or detail. And as we enter the era of "big data," where most customer interactions are being tracked and measured, the model will become even more valuable for the management challenges ahead. At the society level, its transformative potential is also significant. Even though business is literally everywhere and most of us are involved in it, in one way or another, formal business education reaches a very small percentage of the population. Enabled by the new set of theories, the education model could be redefined at its core, bringing meaningful business management knowledge to a much larger population. And that will eventually help us do a better job at running businesses and economies, and addressing issues such as democracy and poverty. Nonetheless, while the model helps you increase your chances of succeeding, the outcome is not guaranteed. And that's life — luck and chance will always play a role. So, release your inner child, be curious and have some fun. Join the Spointra cult! :-)

Thank you!

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San Francisco, 2013

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