The Context of Interest

Abstract

Virtually all my classes use the Context of Interest as a unifying theme.

This note describes the origins and meaning of the context and how it can be used as a basis for thinking about business.
In the Beginning

In 1985 Porter published “Competitive Advantage: Creating and Sustaining Superior Performance”\(^1\) containing the following diagram on page 37.

![Porter's Generic Value Chain Diagram]

Porter described this as a representation of “…a collection of activities that are performed to design, produce, market, deliver, and support its product.” I also think of it as a good representation of firms whose primary value is service.

While I had read Porter in 1986 I didn’t begin to notice the inclusion of this model in the writings of the IBM Consulting Group (where I worked at the time) until 1995. I began to use Porter in my own work in 1997. The value chain subsequently became a focal point of much of my consulting work.

Sometime after I began teaching at SUNY Maritime College I started to modify Porter’s diagram to match my understanding of the manner in which business was developing, to place it within a set of contexts, and to accentuate other matters I saw as important.

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\(^{1}\) (Porter 1985)
The current version of The Context of Interest is shown below.

![Diagram](image)

**Figure 2 The Context of Interest**

**Explanation**

The concept of Porter’s Value Chain is retained and forms the core. You will note when comparing Figure 1 and Figure 2 that Procurement has been moved from Porter’s Support Activities (those items in the top half of the arrow in Figure 1) to the bottom half of the arrow. Marketing has been added to the bottom half of the arrow. It is these seven core meta-processes that determine the value added by a business to its inputs.

I reorganized and added to Porter’s Support Activities (the top half of the arrow) to emphasize recent business developments I consider essential to a successful organization.

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2 Transportation has been added to Inbound and Outbound Logistics to clarify its relationship to the value chain.
Core Meta-Processes

Marketing

Marketing, the vetting of values and vision by reality

\[
\text{Customer Needs and Wants + Money to Spend + Propensity to Buy} = \text{Opportunity}
\]

\[
\text{Your Capacity and Capability + Competitive Capacity and Capability} = \text{Success}
\]

\[
\text{Revenue from Success - Cost of Success} = \text{Profit}
\]

Firms are established on the basis of sets of value and vision that shape everything the firm does.\(^3\) The business is not likely to succeed if that value and vision does not correspond to reality. Marketing is the first check. It answers the question of what customers will buy and the profit that the firm can make from this propensity.

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\(^3\) (James Drogan 2008)

\(^4\) I describe the value, vision, and everything as the business configuration. See (J. Drogan 2005; J. Drogan 2007) for additional detail of the business configuration.
**Procurement**

Procurement, getting what you need in order to produce what you can sell

**Figure 4 Procurement**

All organizations require inputs – people with the necessary knowledge, skills, and experience; raw material and components; capital and operating funds; facilities – in order to produce the outputs recommended by marketing. Procure increasingly spans national boundaries.

**Figure 5 Global Procurement at Wal-Mart**

In February 2002, Wal-Mart Stores, Inc., created Wal-Mart Global Procurement Services to manage the company’s direct import business and perform direct purchasing. Wal-Mart’s Global Procurement team is responsible for identifying new suppliers, sourcing new products, building partnerships with existing suppliers, and managing the global supply chain of Wal-Mart’s direct imports.

This dedicated team of more than 3,600 associates sources products from more than 70 countries around the world, working from 27 offices located in 20 countries, including:

- Bangladesh
- Brazil
- China
- Chile
- India
- Indonesia
- Japan
- Mexico
- Nicaragua
- Pakistan
- Philippines
- Singapore
- Spain
- Sri Lanka
- Taiwan
- Thailand
- Turkey
- United States
- United Arab Emirates

With offices around the globe, our associates quickly identify new trends and are able to bring new products to our buyers in all of Wal-Mart’s retail markets. There are a number of teams and components that make our Global Procurement efforts successful.
Inbound Logistics

What procurement has obtained must be moved from where it is (e.g., suppliers) to where it is needed, operations. This is the job of inbound logistics, essentially a combination of transportation and warehouse/distribution center function.

Operations

The transformation of the inputs to the firm to its outputs takes place in operations. I've indicated here that, in my view, operations is not only dependent upon the manufacturing...
process, but also research and development, and management. Sit at a sushi bar and you will have a clear view of what operations is all about.

**Outbound Logistics**

Please refer to Figure 6 Inbound Logistics. On the outbound side the combination of transportation and warehouse/distribution functions is used to move the finished product from operations to the customer.

**Sales**

![Diagram of Sales, understanding and responding to buying behavior](image)

Whereas marketing is about understanding customer needs and how they may be fulfilled by new and existing products and services, sales is about understanding and responding to customer behavior with existing products and services. Marketing is understanding what needs to be in your sales manual while sales is about moving what is in your sales manual into the hands of the customer. Success in sales is about understanding and responding to immediate customer buying behavior.
Service

Service, making a product into an experience

Figure 9 Service

Few of us would buy products or services that lacked service after the sale. When your iPhone
doesn’t work you want someone to call. Oft times it is the quality of the post-sale service that
cements, or compromises the relationship between the firm and the customer.\textsuperscript{5}

I’ve presented these value-adding meta-processes in a linear sequence, but modern business is
just not the simple. One pass and done will not do.

There are feedback loops, not all of which are shown in this example, throughout the set of
meta-processes.

Figure 10 Feedback Loops

Operations may provide feedback to marketing regarding the ease of producing a product that
will meet the needs of the customer (loop A). Outbound logistics might suggest to operations
that a certain size of a manufacturing run could reduce the costs associated with logistics.
Service may provide suggesting to operations as to how a product may be manufactured to
simplify maintenance (loop C).

Successful firms operate as a responsive, integrated whole even though it might comprise
multiple processes.

\textsuperscript{5} For an interesting case of this downside of poor service see Soup to Nuts, Inc., (Coyle, Bardi, and Novack 2006, 48-49)
Specific mechanisms are required if the firm is to operate as a responsive, integrated whole.

1. The values, vision, mission, goal, and strategies that shape the firm need to be complete, coherent, and understood by everyone contributing to the performance of the organization.

2. Management knowledge, skills, and experiences become critical in making the decisions at all levels of planning and control. People that know what they are doing and how to do it are critical.

3. Communications and collaboration are the essential sinews holding everything in the firm together. This less of a technological matter than it is a mindset.
There is a spirit of integration that needs to be present as well as a set of knowledge, skills, and experience we often give little attention to.

Critical success factors for integration

- First, there will be a need in a firm for knowledge, skills, and experience in negotiation. All will be much easier if the firm and the other party can come to agreement on the level of sharing.
- Second, being in a position to negotiate suggests that the firm understands something of the value proposition associated with sharing as seen by the other party. This means the development of an understanding of the other party’s business configuration.
- Third, there needs to be a spirit in favor of multi-party integration.

Networks

Referring back to Figure 2 The Context of Interest on page 3 you can see the value chain exists within or sits atop a set of networks.

These networks and their characteristics form a portion of the context in which the value chain exists. They have a profound influence on the performance of the value chain. An example of the impact of, say, the information network can be found in “What Went Wrong at CISCO Systems?”

We encounter networks in our daily lives and take them so much for granted that we really don’t appreciate them unless they do not perform to our expectations. Significant examples of these are the Internet, cellular communication, and ATMs. We’ve become so dependent upon being connected that when we can’t life, as we have come to know it, drastically changes; anxiety is elevated; and, in

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6 (James Drogan 2007)
7 (Christopher 2005, 171-174)
extremis, we almost cease to function. Witness people riding the subway, looking up the dark tunnel for a glimpse of the lights that will signal the approach of the train; or people moving from one place to another shouting, “Can you hear me know?”

We are no less anxious when it comes to the networks essential for conducting business.

The importance and value of the personal network gets little mention in business education. Yet, we often read and hear in the business media of the person with the “fat rolodex.” That is, the person knows many other people whom s/he can contact as the need arises. We see some ideas of these personal networks in social networking offerings such as Facebook, LinkedIn, Twitter, Plaxo, et. al. These social networks are no substitute for really knowing a person.

Understanding and using the value chain requires an appreciation for the networks upon which it depends.

**Market Context**

The next layer to consider is that of market context.

Consider, for example, that your business may be highly dependent upon broadband communication for support of the information network.

![Figure 14 Market Context](image)

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![Figure 15 Broadband Penetration](image)

**Figure 15 Broadband Penetration**
Broadband penetration\(^8\) is a characteristic of a country and defines the market context. Culture, in my view, is very profound characteristic of the market context. What is acceptable in the American culture may not be acceptable in the culture of another country. Culture will shape the configuration of your organization and hence be a major determinant of success.\(^9\)

**Business Drivers**

The final part of the picture to be discussed is that of business drivers.

![Diagram of Business Drivers](image)

**Figure 16 Business Drivers**

A business driver is a significant force in the organization’s environment, largely independent of their control, which constitutes either an opportunity or a threat.\(^10\) These six drivers I consider external to the organization.

**Social, Economic, Political Context**

Comprises the business environment in which the organization conducts its operations.

**Customer Forces**

This specifies 1.) the forces buffeting the customer and causing him to undergo change, and 2.) what is required to delight the customer.

**Competitive Forces**

This specifies 1.) the forces buffeting the competitor and causing him to undergo change, and 2.) what is required to establish competitive dominance vis-à-vis the competitor.

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\(^9\) (Javidan and House 2001)

\(^10\) (J. Drogan 2005)
Collaborator Forces

This specifies 1.) the forces that are buffeting the organization’s partners and causing them to undergo change, and 2.) how that affects the ability of the organization to delight its customer.

Geoclimatic Forces

These are the forces such as hurricanes, earthquakes and the like that often give rise to force majeure.

Technology Forces

These are the forces caused by technological advancement. Steam to diesel engines; piston to jet power; the Internet; the ubiquity of hand carried technology linked with wireless communications are examples of technology forces.

There are two additional force, not shown here and internal to the organization that need to be accounted for

Growth

Growth could occur in a number of dimensions. For example, revenue, numbers of customers and employees, laws and regulations. Growth tends to drive complexity in the organization. Complexity gives rise to interaction costs (time and money).

Interaction costs tend to be countered by increasing control systems.

Learning

Organizations, especially those that are successful, learn. Learning leads to new understanding which suggests new ways of dealing with the strengths, weakness, opportunities, and threats faced by the organization.

Business drivers, especially those external to the organization can, to some extent, be shaped by participation in standards bodies, lobbying politicians and regulators, electing governments sympathetic to your point of view. This is particularly true for large organizations with resources available to put to this task.

For the most part, however, you are confronted with understanding the direction and magnitude of these forces and deciding how you should respond.

Using

John Donne wrote, “No man is an Island, entire of itself; every man is a piece of the Continent, a part of the main;...” And so it is with elements of the Context of Interest. No part stands alone. No part can be considered apart from its contexts. The relationships between the parts should not be severed.

The Context of Interest serves to remind us of the breadth and depth of the investigation we must carry out if we are to understand how an organization functions and, based on that understanding, how it might be made to work better.

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11 Donne, John. No man is an... The Quotations Page. [August 19, 2009]
Say, for example, we wanted to improve the performance of inbound logistics.

\[\text{Figure 17 Using the Context of Interest}\]

Four questions regarding relationship are suggested. The initials correspond with the lines with double arrowheads in the above figure.

- A. With other meta-process (review Figure 10 Feedback Loops on page 8).
- B. With transportation (review Figure 6 Inbound Logistics on page 6).
- C. With the support activities.
- D. With the business drivers.

I’m not suggesting that every question will yield a useful answer. However, without asking the question you will never know whether an important point has been missed.

“For want of a nail the shoe was lost.
For want of a shoe the horse was lost.
For want of a horse the rider was lost.
For want of a rider the battle was lost.
For want of a battle the kingdom was lost.
And all for the want of a horseshoe nail.”\(^\text{12}\)

For want of the question, the firm might be lost.

**Coda**

The Context of Interest is a distillation of some 44 years of experience in the world of business and academia. I recommend it as a useful mental model, a reminder of questions to be asked and insights to be gained.

It is a tool to be shaped and applied by the user and not to be considered as law. Its successful use relies upon knowledge of its strengths (breadth) and weaknesses (depth), and a willingness to let it suggest paths of research and analysis.

James Drogan
August 19, 2009
Bibliography


