

# Clarifying the concept of need in the organizational context

## Introduction

The concept of need is embedded in economic systems, especially in their marketing and development functions. The very purpose of economy and markets is to fulfill human needs. Recognizing and understanding customers' needs and how they change provides important opportunities for innovation, sales growth, competitiveness and profits.

In the strict sense, the concept of need is psychological and linked to individuals. From the theoretical viewpoint, markets can be seen as institutional solutions of how resources are applied to solve human problems or needs (cf. Vargo, 2009). These institutions are formed as micro level activity of dyads of individuals generate higher meso and macro level structures within groups, organizations, industries and societies (Chandler and Vargo, 2011). Therefore needs are also visible at several system levels above the individual. Yet they are less understood in the organizational context, as they have been primarily discussed in individual psychology.

Recently, marketing literature and the approach of service-dominant logic (Vargo and Lusch, 2004, 2008) has aimed to build bridge between individual, organizational, and market levels, suggesting the study of actor-to-actor value co-creation (Vargo and Lusch, 2011; Gummesson and Polese, 2009). The purpose of this article is to gain new insight on organizational needs and the needs of networked actors by building on the service-dominant logic discussion, the discussion of organizations and the psychological discussion of needs. This also clarifies the ways that value co-creation is embedded in social context (cf. Edvardsson et al., 2011).

This paper is structured as follows. We first study the concept of need at the individual level by summarizing literature of how the construct of need is understood in psychology and marketing. We also explore the relationship of need to its neighboring constructs, like want, motivation, and value. We then use literature on the rational, natural and open systems views of organizations (Scott, 2003) and on the service-dominant logic in order to discuss the concept of need in organizational and networked actor contexts. We conclude our paper by discussing the theoretical and practical implications of our findings.

## The Concept of Need

Human needs have been widely discussed in individual psychology. A large body of study of needs has followed the tradition of Maslow (1954/1987), listing and grouping different types of innate needs. But there are also studies that view needs as acquired and even phenomenological arguments that view needs as socially constructed.

### *Human Needs of Individuals*

The best-known theory about human needs is Maslow's hierarchy of needs. Maslow viewed needs as innate. He stated that unsatisfied needs motivate people to act, in addition, not all needs are equal, some must be satisfied before others (Maslow 1954/1987). His hierarchy included physiological needs, safety needs, love and belonging, esteem, self-actualization, and self-transcendence. Maslow's hierarchy can still be seen as a good list of different kinds of needs, but the idea of satisfying needs in a stepwise manner no longer seems valid (Sheldon, 2004). Maslow's theory was further developed by Clayton Alderfer (1969) who grouped Maslow's needs into higher order groups of existence, relatedness and growth (abbreviated ERG) in his ERG theory. According to ERG theory, higher order needs can be pursued simultaneously with lower order needs.

Murray (1938) viewed needs primarily as acquired rather than innate. His focus was on learned needs activated by the environment. He also addressed needs as psychological rather than physiological. He defined a need as “a construct (a convenient fiction or hypothetical concept) that stands for a force (the physico-chemical nature of which is unknown) in the brain region, a force that organizes perception, apperception, intellection, conation and action in such a way as to transform in a certain direction an existing, unsatisfying situation” (pp. 123-124). This definition basically states that something that drives an individual to action is a need. Murray’s system of needs provided the theoretical basis for McClelland’s (1961) work, which classified needs as needs for achievement, affiliation and power.

There is a clear division in how the various studies of needs view the difference between the concept of need and the concept of want. Raiklin and Uyar (1996) characterize both needs and wants as desires of individuals, yet making a clear distinction between them according to the level of urgency. They define needs as desires that take the form of a “must” urgency in acquiring goods and services in order to achieve satisfaction. They describe wants as including needs, but going beyond them to desires of lesser urgency. What is characterized as a need changes over time and differs across countries and cultures. Necessities are not just minimum amounts of what is needed for survival. There is a tendency that new wants are continuously created as technology develops, and that wants are further turned into needs in social context where they are filtered down from the affluent few to the masses (*ibid.*). As stated by Galbraith (1958/1998, p. 126), “one man’s consumption becomes his neighbor’s wish” and “the process by which wants are satisfied is also the process by which wants are created”.

Max-Neef (1991) sees human needs as few and finite and constant through cultures and across time. What changes in time, is how needs are satisfied. The fundamental human needs according to Max-Neef are subsistence, protection, affection, understanding, participation, leisure, creation, identity, and freedom; and they do not form a hierarchy, instead they are characterized by simultaneity, complementarity, and trade-offs (*ibid.*).

A more contemporary psychological view of needs is presented by self-determination theory, which was initially developed by Deci and Ryan. The theory views needs as “innate psychological nutrients that are essential for ongoing psychological growth, integrity, and well-being”, and therefore in self-determination theory needs are not just any forces driving action, but “human needs specify the necessary conditions for psychological health or well-being and their satisfaction is thus hypothesized to be associated with the most effective functioning” (Deci and Ryan, 2000 p. 229). The theory has identified three basic needs: competence, relatedness, and autonomy (*ibid.*)

Lately Sheldon et al. (2001) have drawn from many psychological theories a list of candidate needs and studied what is truly satisfying in satisfying events. According to their research autonomy, competence, relatedness and self-esteem are the experiential contents that make people happiest and thus qualify as psychological needs. Security may also be a need that becomes salient in times of privation. Pleasure-stimulation, self-actualization-meaning, popularity-influence, and physical thriving did not qualify as needs. The candidate that least deserved the need-status according to their study was money-luxury. The study of Sheldon et al. (2001) was elaborated by Robak and Nagda (2011), who included an additional eleventh need of compassionate love. They found autonomy, competence, relatedness, and self-esteem important as Sheldon et al. had previously shown. They also found that compassionate love was the most important need met during the most satisfying events in people’s lives. However, the other factors were more strongly related to people’s overall life satisfaction.

A thorough review into past studies on human need and an ambitious pursue to build a theory of human need has been written by Doyal and Gough (1991). They argue that all humans have common basic needs that are “universal and knowable, but our knowledge of them, and of the satisfiers necessary to meet them, is dynamic and open-ended” (*ibid.* p. 4). They emphasize the ability of people to participate in a form of social life of their choice, which means having the physical, intellectual and emotional capacity to interact with fellow actors over sustained periods in ways which are valued and reinforced (*ibid.*).

### *The Relationship of Need to Its Neighboring Constructs*

The concept of need has a close relationship with the concepts of motivation, goal, want, well-being, utility and value. Motivation is an inner state of arousal that drives and directs behaviour towards a goal (Sheth et al., 1999; Mittal et al., 2008; Hoyer and MacInnis, 2008). Goals can be defined as internal representations of desired states (Austin and Vancouver, 1996). One of the most widely known theories of motivation is Maslow's (1954/1987) hierarchy of needs, according to which people are motivated by unsatisfied needs.

The distinction between needs and wants is hard to make. One group of authors view that needs have a more general nature whereas wants are specific manifestations of needs at a certain instance of time. As an example of this first group of authors, Mittal et al. (2008) define a need as a discomforting human condition and a want as a desire for a specific object or product. They illustrate this with the example that the discomfort of a hungry stomach is a need whereas the desire for food and for a specific kind of food is a want (ibid.). This is different from equating needs with necessities and wants with luxuries or something extra, which is the view of the second group of authors. As an example of the second group of authors, Sheth et al. (1999) define a need as a felt deprivation of the desired state. They differentiate between needs and wants describing needs as an unsatisfactory condition that will lead to action and want as a desire to obtain more satisfaction than is absolutely necessary (ibid.). In their view the difference between needs and wants is that need arousal is driven by discomfort in a person's physical and psychological conditions and as a rule needs are driven more by physiology and are less likely to change over time than wants (ibid.).

However, it is very difficult to determine what is necessary for an individual and what is not. Usually the underlying assumption is that well-being is increased as wants and needs are fulfilled or goals are reached. In general the fulfilment of needs can be seen to be important for the well-being of an individual but there are examples like addictions where this is not the case (see e.g. Thomson, 1987). The service-dominant logic views the increase in well-being of individuals, groups, organizations, firms and governments (i.e. service systems) as value and measures this increase in terms of the system's adaptiveness or ability to fit in its environment (Vargo et al., 2008). Probably the most influential modern well-being theory is the capability approach developed by Amartya Sen and Martha Nussbaum (see e.g., Sen, 2001, 2009; Nussbaum, 2003, 2011). The approach emphasizes people's capability to do and be what they value, if they so wish. Poverty is viewed as capability deprivation. It also recognizes individual differences in ability to convert resources to subjective well-being. Robertson and Cooper (2010) make a strong point arguing that employee well-being should include both pleasure and purpose. This is well in line with recent research in the area of positive psychology, which views psychological well-being as dependent on positive emotional experiences and an overall sense of purpose (Fredrickson, 1998; Fredrickson and Joiner, 2002; Seligman et al., 2005). All in all there is a strong connection between the pleasurable experience of fulfilment of needs and wants and well-being, but well-being is not only about hedonic experiences and survival. It also seems to be linked to purpose and capability to do things one values if one so wishes.

Differing from the concepts of need, want, motivation, goal, and well-being which stem from psychology, the concept of value originates in economics and marketing. There are actually many different value concepts. Discussion on service-dominant logic has emphasized that already Aristotle and Adam Smith distinguished between use-value and exchange-value (e.g., Vargo et al., 2008). For Smith (1776/2000) value-in-use meant the utility of an object. However, there are more clarifications that we should make to the concept of value than just the distinction between use-value and exchange-value. Kahneman et al. (1997) point out that the modern usage of the economics term utility is decision utility, whereas Jeremy Bentham (1789/1948), who is often regarded as the founder of modern utilitarianism, used it as experienced utility. The decision utility or wantability that is used to explain choices is clearly different from experienced utility which refers to the hedonic experience associated with an outcome (Kahneman and Thaler, 2006). In a similar vein Woodruff (1997) and Flint et al. (1997, 2002) point out that customer value can refer to customers' judgements of perceived received utility; or it can refer to customers' desired value,

what customers want to happen. They also point out that customers' values are different from customers' desired value and value judgements. Values and desired value both guide behaviour, but values are fairly stable, enduring core beliefs, whereas desired value is context-specific and changes dynamically according to the use situation (Flint et al. 1997; Woodruff, 1997).

For the purposes of this paper we characterize need as subjective, as affected by a sense of purpose to do things one values, as affected by pleasure seeking and avoidance of suffering, as context-specific, as dynamically changing, as desired value-in-use, and as an inner state of arousal that drives and directs behaviour. Need describes both the desired state or goal and the arousal that directs the behaviour. Need can also be described as tension between the actual and desired states in the customer's situation (Hoyer and MacInnis, 2008) as simplified in figure 1.

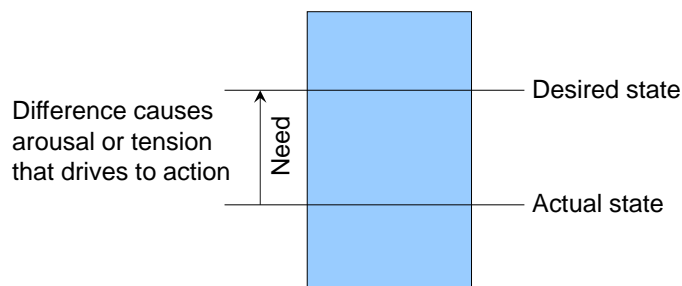


Figure 1. A simplified view of needs as action driving arousal or tension between an actual state and a desired state in the customer's condition.

## Organizational Needs

Goal constructs can be studied at several system levels above the individual, e.g., dyadic, group, and organizational levels (Austin and Vancouver, 1996). In order to gain new insight on organizational needs and the needs of networked actors, we apply Scott's (2003) framework of three perspectives on organizations: organizations as rational, natural, and open systems. We also discuss the service-dominant logic, which we view to be closely related to the open systems perspective on organizations, and approach a value co-creation perspective on the concept of need.

### *A Rational System Perspective on Organizational Needs*

All perspectives on organizations share the view that organizations are collective actors, social structures that have been created by individuals to support the collaborative pursuit of specified goals (Scott, 2003). Within the rational system perspective, organizations can be defined as "collectivities oriented to the pursuit of relatively specific goals and exhibiting relatively highly formalized social structures" (ibid. p. 27). In this perspective organizations are first and foremost instruments for attaining specific predetermined goals (see e.g., Taylor, 1911; Simon, 1945/1997; Weber, 1924/1968 trans.; Fayol, 1919/1949 trans.). Goals are translated into a set of preference or utility functions in order to make rational assessment and choice between alternatives (Scott, 2003). Organizational behavior is viewed as actions performed by purposeful and coordinated agents, whereas individuals themselves are assumed to dislike work, seek to avoid it, prefer to be directed, wish to avoid responsibility, have relatively little ambition, and want security above all (ibid.).

Taking this perspective we can think that each member of an organization will behave and 'need' according to his formal role in the organization. The behaviour and need of the organization will form from the actions of its members through planned and formal decision processes. The need of the organization is visible in formal representations, like formal goals, expressed strategy, business model, procurement rules, quality systems, etc. Based on the rational system perspective on organizations, suppliers should always think about the formal role and incentives of the person they are approaching at customer organizations. In the end organizational need is decided by top management, and therefore they are the most suitable people for suppliers to approach and serve.

Value is seen as economic value or functional value (cf. Rintamaki et al., 2007). It is often viewed as financial benefits exceeding life cycle costs for the company (see e.g., Anderson and Narus, 1998; Slater and Narver, 2000). Figure 2 illustrates this view. In long-term investments, interest rates are taken into account and calculations like net present value or payback time are used to justify financial decisions. Organizational need can also be seen as maximizing shareholder value.

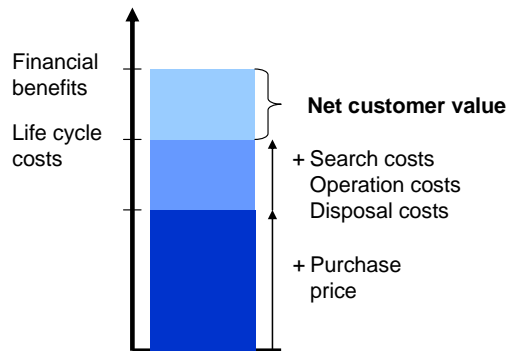


Figure 2. Within the rational system perspective, organizational need is typically viewed as a need to optimize net financial value.

### *A Natural System Perspective on Organizational Needs*

Within the natural system perspective organizations can be defined as “collectivities whose participants are pursuing multiple interests, both disparate and common, but who recognize the value of perpetuating the organization as an important resource. The informal structure of relationships that develops among participants is more influential in guiding the behaviour of participants than is the formal structure.” (Scott, 2003, p. 28). Within the natural systems perspective (see e.g., Whyte, 1959; Barnard, 1938; Mayo, 1945; Gouldner, 1954) organizations are above all collectivities and social groups. Because of this, there is a disparity between the stated and the ‘real’ goals pursued by organizations, and even when the stated goals are actually being pursued, they are never the only goals governing participants’ behavior (Scott, 2003). An organization is more than an instrument for attaining defined goals, it is fundamentally a social group attempting to adapt and survive in its particular circumstances and it must expend energy to maintain itself (ibid.). Thus organizations are characterized by one overriding need: the need of survival. There are two basic theoretical perspectives on the need for survival of natural organizations. Some theorists argue organizations are social systems characterized by a number of needs if they are to survive; while others suggest that because the organization is a source of power, resources, prestige and pleasure, participants have vested interest in the survival of the organization and wish to see it preserved, protected and strengthened (ibid.).

Within natural organizations individuals are not just roles as in the rational models and they do not behave as rational economic actors. Instead, they are complex beings with multiple motives and values, and they bring along their heads and hearts. They enter the organization with individually shaped ideas, expectations, and agendas, and they bring with them distinctive values, interests, and abilities. They are driven as much by feelings and sentiments as by facts and interests. They do not behave as individual, isolated actors, but as members of social groups, and they exhibit commitments and loyalties to colleagues stronger than their individual self-interest. Organizations rely on their willingness to make contributions. Material rewards are seen as weak incentives that need to be buttressed by other types of psychological and social motivations if cooperative effort is to be sustained. The most significant rewards are those associated with the satisfaction of ego and self-actualization needs. There is an important informal organizational structure in addition to the formal organizational structure. The individuals choose the goals of the organizations and often these goals favour the interests of some parties over those of others. (ibid.)

Natural system perspective on organizations brings to the fore issues like employee engagement (Robertson and Cooke, 2010) and employee driven innovation (Kesting and Ulhoi, 2010). The needs and behavior of each organization member reflect the same richness that is seen in the context of individual human needs. In addition to this organizations can be seen to have needs as a social groups or collectives. Suppliers can and should recognize and develop attractive value propositions based on emotional and symbolic value in addition to the economic and functional value (cf. Rintamaki et al. 2007).

### *An Open Systems Perspective on Organizational Needs*

From the point of view of service-dominant logic, the most interesting perspective on organizations is the open systems perspective. Within this perspective organizations can be defined as “congeries of independent flows and activities linking shifting coalitions of participants embedded in wider material-resource and institutional environments” (Scott, 2003, p. 29).

A system is defined by the boundary between it and its infinitely complex environment. Complexity is reduced at the system boundary. The difference between a closed and an open system resides in the extent of interaction between a system and its environment. The rational and natural system perspectives described above are closed system perspectives that view organizations as entities that are relatively separate from their environment and that encompass a set of stable and easily identified participants (Scott, 2003). The open systems perspective views organizations as open to and dependent on flows of personnel, resources, and information from outside, and as open for environments to shape, support and infiltrate them (ibid.). This makes open systems more complex than closed systems. An example of increasing openness and complexity is also the distinction between single-loop and double-loop learning by Argyris (1977) as organizations adapt to their environment. He compares single-loop learning to a thermostat that has a set of rules to act differently based on environmental conditions. Double-loop learning on the other hand results not only in different activities based on the state of the environment but in different rules for choosing activities (ibid.).

The open systems perspective can be further defined to include open rational models and open natural models of organizations (Scott, 2003). The importance of the open system perspective for organizational needs resides in the idea that organizations are shaped by and shape their environment. Therefore organizational needs change in time as organizations interact with their environment. Within the open natural perspective, organizational needs are shaped both by the environment and by the participants of the organization. Organizational participants can for example modify controversial goals in the face of hostile environments. Within the mutual interaction, organizations and their members also shape the needs of the other systems in their environment.

In Parsons’ (1960) view, organizations can be seen as the principal mechanism for getting things done and achieving goals beyond the reach of the individual in a highly differentiated society. This is a very similar view as the view that the service-dominant logic has of markets. The service-dominant view has from the start been clearly a systems view. The more recent discussion on service-dominant logic has clearly emphasized an open systems perspective.

Lately, there has been a call within the discussion of service-dominant logic to build bridge between individual, organizational and market levels, suggesting the study of actor-to-actor value co-creation and many-to-many marketing (see e.g., Gummesson, 2008, 2011; Gummesson and Polese, 2009) The service-dominant logic is an evolving approach that integrates several perspectives. Some especially promising perspectives concerning the development of the need concept are the social construction approach (cf. Edvardsson et al. 2011, Edvardsson and Tronvoll, 2013), service ecosystems view (see e.g. Chandler and Vargo, 2011; Akaka et al. 2012) and the symbolic interactionist perspective (see e.g. Flint, 2006). The feature that is common in all these approaches and makes them interesting concerning the need concept, is the dynamic and interactional open systems approach. For example Flint (2006) uses the symbolic interactionist perspective to approach customer value under service-dominant logic. This perspective is interested

in the formation of meaning that emerges from social interaction and guides human action; the perspective views that humans not only respond to the environment but use the environment in order to actively create self and society (ibid.). In the context of needs, an approach based on the symbolic interactionist view would be well in line with the changing nature of needs and the characterizations of needs that emphasize participation in the form of social life of one's choice or capability to do what one values if one so wishes.

## **Discussion**

In the organizational marketing and development practice, recognizing and understanding customers' needs is a central aim. Yet, using the concept of need in the contexts of organizations and markets is not simple, as the concept originates from individual psychology. The novelty of our paper lies in the systematic discussion of the concept of need in the context of organizations, based on recent discussion in service-dominant logic and other systemic views of organizations.

We have first explored the concept of individual need and studied its relationship to its neighboring constructs. Then we have extended the concept of need to organizational needs and discussed organizational needs in the light of different organizational perspectives, extending the discussion on open systems to service-dominant logic.

The marketing concept puts high emphasis on customer needs (Gummesson and Mele, 2010). The central construct is value, yet there is very little discussion on the difference between the different value constructs of value as customers' judgement of perceived received utility and value as customers' desired value. This paper emphasizes the difference between these value constructs brought to the fore earlier by Woodruff (1997) and Flint et al. (1997, 2002) and clarifies the concept of need as a very similar concept to customers' desired value.

Based on the literature on individual needs, the need of an individual can be seen to be formed in his context similarly to the way individual experiences are formed in context. Organizations and other networks and groups around an individual are an essential part of this context. On the other hand, when combining literature on individual needs and literature on organizations, the needs of an organization and value to an organization can be seen to be derived from the fundamental needs of humans. The need of an organization is formed of the needs of its employees and stakeholders in the context of its environment. Approaching a value co-creation perspective on human needs, needs can be seen in all systems levels and they are socially constructed and deeply embedded in social context. Due to the contextual embeddedness, the needs of individuals and organizations are intertwined in a way that one cannot be totally separated from the other. Higher systems levels form the context for individual needs and individuals form the context for needs at higher systems levels. Therefore, in order to truly understand needs at individual or organizational levels, they should be studied at the other systems levels as well. Besides the study of business development and marketing, the contextual, socially constructed, systemic and dynamic nature of needs has important implications at least for the study of well-being, social justice, and sustainable development.

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