



Integral Business and Leadership

AN INTRODUCTION

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ABSTRACT: This introductory article is an early articulation of integral approaches to business and leadership in which the authors use the clarifying and synthesizing perspectives of integral theory and methodology to update biases, make new connections, and illumine blind spots of the theorists who have gone before: Drucker, McGregor, Kaplan and Norton, Senge, Hammer, and Collins, et al. The authors present the AQAL map and argue that it is already sufficiently robust to incorporate all previous explorations into leadership and business, including more recent forays into the more inwardly focused realms of emotional intelligence, moral development, and spirituality. The authors provide an opening platform for bringing these efforts into alignment with the more outwardly focused areas of causal loop diagramming, strategic action, and organizational design.

Despite the central role business plays in modern society, the formal study of business is still in a relatively early stage of development. Peter Drucker launched the study of management as a discipline by publishing *The Concept of the Corporation* after World War II.¹ Business in the 21st century is now considerably more complex, spurring the creation of dozens of often-conflicting approaches to business management and leadership.

Much of this fragmentation is created by the lack of a sound meta-theoretical framework for business that is large enough to embrace all its key aspects—people, products and services, culture and community, systems of production and management—in a coherent fashion that



acknowledges the vital contributions of each part to the larger whole. The central mission of an *Integral* approach to business is to use such a framework, one that embraces a diversity of insights, theories, and practices and connects each in manner that strengthens, rather than diminishes, the others. This represents a novel approach at a time when competing approaches to business vie for supremacy, incapable of acknowledging the efficacy and value of the others.

A key tenet of Integral Business is that all established approaches and perspectives on business—e.g., systems theory, corporate culture, economics, emotional intelligence, game theory, etc.—contribute key truths to a larger understanding of business. At the same time, it is clearly understood that each of these approaches is also *partial* and cannot stand alone—a lesson that members of the business community learn repeatedly as they race from one overextended insight to another, from Taylorism to Reengineering.²

The Four Quadrants: A Logical Synthesis

In the early 1990s, the philosopher Ken Wilber wrestled with a similar challenge in reconciling the many, often competing, approaches to describing reality and the human experience that were offered by contemporary thought and the modern academy.³ His response was an analytical framework (first published in 1995, *Sex, Ecology, Spirituality*) known as Integral Theory. A key element of Integral Theory is the *four quadrants*, which represent the four irreducible perspectives available to anyone. This model is an analytical framework that brings together the interior, exterior, individual, and collective dimensions of reality in a balanced and systematic fashion. Integral Theory's essential message is that *every* occasion—in business and life—arises in these four quadrants *simultaneously*.

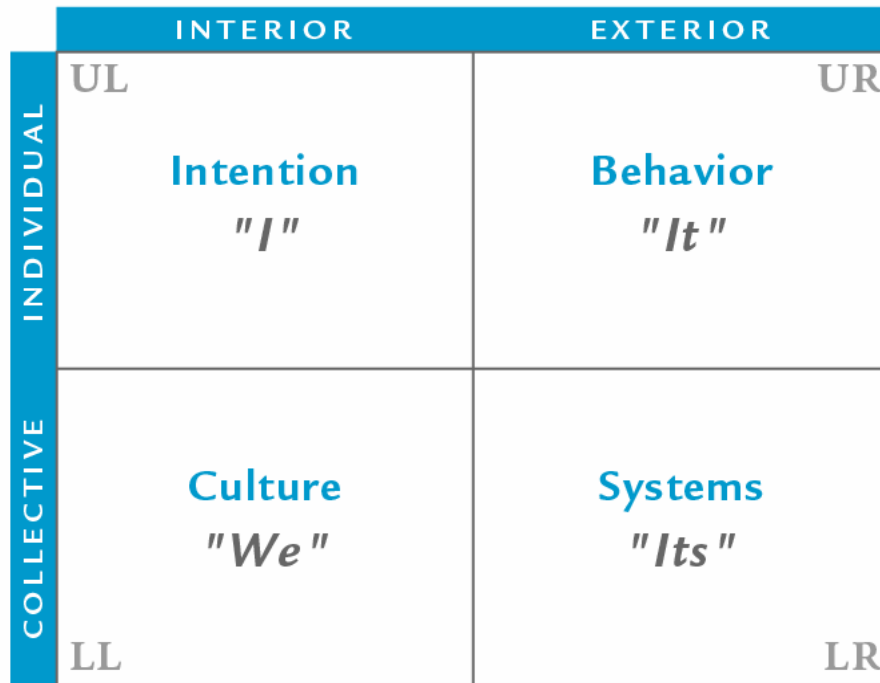


Figure 1

The four quadrants derive from two axes: interior and exterior, individual and collective. (See figure 1.) The Upper-Right (UR) quadrant anchors the specific actions that people take in the production of a product or service (e.g., preparing a legal brief or writing software code); the Lower-Right (LR) quadrant anchors the systems through which people work to produce those products and services (e.g., manufacturing methodology and facilities or a supply chain of vendors and partners); the Lower-Left (LL) quadrant anchors corporate culture (e.g., the shared values and beliefs of a firm); and the Upper-Left (UL) quadrant anchors the interior dimensions of each person in the firm (e.g., their intellect, emotional intelligence, interpersonal skills, etc.). The four quadrants provide a simple and powerful tool to help assure that all the bases are covered when analyzing a business problem or opportunity. Countless efforts—from reengineering to global trade agreements—have floundered from insufficient attention to one or more key dimensions of the complex dynamics of a business enterprise or, similarly, by over-privileging one or more quadrants to the detriment of the others. A four quadrant approach to business analysis assures that each of these crucial



dimensions is systemically accounted for.

Four-Quadrant View of Leadership

In addition to being a powerful tool of problem analysis, the four quadrant model provides a comprehensive framework for understanding organizational leadership. In today's decentralized and complex enterprises, "leaders" exist at all levels of an organization, and leadership occurs in many different role contexts: with peers, suppliers, customers, the community, partners, and subordinates.

		INTERIOR	EXTERIOR
INDIVIDUAL	UL	<p>Intentional</p> <p>Emotional Intelligence Motivation Intellect Theory Y</p>	<p>Behavioral</p> <p>Products Services Individual performance Theory X / MBO's</p>
	UR		
COLLECTIVE	LL	<p>Cultural</p> <p>Collective values and beliefs "What <i>really</i> matters in this firm"</p>	<p>Systems</p> <p>Systems Theory TQM / Six Sigma Reengineering Balanced Scorecard</p>
	LR		

Figure 2

Figure 2 illustrates some common examples of leadership theory and practice in the context of the four quadrant model. This introductory article emphasizes leadership in a business context; however, similar examples could easily be generated for other leadership contexts



including: military, non-profit, religious, government, or community leadership. The remainder of this section will examine the challenge of business leadership through the lens of the four quadrants.

Behavioral (UR)

The Upper-Right (UR) quadrant is concerned with the external, objective, measurable behavior of individuals or discrete performance units (e.g. business units or project teams). (See figure 3.) For example, an individual manager may track and manage output expectations and budgetary requirements (sales, inventory, labor hours, expenses, etc.). Managers and leaders with this UR objective/tangible viewpoint will be focused largely on “performance” as defined by “the numbers.”

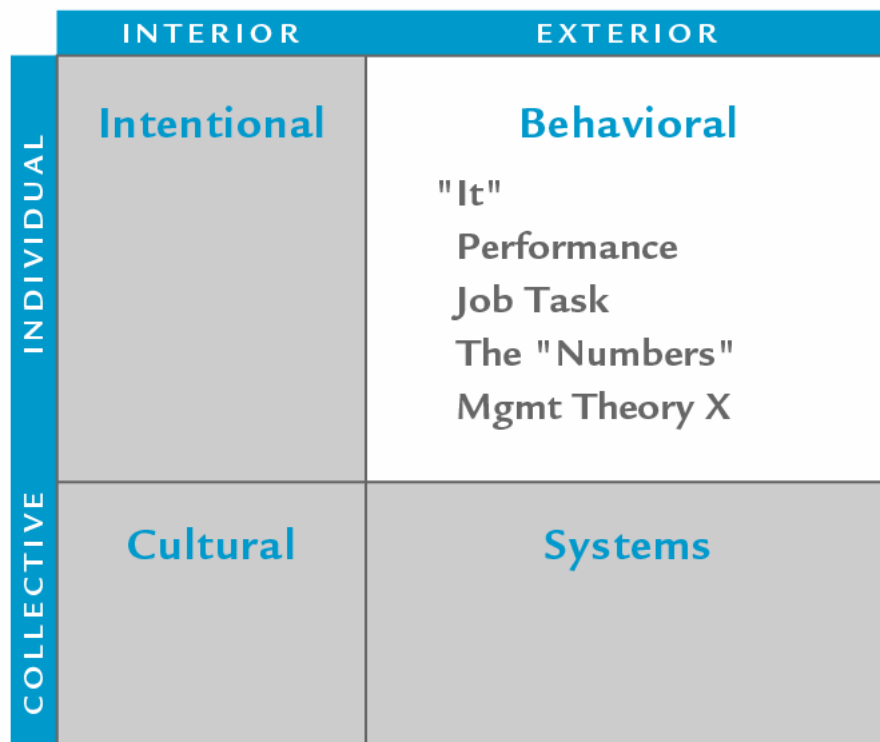


Figure 3



Strategies can be developed that use quantitative models to maximize profits from products and services based on market conditions. At the team or group level, the UR quadrant is the focus of “Theory X” management practices such as Drucker’s Management by Objective (MBO). Theory X assumes that employees are generally not self-motivated and therefore job tasks should be assigned to them in a well-structured manner under close supervision. The objective and tangible “It” dimension is also the focus of quantitative analysis such as sales forecasting, inventory management, Program Evaluation and Review Techniques, Critical Path Management, and certain forms of supply chain management.

Systems (LR)

	INTERIOR	EXTERIOR
INDIVIDUAL	Intentional	Behavioral
COLLECTIVE	Cultural	Systems "Its" Systems Theory Processes Balanced Scorecard

Figure 4

The Lower-Right (LR) quadrant is the domain of systems and processes (see figure 4.) Peter Senge’s 1990 work, *The Fifth Discipline*, helped propel two popular examples from this quadrant—systems theory and learning organizations—into the business mainstream.⁴ For many managers and leaders, “Systems Theory” has replaced Management Theory X/MBOs as



the business paradigm in the vanguard. Rather than looking at business as a series of simple, linear activities, the systems view recognizes that it is a function of numerous processes interacting interdependently with one another, resulting in both planned and unplanned consequences. Systems theorists point out that altering how one element interacts with others in a system shifts, to varying degrees, how all the interdependent elements react and, consequently, what will emerge as the “new” system. This new system, in turn, influences all the elements it contains.

Clarity about measurable systems and processes observed in the systems quadrant (LR) allows leaders to ensure that there are appropriate supports in place for the growth and success of the organization. Leaders emphasizing the systems dimension focus on effectively linking and integrating the organization’s operational functions. Kaplan and Norton’s well-known “Balanced Scorecard” framework is used by many Fortune 1000 firms to link, align, and measure organizational performance in four key areas: financial, customer, internal business processes, and learning and growth.⁵

While the power of a systems approach is undeniable, an overemphasis on the Right-Hand quadrants typical of “scientific management” has led to numerous failures, most notably in reengineering, which largely neglected the human dimensions of individual motivation (UL) and culture (LL).⁶ The key is to follow the example of Kaplan and Norton, who have designed measurement tools that make explicit the necessity to link exterior changes in products and business processes with cultural and individual growth and change.

Intentional (UL)

While business tends to emphasize an objective “numbers” approach to management and leadership, it is well understood that subjective intention (UL) precedes objective action (UR). A review of leadership literature shows that some approaches emphasize the individual capabilities such as emotional intelligence (UL), some emphasize the culture dimension (LL), others focus on high performance behavior and “execution” (UR), and still others focus on



organizational policies, procedures, and systems (LR).

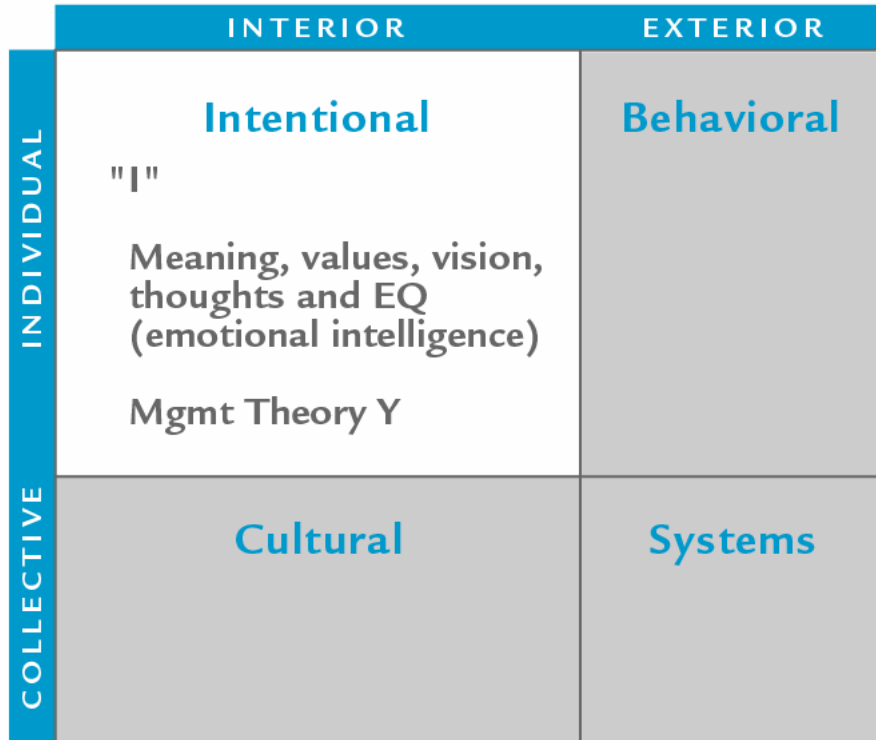


Figure 5

Bernard Bass and Bruce Avolio’s extensive research shows that leaders who can draw from a full range of leadership styles achieve considerably better results than their counterparts.⁷ Bass and Avolio outline several styles of leadership that clearly emphasize these different dimensions.

Douglas McGregor’s Theory Y was the first business-oriented theory to focus on the UL challenges of leadership (see figure 5).⁸ Theory Y assumes that workers have psychological needs that are best satisfied through meaningful work and that most workers become self-motivated and productive if they are provided a supportive work environment and ample opportunities for success. In short, Theory Y seeks to achieve organizational goals and personal goals (of the worker) simultaneously.



Understanding the diverse values, needs, and worldviews of those being led—their inner “mental maps”—allows leaders to be more effective at communicating with, influencing, and motivating people. High Emotional Intelligence (EQ) is vital for a leader to be able to translate this awareness of interior diversity into skillful, effective, and inspiring action.⁹ Situational leadership—tailoring one’s leadership actions and styles to the specific task(s) at hand and to the interior and exterior skills of those being led—depends on a skillful understanding of mental maps and a well-developed sense of Emotional Intelligence.

Cultural (LL)

As with individuals, groups also have “interiors.” The interior collective dimension (see figure 6) represents the intersubjective dimensions of a team, a department, division, organization, community, or nation. The interior of a group—as with the individual—is composed of collective values, needs, perspectives, thinking patterns, and even moods. Therefore, organizational culture can refer to workplace style, decision-making processes, and modes of communication. An organization’s culture is made up of its collective values, attitudes, habits, and experiences. A company’s overall work climate usually includes many smaller subcultures. The atmosphere in the IT Department may be quite different from the one in Accounting. It is not unlike the United States. While the country has a recognizable “American” culture, each state also has unique cultural aspects that separate it from others.



	INTERIOR	EXTERIOR
INDIVIDUAL	Intentional	Behavioral
COLLECTIVE	Cultural "We" Teamwork Collective values, vision, purpose, and meaning	Systems

Figure 6

Take a look at the four quadrants again. As discussed in the Interior (UL) section, in order for leaders to bring out the best in their people's performance (UR), they must first understand people subjectively. They must know their people's interiors (UL). Integral leaders recognize that people's interiors (UL) and their performance (UR) are linked to the work culture (LL) and its operational systems (LR).

Corporate culture can and does influence the bottom line. Many organizations seek to cultivate specific cultural qualities that can lead to competitive advantages. These include qualities such as commitment, morale, inspiration, innovative thinking, adaptability, and alignment. Effecting strategic change in the cultural domain requires significant leadership acumen with an emphasis on the intangibles of values, needs, vision, and organizational emotional currents. While many leaders are well-versed in managing the *tangibles* (seen in the Right-Hand quadrants), knowledge and skill of operations management, quantitative analysis, or systems engineering will not help a leader cultivate an aligned, engaged,



committed, inspired, and innovative culture. Success in the *intangible* dimension of shared meaning (LL) requires a high degree of emotional intelligence and proficiency with group dynamics (e.g., fostering teamwork).

Integral Decision Making

Figure 7 highlights key questions business leaders ask themselves when making decisions, addressing problems, or innovating improvements. This illustration underscores the importance of business leaders asking questions associated with all four quadrants.

<p>Intentional</p> <ul style="list-style-type: none"> • How important is this issue to me? • How important is this issue to others? • Is resolving the issue consistent with or counter to the values of the individuals directly affected? 	<p>Behavioral</p> <ul style="list-style-type: none"> • What must people do to effectively address the issue? • What needs to change in my behavior and/or the behavior of others? • What impact will the changed behavior have on the issue?
<p>Cultural</p> <ul style="list-style-type: none"> • What organizational values are at play that impacts this issue? • Does the culture support the resolution of this issue? • Are communication channels present to assure that all views are aired? 	<p>Systems</p> <ul style="list-style-type: none"> • What structures need to be put in place to enhance performance? • How do our current legal, financial, HR, and other systems affect the resolution of the issue?

Figure 7: Questions by Quadrant



Integral Leadership in Perspective

If this framework, at first brush, seems commonsensical, it is common sense uncommonly practiced. Reengineering was famous for the human carnage and failed change initiatives it left in its wake because of its neglect of the personal (UL) and cultural (LL) dimensions. Similarly, even the best performance management incentive systems often fail to account for their unintended human side effects.

The corporate scandals of 2001-2003 are reminders of how executives all too often maximize short-term financial gains while simultaneously creating long-term degradation of customer service, ethics, employee morale, or overall corporate culture.

In *Good to Great*, Jim Collins identifies six common traits of elite companies that made the leap from good to great results and sustained those results for fifteen years.¹⁰ After the “good to great” leap, these companies generated cumulative common stock returns that exceeded the market by an average of seven times in fifteen years—better than twice the results delivered by a composite index of the world’s greatest companies. Collins’s research showed that a key distinguishing factor for the “good to great” organizations was that highly developed leaders helmed these companies during their transition. Collins identifies these highly proficient leaders as “Level 5 leaders.”

Collins’s research showed that only 11 out of 1,435 companies surveyed were able to produce above average growth over the long-term (20+ years). The most surprising result of the study was that the *inner* dimensions of these star companies was what set them apart—e.g., their CEOs were non-charismatic, humble, but fiercely dedicated to a single vision for the firm. None of the select 11 companies were exceptional strategists, systems theorists, or technology leaders. As excellent as Collins’s research is, however, it highlights what is often missing in current business research: strong circumstance-based, causal models that demonstrate the link between interior qualities (e.g., CEO humility) and exceptional performance. For example, it is fairly straightforward to conceive of circumstances where humility and fierce



dedication to a single vision might be disastrous, where instead a “take charge” leader like Jack Welch is exactly what is required for the success of a firm.¹¹

Like so many business writers today, Collins’ methodology emphasizes the tangible, measurable, and objective dimensions of business (the Right-Hand quadrants) while overlooking or ignoring the intangible, subjective dimensions (Left-Hand quadrants). This research shows the impressive, statistically based financial performance that results from leadership functioning at the highest stages of development. But the dynamics of psychological development, and therefore leadership development, was (by Collins’s own admission) beyond the scope of his work:

Our research, frankly, did not delve into how Level 5 leaders come to be, nor did we attempt to explain or codify the nature of their emotional lives... Our research exposed Level 5 leadership as a key component inside the black box of what it takes to shift a company from good to great. Yet inside the black box is another—the inner development of a person to Level 5 leadership.



		INTERIOR	EXTERIOR
INDIVIDUAL	UL	Collin's <i>Black Box</i> of leadership development	Level 5 Leadership (empirically observed behavior seen in Collin's research)
	UR		
COLLECTIVE	LL		Good-to-great company performance
	LR		

Figure 8

Learning about a person’s inner development requires investigation with the appropriate tool. The perfect instrument to investigate Collins’ “black box” is developmental psychology, with its emphasis on the Upper Left quadrant¹² (see figure 8).

Conclusion

Integral Business is not simply about championing the underrepresented quadrants. The four quadrant analysis offered here is only the first step toward a truly Integral approach. In the context of the four quadrants, Integral Business *does* represent a call to pursue the inner quadrants with the same rigor and depth that the exterior quadrants are analyzed, and that any business initiative must—if it is to be maximally effective—address *all four quadrants* in a thorough, systematic, and integrated fashion.



The Integral vision for business and leadership is concerned with creating long-term, ethically sustained growth that accounts for people, profits, and the planet. Central to the achievement of this vision is the recognition that firms must develop a level of excellence in the “inner dimensions” (moral, interpersonal, emotional, etc.) that matches the technical (exterior dimensions) excellence of contemporary business. One of the unique contributions of Integral Theory and its methodology is that it is built upon a comprehensive, empirical model of inner human and cultural development that matches the technical complexity and depth of existing models of the objective world (e.g., objects and systems) and shows systematically how they are related in a way that supports effective analysis and action.

A four quadrant perspective on business is an important advance in business theory, essential for crafting successful business initiatives and the foundation of Integral Business. However, to match the full complexity and scope of modern business, Integral Business requires additional theoretical and practical tools that are beyond the scope of this brief introductory article. Additional information in this regard can be found at the Integral University’s Integral Business and Leadership Center: www.integraluniversity.org.



Endnotes

¹ Peter Drucker is widely regarded as the father of modern management theory. For more information on the book cited in this paper, consult *Concept of the Corporation*, 1993.

² Frederick Taylor wrote *The Principles of Scientific Management* in 1911, first articulating the concept of reengineering, or the analysis and redesign of workflow within and between enterprises. Also consult, *The Principles of Scientific Management*, 1998 (reprint of the 1911 classic).

³ Ken Wilber is regarded by many as the most comprehensive philosophical thinker of our times. Credited with developing a unified field theory of consciousness—a synthesis and interpretation of the world's great psychological, philosophical, and spiritual traditions—he is the author of the seminal work, *Sex, ecology, spirituality* and over twenty other books.

⁴ MIT's Peter Senge popularized “systems thinking” as one of five disciplines he put forth as keys for organizational success. Senge co-founded the MIT Organizational Learning Center with Fred Kofman, and went on to bring the concept of “learning organizations” into the mainstream. Consult *The Fifth Discipline*, 1994.

⁵ Kaplan and Norton, *The Balanced Scorecard: Translating Strategy Into Action*, 1996. “Balanced scorecard” is an approach to strategy that suggests that businesses should track multiple bottom lines. The books in this series urge leaders to develop strategies (and measure the results) in four categories: financial performance, customer knowledge, internal business processes, and learning and growth. The authors posit that aligning individual, organizational, and cross-departmental initiatives can result in more efficiently meeting customer and shareholder objectives. Although not Integral, this pioneering approach is an important effort that has paved the way for more inclusive, comprehensive views of the organization in general and strategy in particular. It is among the first to emphasize both the tangible and intangible dimensions of business strategy in a more comprehensive and balanced way.

⁶ Michael Hammer, *Reengineering the Corporation*, 1993, brought the concept of reengineering into the mainstream with his series of books on the subject.

⁷ Bruce Avolio and Bernard Bass, *Developing Potential Across a Full Range of Leadership: Cases on Transactional and Transformational Leadership*, 2002, have aggregated and synthesized large volumes of leadership performance data into a “full range of leadership” model that suggests leaders that draw on multiple styles are more effective than their single-dimensional counterparts. Although not explicitly Integral, this research is very useful for better understanding leadership styles (that can be easily correlated to meaning making systems / value systems).

⁸ Douglas McGregor, *The Human Side of Enterprise*, 1960, is a pioneering management theorist, who outlined Theory X and Theory Y management principles.

⁹ Emotional Intelligence, pioneered by Harvard psychologist Daniel Goleman, refers to a combination of four skill sets: self-awareness, self-management, social awareness, and relationship management.

¹⁰ For more information, consult Collins, *Good to Great: Why Some Companies Make the Leap...and Others Don't*, 2001.

¹¹ Jack Welch is one of the most respected and emulated business managers in history. Using his own unconventional leadership strategies, he helped GE, one of the most complex organizations in business, increase its market value by more than \$400 billion over two decades. Consult Welch, *Jack: From the Gut*, 2001.

¹² Technically, Integral Theory, which contains developmental psychology, is the best-suited tool for exploring the interior dimension of humans. Integral Theory transcends and includes developmental psychology; Integral Theory contains within it all the insights afforded by developmental psychology but also integrates the understanding provided by other relevant fields including biology, physiology, sociology, and systems theory.



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John Forman is a Co-Director of the Integral Business and Leadership Center and the Managing Partner of Integral Development Associates. For more than 15 years, he has advised organizational leadership and management in areas ranging from culture change and leadership counsel to strategic planning, organizational development, cultural diversity and complex communication issues. He has been a student of consciousness, science, and spirituality for substantially longer, and worked as an executive one-person think-tank at a mid-sized consulting firm for more than a dozen years. It was in that capacity, directly reporting to five CEOs in two organizations, that he expanded his studies to include complexity, systems-thinking, theoretical biology and developmental psychology as they apply to organizations, management, leadership, and change.

Michael Putz is a founding member of the Integral Institute and is a co-host of the Integral Business and Leadership domain at Integral University. Prior to joining Cisco Systems as the Director of Business Development, Michael was a Director at Bell Communications Research (now Telcordia). He is a thought leader on Integral Business and Leadership theory and its application to building sustainable growth businesses based on Clayton Christensen's concept of disruptive innovation. Michael has presented his work on Integral Leadership and Business at the Conference Board and the Association of Strategic Planning. He is the co-author with Michael Raynor of, "Integral Leadership: Overcoming the Paradox of Growth," in the Jan 2005 issue of *Strategy and Leadership*.

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