Chapter IV
The Intelligent Enterprise

J.B. Quinn’s influential book on *The Intelligent Enterprise* was published in 1992 and joined a small cadre of scholars and practitioners reacting to the growth in the services sector and the decline of traditional manufacturing as the dominant source of employment. In 1992, the Swedish Coalition of Service Industries¹ established a project entitled the “Valuation of Service Companies”, in recognition of the need to develop more appropriate valuation and reporting mechanisms for firms whose major assets were intangible. The genesis of this activity can be traced back to the 1980s and the work on the “invisible balance sheet” by the Swedish KONRAD group, several of whose members are credited with pioneering the concepts behind Intellectual capital (IC) reporting and management. The publishing of the “Valuation of Service Companies” report provided the basic framework on which subsequent researchers and business practitioners developed IC reports². This report describes a “new annual report” with four key indicators: market position; human resources/knowledge; structural value; and financial indicators.

At the time of writing *The Intelligent Enterprise*, Quinn quoted figures showing some 77% of all employment in the USA was in the services sector and that even in the Manufacturing sector, 65-75% of jobs were service related. In the intervening period, the trends identified by Quinn and the Scandinavian researchers have continued. Quinn argues convincingly that in the services economy competitive advantage comes from “best in class” competencies. For firms to optimise their
performance, they should stop undertaking activities in which they are not considered to be “best in class”, but instead outsource those activities to those who are. Unlike the manufacturing firm, whose links to external entities are typically supply chain oriented, the services company’s links to external partners are more network oriented. The outsourcing relationship may be both a supply based one, as well as an alliance. For example Computer Sciences Corporation (CSC) is an outsource provider of IT services to British Aerospace Systems (BAE). It is also an alliance partner for generating new business for both organisations in the Defence industry market, for which both firms can claim “best in class” expertise.

In terms of organisational structures Quinn also speaks of the “inverted organisation”. In contrast to the traditional organisational hierarchy with the CEO at the top and the “workers” as the base with instructions filtering from top to bottom, the services organisation should have the customer facing workers at the top, with the layers of management providing “support” to these workers.

While in practice, the services company CEO no doubt still retains hierarchical power and direction over the customer facing staff, the image of the inverted organisation identifies the changing nature of management. Unlike factory workers, the customer facing staff in a services firm is the lens through which customers assess a firm. The reputational assets of the firm that contribute significantly to its value are largely in their hands. This staff is also in the best position to provide customer feedback on the firm’s performance. Therefore the role of management becomes more focused on supporting and facilitating staff performance rather than purely providing directions and instructions. Knowledge sharing both up, down and across the organisation becomes a critical activity in the services firm, hence the emphasis on Knowledge management. The changing nature of management will impact on the style of governance that is appropriate. One would anticipate that the style of governance appropriate for a manufacturing firm may therefore not necessarily be as appropriate to the services firm.

During the 1990s the field of Knowledge management (KM) emerged to build on the work of these pioneers. Substantial bases of scholarly work around KM,

Figure 15. The “inverted” organisation

Directions

CEO

Middle Management

Manufacturer

Factory Workers

Customer Service Staff

CEO

Middle Management

Service Firm

Support
CIO Perspectives on Organizational Learning within the Context of IT Governance

Critical Success Factors of IT Strategy