

THE HIGH VALUE MANIFESTO



ASSOCIATION FOR
FINNISH WORK

the
futures
company

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FOREWORD

The Association for Finnish Work, an independent, non-profit organisation owned by its members and founded in 1912, exists to promote Finnish work and the successful long-term development of Finnish industry and enterprise. We are known for the Key Flag (Made in Finland) and Design from Finland trademarks, which we award to products and services that originate from Finland. More recently, we have also taken responsibility for developing and encouraging Finland's social enterprise sector through administering the Social Enterprise Mark.

We have more than 2,000 members who use the Key Flag symbol, while the Design from Finland symbol is used by over 200 members.

An important part of our role has always been to promote the success of Finnish work. At a time when both the European and the Finnish economy are struggling, when prognoses for the future of work tend to be bleak, we believe that this is exactly the right time to rethink, even rebrand, what is understood by the term "work". Further, we think that to recover from this recession and to ensure the levels of wellbeing we have been used to, it is also the right time to define the kind of work we need to strive for to be successful as an economy, as a society,

as companies and as individual employees.

In particular, the challenge is to generate high value work. This is for two reasons. The first is that high value work motivates and commits employees, catalysing opportunities for growth and learning. Work is, at its best, meaningful. The second is that, for companies, high value work is the key to successful and sustainable operations, allowing them to differentiate from their competitors and produce lasting value together with their employees, customers and other stakeholders.

This report is part of a series on high value work that the Association for Finnish Work has published in the last year, working with The Futures Company, an international consultancy headquartered in London. Another two reports are available at avainlippu.fi. The first, The High Value Work Agenda, analyses the nature of high value work. The second, The Business Briefing, identifies the business strategies and culture that enable high value work. This third report is intended to address the public policy issues involved in developing high value work. It looks at the actions policy makers and businesses need to take to help Finland to be more productive and more successful — and to become a high value work environment in the future.

Tero Lausala, chief executive

INTRODUCTION: WHY NOW?



INTRODUCTION: WHY NOW?

Finland is having a crisis of confidence. Sluggish growth, an ageing population, job shortages and falling international competitiveness are posing significant challenges for Finnish society and policy makers — and threatening social cohesion and political consensus.

Finland's economy has been undermined by the decline of its most famous global brand, Nokia, and one of its significant export industries, forestry. Finnish productivity has fallen, and GDP has still not recovered to its level at the time of the 2008 financial crisis. In Autumn 2014, the ratings agency Standard & Poor's downgraded the country's credit rating from AAA, while productivity comparisons with Scandinavian neighbours and Germany also give Finns cause for concern. These pressures, not uncommon in the Eurozone, create the risk of short-sighted thinking and poor policy responses. As the innovation economist Mariana Mazzucato has shown, a long-term perspective from the state is essential to drive sustainable investment, innovation and growth.¹

Jobs are a central theme of a new economic plan for Finland. A 2013 report by the Finnish Ministry of Employment and the Economy declared that, in order to be able to maintain sustainable public funding, Finland needed to create 200,000 privately funded jobs by 2019.² But Finland doesn't just have a 'jobs problem.' Like much of the Western world, it has a '*good jobs*' problem. The US economist and former treasury secretary Larry Summers says, "The economic challenge of the future will not be *producing* enough. It will be providing enough *good jobs*." MIT professor Zeynep Ton finds that 'good jobs' create a virtuous cycle that benefits both the individual and the company, while the Roosevelt Foundation sees them as integral to rebuilding economic stability in the USA.³ 'Good jobs,' in short, are central to generating higher productivity and growth.

This approach to economic development, based on increasing the value of work, is at odds with many of the prevailing recommendations for improving competitiveness. These typically focus on cutting costs to increase efficiency. All enterprises obviously need to be lean in the right places in order to be able to match their competitors in pricing, but more emphasis needs to be placed on the investment and strategic decisions companies make to climb the value ladder and increase their shared value with stakeholders.

“At the moment, we are moving too fast in this society. Our political leaders cannot keep up with this pace, and therefore politics has become too short-sighted... But do we have time for such long-sighted planning in our hectic time?”

– Finnish survey participant ⁴

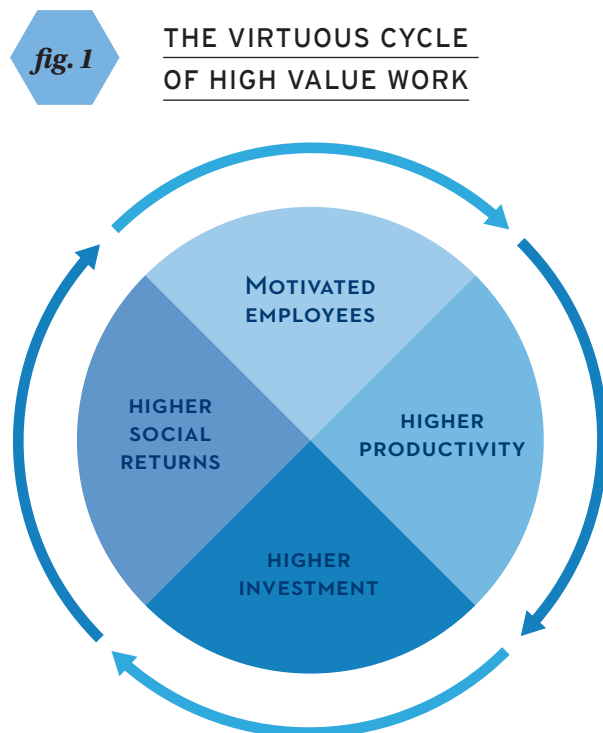
The case for high value work

High value work creates a virtuous circle in which higher wages, associated with the right business strategy, leads to higher productivity, higher investment, and higher social returns.

How is high value work defined? In our analysis so far we have identified three elements.

First, high value work is productive work. It creates value rather than extracts it; it does not involve the rent-seeking behaviour that monopolises resources and skims off revenues from them.⁵ Second, it creates ‘durable’ value, or value over time.⁶ And third, drawing on the work of the influential Harvard Business School academic Michael Porter, it creates ‘shared value’ — by finding opportunities for business and innovation in unmet social needs and by finding joint solutions to economic and social problems.⁷

And the combination of these three — productive, durable and shared — produces value and work that is *meaningful*.



Source: Association of Finnish Work/The Futures Company

The *value* in high value work comes partly from innovation that creates deeper and longer relationships with users. This innovation, it is important to note, doesn't have to involve R&D or complex technical processes. It is as likely to be in service design or business models. 'Co-creation' with customers, whereby customers might be invited to collaborate in the design of products online, for example, is often a low cost way of creating value. Australian online shoe manufacturer Shoes of Prey, for example, allows users to design their own footwear for delivery a few weeks later. In December 2014 they raised \$5.5 million of Series A funding, having sold over 10 million pairs of shoes worldwide in five years.⁸

And it is important to underline that high value is not just the preserve of the technology or manufacturing sector. High value work can be developed throughout the economy, in domestic-facing service businesses as much as in export-facing production businesses. Nor is it just about higher wages,

although these are an essential part of high value proposition. The secret is about investing in both people and the business to deepen employee engagement, increasingly identified in the business literature as the most significant differentiator of business performance.^{9 10} The more meaningful a task or job, the more motivated and ‘engaged’ the employee.

Building high value work

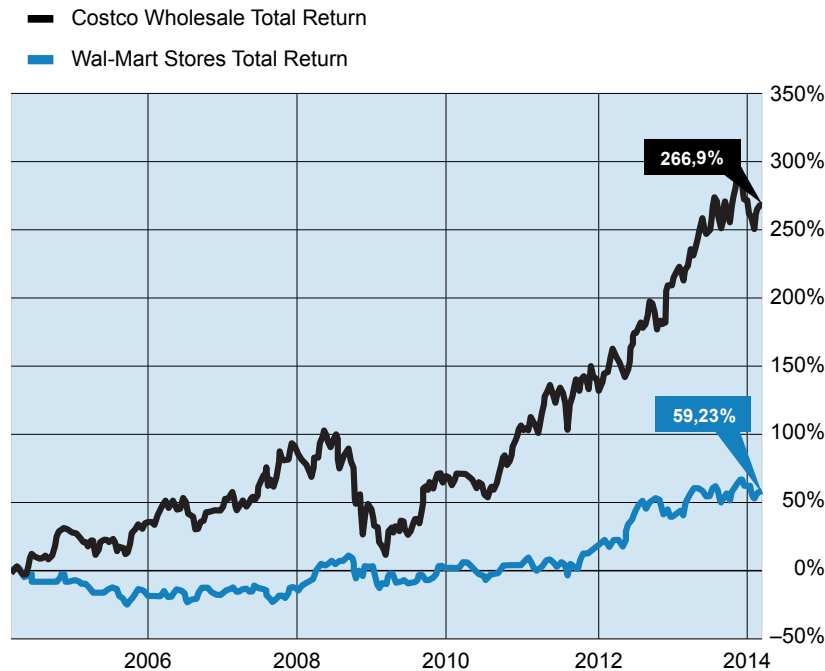
In The High Value Work Agenda we identified four routes to high value work. Each of these represented a way of thinking about business models and business processes that could generate greater value in work. In summary, they were:

- × **Service innovation:** service is redesigned through understanding the whole context of your customers
- × **Resource innovation:** material flows are redesigned through understanding the whole life of your product/ services
- × **Value in authenticity:** meaning is reframed through understanding your full cultural and social context
- × **Rich knowledge:** knowledge is captured and codified through understanding where business knowledge flows and goes.

High value work is not limited to traditional high value sectors. In *The Good Jobs Strategy*¹¹, her pioneering 2014 work on good jobs, Zeynep Ton argues that higher wages, when combined with investment in training and appropriate technology, produce substantial returns for retailers. As she writes, “Highly successful retail chains — such as QuikTrip convenience stores, Mercadona and Trader Joe’s supermarkets, and Costco wholesale clubs — not only invest heavily in store employees but also have the lowest prices in their industries, solid financial performance and better customer service than their competitors.” Part of the reason: staff turnover is far lower than the industry average, and so is ‘shrinkage.’¹²

fig.2

TEN YEAR COMPARISON OF SHARE PRICE OF COSTCO AND WALMART



Source: The Motley Fool

The High Value Business

Our initial research suggests that businesses with high value characteristics have certain strategic and cultural practices in common. In our Business Briefing report, we identified these as:

- ✕ *One Step Beyond*: Thinking more widely and more long term.
- ✕ *Running Towards the Problem*: Tackling head-on the business issues that cause the greatest concerns for customers.
- ✕ *Human Centred*: Putting people first – both employees and customers – to make a business more productive and more innovative.
- ✕ *Lean in the Right Places*: Investing in the areas that create value, and staying lean in those that are merely necessary.
- ✕ *Living the Story*: Identifying the core values of your business and making them central to your brand message.

These factors combine to provide a whole view of the high value business and its relationships with customers and employees.

So how does a country become an economy in which high value businesses thrive? Much of the work needs to be done by businesses themselves. But public policy and public practice, of course, can help. In the rest of this manifesto we identify the types of initiatives that will create a high value business culture in Finland.

Section 1 considers High Value Innovation and the way in which national innovation culture and policy can encourage high value industry. Section 2 looks at High Value Public Procurement and how public procurement practices can favour long term returns and high value business inputs. Section 3 covers High Value Ownership: how a diverse set of business ownership models (co-operatives and social enterprises as well as commercial corporations) can lead to more diverse economic ecosystems. Finally, section 4 looks at High Value Learning, and the way skills-led development can lead to a more productive and successful workforce.

The High Value Manifesto ends with a set of recommendations for practical steps that can be taken to promote high value work in Finland today.

1. HIGH VALUE INNOVATION



1. HIGH VALUE INNOVATION

High value work is not just about better wage levels.. It is about a different approach to thinking about business. New value is created in a number of ways:

- × From more engaged employees, who have the skills to contribute fully in the workplace
- × From knowledge that exists within the business and is identified and developed into products and services
- × From innovation in supply chains and materials
- × From relationships with people and local cultures.

Sometimes, these connect to each other and create positive, reinforcing feedback loops. For example, innovation in materials can lead to new types of knowledge being created by the business. Similarly, a business with more engaged employees is more likely to be able to make meaningful connections with its location and with local cultures.

The important point is that all four of these sources of value are also platforms for innovation.

In Europe and the United States over the past two decades, innovation has tended to focus on two areas: first, leading edge sectors; and second, cluster dynamics. Over the last decades innovation policy has moved from picking winners, now completely discredited, to supporting and enabling clusters (following the work of Michael Porter and drawing on the economics of Alfred Marshall), to more recent thinking about ‘open’ or ‘emergent’ innovation and experimentation.

This shift has been matched by a broader view of innovation, as in Giovanni Dosi’s widely quoted definition:

“The search for, and the discovery, experimentation, development, imitation, and adoption of new products, new production processes and new organizational set-ups.”

Arguments for cluster-led innovation, though still valid, have weaknesses, often involving assumptions that miss the specific and contingent features of successful clusters such as Silicon Valley. Cluster-based approaches can pose significant

skills challenges, lead to competition between locations and restrict local economic diversity, and narrow the focus of innovation — for example to high technology and to export markets.

This is why Johan Schot, the recently appointed director of the British research centre SPRU, has argued, “Innovation policy needs to stimulate investment and provide direction throughout the entire value chain, from invention, to innovation and diffusion. We need to think beyond support for R&D and the prioritisation of specific research avenues, and also support the development of new services and organisational models to meet social and economic challenges.”

A high value business has a number of different perspectives on innovation. It:

- × Draws on a wider definition of innovation that reflects overall economic value
- × Broadens the ‘innovation lens’ beyond technology to other routes to new value
- × Acknowledges the value of innovation in businesses that mostly serve domestic markets, and the role these businesses play in ensuring a resilient economy
- × Understands that public and social innovation can go hand in hand with private sector innovation.

Helsinki’s Low2No low-carbon urban development project is an example of the kind of strategic High Value Innovation that can emerge from such processes. Significantly, Sitra worked with a number of providers with the specific objective of creating a series of innovation platforms, rather than simply commissioning a building. (See next page).



The Helsinki development Low2No was designed to develop a number of different kinds of new value, according to Dan Hill, formerly of Sitra. These relate closely to the types identified at the start of this manifesto (see page 8). They included the use of timber as the main material (Resource Innovation), the development of a local food culture (Value in Authenticity), the use of ‘smart city’ informatics (Rich Knowledge), and different tenancy and arrangements (Service Innovation). In the words of Sitra’s director of strategic design, Marco Steinberg, “We are not interested in your solution, we are interested in the mindset you bring.”

RECOMMENDATIONS

- 1.1 Innovation policy should address the full range of innovation, including production processes, organisational innovation and social innovation. Innovation policy in Finland should include service and strategic design elements, incorporating these also into traditional product and technology driven sectors.
 - 1.2 Innovation policy should focus on the development of high value performance within sectors, including sectors that are conventionally overlooked in innovation strategies. These include sectors in Finland that employ large shares of the workforce including retail, food, travel and construction.
 - 1.3 Innovation policy should draw on the thinking of strategic design and look for levers that open up layers of high value innovation. Productivity improvement should be a clear objective for publicly financed innovation programs.
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2. HIGH VALUE PUBLIC PROCUREMENT



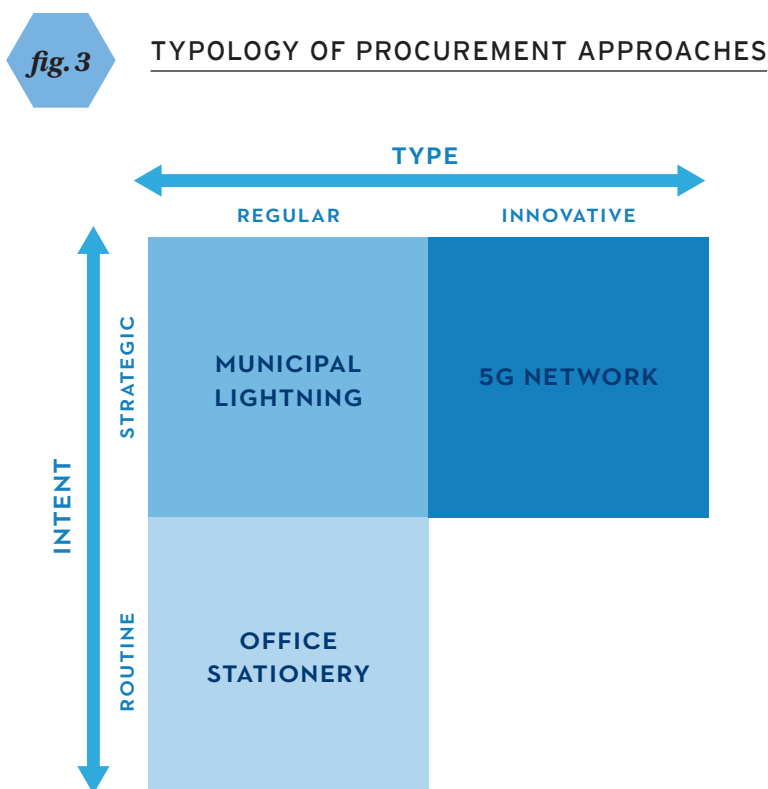
2. HIGH VALUE PUBLIC PROCUREMENT

Procurement, once a back-room function that was undervalued and overlooked, is increasingly seen as business-critical. One definition describes it as “the business management function that ensures identification, sourcing, access and management of the external resources that an organisation needs or may need to fulfil its *strategic objectives*.”¹⁷ (Our italics.)

Good public procurement strategies are a well-known route to developing new markets and new types of innovation.¹⁸ 25% of Finland’s GDP goes through some form of public procurement. The scale of this public purchasing power creates opportunities to improve process efficiency or develop new processes, and to develop new platforms (e.g. to build a new strategic ‘niche’ in environmental technologies).

EU procurement rules are clear that public authorities can use criteria other than price when evaluating tenders. They require each applicant to “be informed of the different weighting given to the different criteria (for example, price, technical characteristics and environmental aspects).”¹⁹

Public procurement, therefore, has a vital role to play in developing the capacity for high value work in the Finnish economy. Building on work by the Fraunhofer Institute on innovation and public procurement, it is possible to characterise different types of procurement, as seen in the schematic in Figure 3. ‘Regular procurement’ is procurement where the products or services being bought are familiar, ‘innovative procurement’ procurement where new products or services are being acquired. ‘Routine procurement’ is, effectively, ‘functional’ purchasing of familiar products or services with straightforward delivery requirements, while ‘strategic procurement’ applies where the product or service is familiar (involving, for example, no new technology) but the agency is looking for a change in the way it is configured or delivered.



Source: The Futures Company / Association for Finnish Work, adapted from Fraunhofer Institute

So, following work by the Fraunhofer Institute, innovative procurement might apply where a product or service and the best way to deliver it are not yet fully understood.²⁰ It might mean the acquisition of new types of knowledge or the application of existing materials or technologies to new sectors (Rich Knowledge) and involve an extended development process and frequent interaction between customer and provider as the specification evolves.

However, even where the product or service is well understood (in the 'Regular procurement' column), a strategic procurement approach can be used to innovate the service model. In the Business Briefing, we referenced the way in which Philips Lighting, in conversation with its customers, has repositioned municipal lighting as a service rather than a product (see page 20).²¹

Strategic procurement often involves changing delivery approaches in the public interest, typically in ways that resonate with high value. Other strategic procurement approaches might involve buying on the basis of total cost of ownership, or attempting to improve public health outcomes by specifying particular requirements for a food service — for example, ‘additive free’ (Value in Authenticity).

Even when purchases are routine (such as office stationery) it is possible to promote the high value culture by designing procurement criteria that high value businesses can better respond to, using procurement to set standards. These criteria might include relative pay levels, investment in training and the working environment, the degree, or not, of workforce casualisation, or environmental performance. As Christopher McCrudden has noted, the use of government contracts to achieve social and workplace goals has a history that stretches back to the 19th century.²²

A critical element of High Value Public Procurement lies in buying against the total cost of ownership – full life costs – rather than the initial price of the product or service. This includes maintenance, management, repair and replacement costs, as well as costs of disposal.

These high value procurement criteria lead to higher quality, more engaged suppliers, improving the quality of service and product delivery, and promoting high value work among providers. They also increase customer and end-user utility while reducing the costs of monitoring and compliance. In other words, they can lead to a high value virtuous cycle.

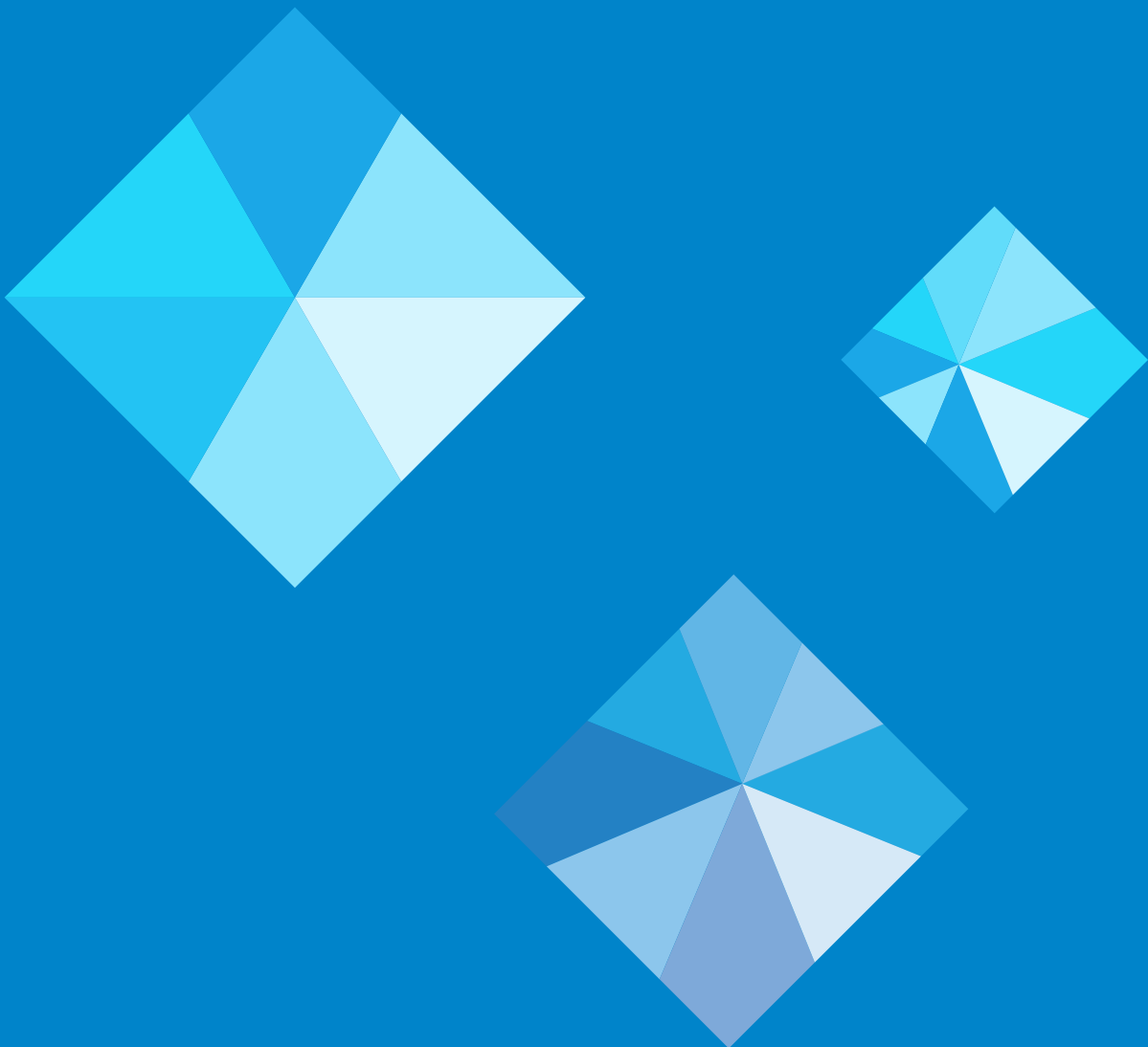


Philips Lighting introduced a ‘pay-per-lux’ business model when a business client told them “I’m not interested in the product, just the performance. I want to buy light, and nothing else.” They developed lighting as a service, and has since rolled this out to municipal and government clients. In 2014, Philips began a garage lighting contract with the Metro in Washington DC, USA. The city paid nothing up-front for the fitting of 13,000 LED light fixtures, and Philips will manage and upkeep all of the lighting for 10 years. The Washington authority will more than recoup the cost of the project from the \$2 million per year saved by the efficient bulbs, further energy savings through smart usage monitoring systems, and an estimated \$600,000 annually in maintenance.²³ The project aligns government, business and environmental needs, and is enabled by a public procurement approach that considers the full cost of ownership.

RECOMMENDATIONS

- 2.1 Public procurement strategies should focus on the strategic development of high-value work and high-value businesses and networks.
 - 2.2 Public procurement frameworks should include criteria that give credit to companies and projects designed to create high value work outcomes such as productivity, durability and employee engagement.
 - 2.3 Public procurement frameworks should ensure that the government and public agencies are buying on the basis of the full cost of ownership, and that contracts should cover the full life-cycle of a product or service.
-

3. HIGH VALUE OWNERSHIP



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Diverse ownership structures are good for economies. As *The Economist* noted recently,²⁴ “Policymakers often assume that one corporate form is best, and discourage others. It would be better if they fostered variety, since diverse ecosystems are much more robust.”

Different types of businesses have different motivations and different goals, which allows them to develop different business models, which in turn increases the range of innovative approaches in the economy. At a national level, countries should therefore both encourage diverse types of ownership and be agnostic about which business types work best.

As well as successful commercial corporations, Finland has the largest share in the world (by proportion of economy) of co-operative enterprises. Overall, co-operatives represent 16% of the economy, which puts Finland in a strong position. There is evidence that co-ops act as a buffer against global markets, partly by supporting domestic businesses.

However, the space in between these two areas, the space that in other countries is increasingly filled by social economy businesses that combine a social mission with the fulfilment of explicit economic objectives, is still emerging in Finland. It is estimated that one third of SMEs in the country are including social and environmental goals in their business planning, and 15% use company profits to help achieve these goals.²⁵

In the UK, which has a prospering social enterprise sector, the evidence suggests that social enterprises, which can be either profit- or non-profit making, are more likely to be innovative, to work in deprived communities, and to be led by women or members of minority ethnic groups.²⁶

In the United States and elsewhere, ‘B corporations’ for-profit companies that commit to social as well as commercial goals, have grown rapidly in number since they were permitted under American law.²⁷ In the US, leading examples include outdoor-clothing company Patagonia and the glasses company Warby Parker, which sends a pair of glasses to the developing world for every pair it sells in the US.

B-corps, whose social and environmental goals are ‘certified’ each year by an independent agency, have been described as ‘a commitment device,’ because they’re locked into a social purpose. They seem aligned with the employment aspirations of young people, who are more likely to want to work for a company with a social purpose, and with consumers who care about social impact issues such as fair trade.²⁸ They share characteristics with the ‘trust corporation,’ proposed by Colin Mayer.²⁹

More broadly, forms of employee ownership seem to be significant drivers of value. In different research studies, including one for the UK government, academics at Cass Business School and Newcastle University found that employee-owned businesses (EOBs) were:³⁰

- × likely to create jobs faster;
- × more resilient over the business cycle;
- × more likely to have a longer-term focus than other businesses;
- × more likely to invest in human capital; and
- × more likely to focus on organic growth than growth by acquisition.

Further, this was particularly true of SMEs. In their UK sample, the researchers found that EOBs with fewer than 75 employees do significantly better than non-EOBs of the same size measured by both Profit Before Tax and Profit Before Tax per employee.

In summary, the evidence suggests that social economy businesses and employee ownership structures are an effective way of delivering high-value organisations.



Fratelli Carli, based in Imperia on the northern Italian Mediterranean coast, has manufactured olive oil and olive oil-based products since 1911. It is also Europe's largest B Corporation, with over 300 employees. As a high-end food business Fratelli Carli are particularly careful to keep their supply chain as short as possible, guaranteeing quality while also minimising their environmental impact. In their B Corp assessment they also score highly for their involvement in the local community.

"Our history taught us the importance of land-specific culture, the passion for quality products and the value of working to generate real benefit and make the world a better place," says Claudia Carli, of the family business. "B Corporations are a new way of doing business in a changing world; Fratelli Carli is a company that chooses to take part in the creation of a new social and economic development model."

RECOMMENDATIONS

3.1 Finnish public policy and legislation should seek to widen the diversity of business ownership types in Finland. This includes reviewing and removing any legislation or regulations that disadvantage particular types of business ownership.

3.2 The government should strengthen opportunities for the creation and development of social enterprises in Finland – by, for example, removing barriers to raising capital.

3.3. The government should investigate the opportunity to create a 'B-corp'-type business framework for Finland that allows for-profit businesses to commit legally and publicly to social goals.

4. HIGH VALUE LEARNING



4. HIGH VALUE LEARNING

There are two aspects to high value learning. The first concerns the preparation of the workforce for the high value economy; the second concerns the spread of high value practices between companies — the preparation of employers.

The barriers to the development of high value businesses – especially in areas of low productivity – include a lack of skills in the workforce and a lack of awareness among employers of the progress they can make when they build the skills base of their businesses.

Some high value businesses have overcome the problem of skills shortages through a significant commitment to internal training. For example, the Spanish retailer, Mercadona, invests €5,000 in training for every new store employee and expects staff to develop a range of skills and expertise. Other businesses with more specialist needs work with local schools and colleges to build the expertise they require (Genelec, in Iisalmi, Finland, is an example of a business that has worked with local institutions to develop its workforce.) In-house training and training in local institutions are currently deductible expenses for businesses in Finland.

Solutions to the problem of lack of employer awareness are somewhat more complex — and depend on action and initiatives by both government and businesses.

Local skills development programmes that increase both the demand for and supply of skills in areas of weaker economic performance can help reframe employers' approaches to their business models and value propositions. Research suggests that skills-led approaches open up a path to higher value work by enabling incremental innovation in processes, goods and services, and supporting training-based career progression.³¹

In general, the gap between high-performing businesses and poorly-performing businesses in the same sector is wide. SMEs, in particular, are often unaware of good practice or new thinking. So businesses and business organisations can create high value work networks to raise awareness, encourage learning and diffuse knowledge across sectors. These networks

can be built on the back of existing business networks. They can also be built virtually — and across borders.

The spread of high value networks and high value learning would be supported by the development of a Competency Framework that sets out the required knowledge, skills, attributes and behaviours that lead to high value.³² This would allow businesses to measure progress against metrics and identify gaps. The starting point for this could be the initial research conducted by the AFW on the characteristics of High Value businesses.³³

This could be reinforced by the introduction of a high value mark or icon to complement (not replace) the Key Flag and Design from Finland symbols. Businesses with the high value characteristics described in this report are not always easy to identify from outside, and a high value mark would help raise standards for business. It would also enable companies with the mark to indicate their credentials to potential employees, customers and partners.

The case for high value learning is strong. There is a wide gap in the performance of top quintile businesses and bottom quintile businesses in any given sector. High value work — for the reasons discussed in this report — can help close it.

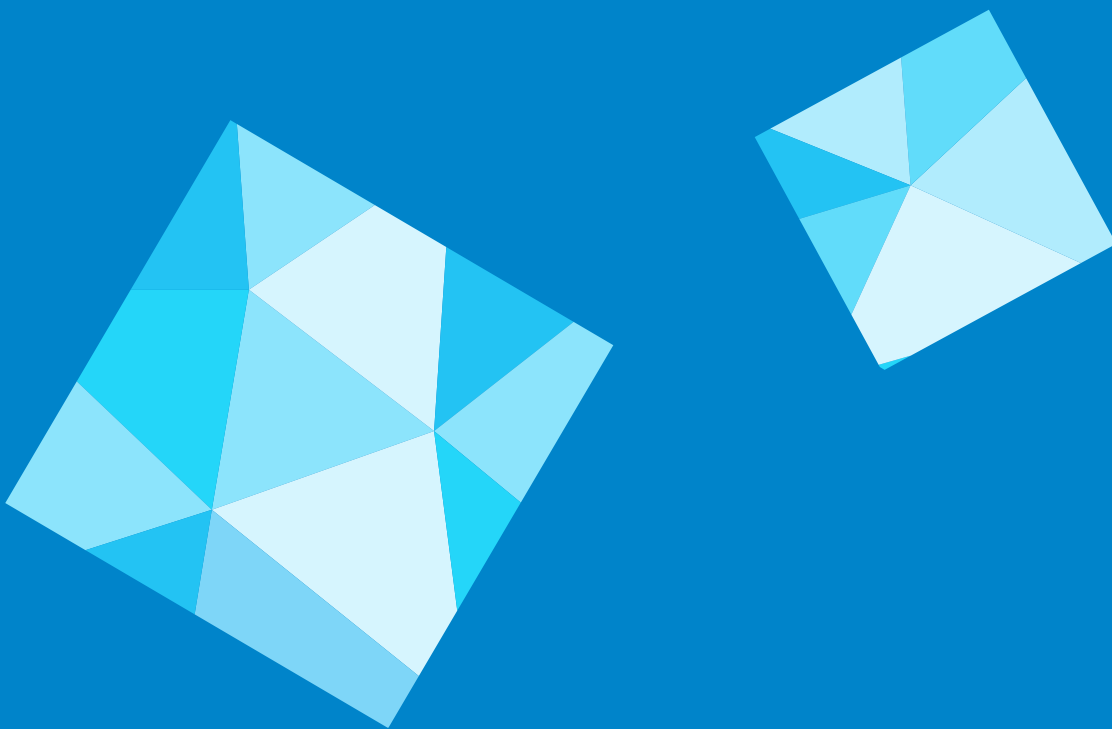
RECOMMENDATIONS

- 4.1 The government should introduce skills programmes in areas of low economic GVA (Gross Value Added) that promote both the supply and demand for skills.
- 4.2 Businesses should create, develop and strengthen cross-sector business learning networks that enable the exchange the sharing of high value business practice.
- 4.3 The business sector should develop a High Value Competency Framework so that companies can identify the building blocks to becoming a high value business and the steps they need to take to get there.



Many manufacturing companies in Germany are experiencing skills shortages, often linked to patterns of demographic change and the problem that young people are lacking the specialist skills that engineering businesses need. Airbus, a French company who employ around 17,000 people in Germany, is one of the companies that has acute problems with finding people with engineering skills for its business. To help overcome this, it is working with German local government and trade unions to help young people gain the skills they need to work in aircraft engineering. This has involved expanding Airbus' programme of apprentice training and starting initiatives with local universities and public authorities in the hope that the company will avoid what they call the 'demographic bomb' of skills deficit.³⁴

THE RECOMMENDATIONS IN FULL



High Value Innovation

- 1.1** Innovation policy should address the full range of innovation, including production processes, organisational innovation and social innovation. Innovation policy in Finland should include service and strategic design elements, incorporating these also into traditional product and technology driven sectors.
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High Value Procurement

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