

THE HIGH VALUE WORK AGENDA



ASSOCIATION FOR
FINNISH WORK

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company

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FOREWORD



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FOREWORD

The global financial crisis has had a dramatic impact across the world, with its shocks and aftershocks being felt repeatedly both economically and politically. In particular it has caused rising levels of unemployment and led to lost income, reduced output, and weak growth. Finland has not escaped this: at the time of writing (six years after the crisis), it is experiencing its third consecutive year of economic stagnation.

Each national story is made up of thousands of personal catastrophes. Unemployment is more than just an economic matter; recent research suggests that it has a long-run psychological impact, and can lead to social isolation and exclusion. For those who remain in work, the nature and makeup of the workplace has—once again—been restructured as companies respond to the financial crisis by reorganising people and operations.

The crisis is only the latest factor to reshape the work environment. Two decades of globalisation have opened up new markets and created new sources of competition. The ICT revolution, which dates back to the 1970s, has both accelerated that global shift and continues to raise new questions about the future of work, as increasing numbers of jobs seem vulnerable to automation. Questions of economic growth are made more complex by the looming issues of resource scarcity and of global warming.

In the face of all of this, the response in some quarters has been undiluted gloom. Some commentators suggest that it is no longer possible for European economies, especially peripheral economies such as Finland, to enjoy the levels of affluence they have become accustomed to, and that we need to get used to falling standards of living.

While this may not be true, governments and businesses in different countries are waking up to the idea that if we are to prosper, the models of work and business that prevailed in the richer world in the second half of the 20th century are no longer fit for purpose. Employees, especially younger employees, expect work to be meaningful and fair, as well as fairly paid. Employers need to find ways to engage their workers to gain their commitment. In addition businesses are increasingly scrutinised by the societies of which they are

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a part. We are in the middle of a deep shift: we know that things are changing but are yet to see clearly what the new model of work culture and business practice will look like.

The AFW has therefore decided to make its own contribution to this debate, to help to shape the discussion about the nature of desirable work. This project about the nature of high value work in the 21st century is intended to identify how a new culture of business and the workplace can create new opportunities and new value for employers, for workers, and for the state and society.

In doing this we thought it important to look beyond Finland to the wider world, while ensuring that we remained attuned to the specific needs of and contexts of Finland's economy and culture. We have therefore partnered with The Futures Company, a global consultancy headquartered in London, which specialises in understanding long-term trends and their impact on business. They are experts in using futures methods and analysis, and draw on their own international dataset of attitudes and behaviours called Global MONITOR.

This report is the first in a programme of thought leadership that the AFW is running in conjunction with The Futures Company over the course of the next year. Subsequent reports will look at some of the ways to transform your company into a high value business, and the challenges faced by Finland to create a high value economy.

Welcome to the High Value Work Agenda.

This project about the nature of high value work in the 21st century is intended to identify how a new culture of business and the workplace can create new opportunities and new value for employers, for workers, and for the state and society.

WORK
FOR FREE,
OR FOR A FULL
PRICE
BUT NEVER
CHEAP

NSAR E
RÁTIS

Image: 'But never cheap': stencilled on a wall in Lisbon, Andrew Curry

INTRODUCTION



HIGH VALUE WORK

What is high value work? Despite the pressing need for it, there is little consensus yet. For the purposes of this project, we have created a definition by looking at different parts of the existing literature in the area.

THE DEFINITION OF HIGH VALUE WORK

High value work is work that is:

- × Productive because it creates new value.
- × Sustainable because it creates value over time.
- × Inclusive because it creates shared value across businesses, employees and society.

For these reasons, it is also meaningful.

First, **high value work is productive work**. It creates value rather than *extracts* it. While it may seem surprising to have to make such a distinction, a significant proportion of business value over the past two decades has come from what economists describe as “rent-seeking” behaviour, or removing a slice of value from an existing transaction. In his book *The Locust and the Bee*, Geoff Mulgan uses the two insects to contrast these two types of activity¹. High value work is about bees, not locusts.

Secondly, **high value work produces long value** or “thick value”. This idea of “thick value” has been popularised by Umair Haque, but remains poorly defined. In his book, *The New Capitalist Manifesto*, he writes about “value that matters, value that lasts, and value that multiplies”, and about value that is meaningful, durable, and tangible². For the purposes of this report, we see this as value that exists and extends over time, which creates new value relationships between producers and customers.

Thirdly, **the value created becomes “shared value,”** to use the term developed by Michael Porter³. Shared value, he argues, “involves creating economic value in a way that also creates value for society by addressing its needs and challenges. Businesses must reconnect company success with social progress.” Unilever’s Sustainable Living Plan (USLP) is

"Value creation in the past was a function of economies of industrial scale: mass production and the high efficiency of repeatable tasks. Value creation in the future will be based on economies of creativity: mass customization and the high value of bringing a new product or service improvement to market; the ability to find a solution to a vexing customer problem; or, the way a new product or service is sold and delivered."

Jack Hughes, founder of TopCoder.com

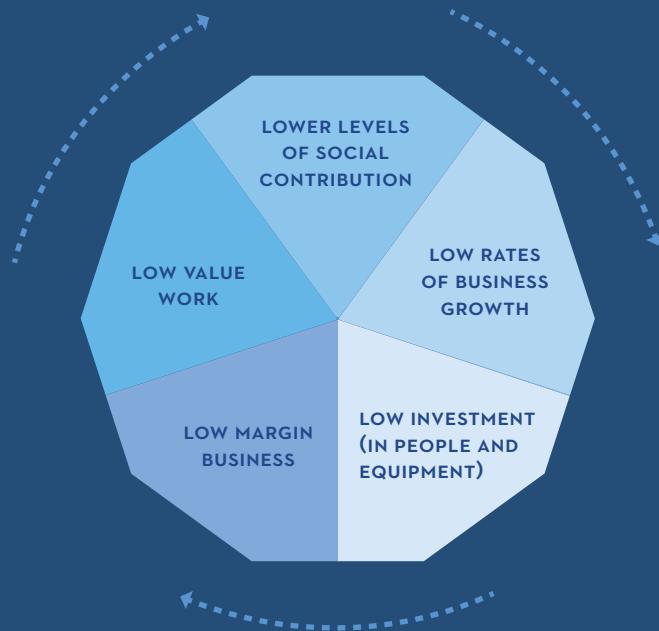
a good example; its objectives align social outcomes with category leadership, and also address the need to reconfigure supply chains in the face of resource pressure⁴. So as well as extending value over time, high value work also extends value across society, creating wider pools of prosperity.

In summary, high value work creates value through innovation to meet real underlying needs, producing products and services that create relationships with users that persist over time. In doing so, they don't dump costs ("externalities") on to either customers or the rest of society. Often this means reimagining a product or a service from the perspective of the customer, understanding how it fits into the context of their overall lives. This usually involves innovation, but this innovation is as likely to be in service design or business models: it doesn't have to involve expensive R&D or high-end technical processes.

High value work also adds meaning to business—even in mundane work—and in doing so it creates both economic value and emotional value that extends beyond business owners and shareholders to both the workforce and to wider society.

fig. 1

THE VICIOUS CYCLE OF LOW VALUE WORK



SOURCE: The Futures Company/The Association for Finnish Work

HIGH VALUE WORK VS LOW VALUE WORK

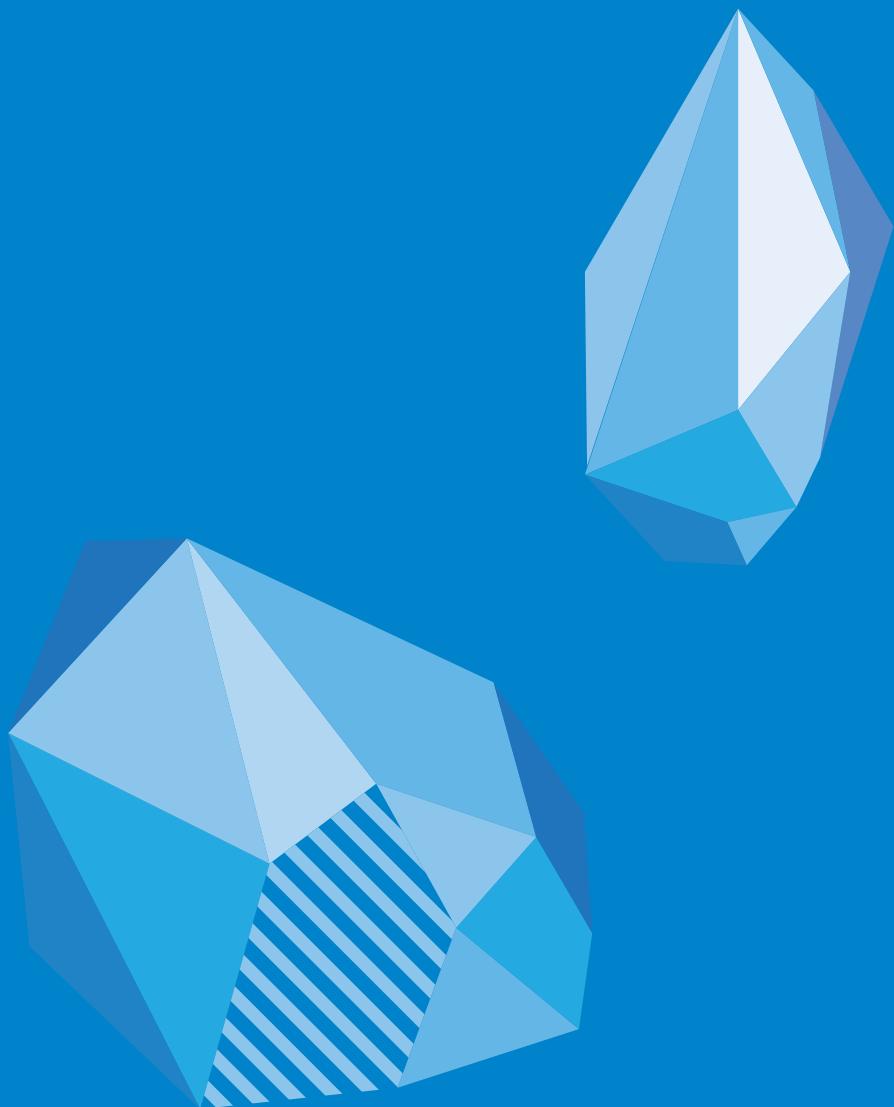
Why high value work? At least in theory, more low value work can create additional economic value as well. But the problem is that low value work leads to a cycle of poor outcomes that is damaging for businesses, workers, and society.

Low value work is associated with low margin businesses that have typically casualised or outsourced at least part of their workforce, and have little incentive to invest in capital equipment (people are almost always cheaper) or their workers, which are typically the two main sources of

business-led economic development.

From a societal perspective, such business also export their costs to the rest of society. Recent US reports, for example, estimate that half of America's fast-food workers are subsidised by public benefits programmes, at a cost of \$7 bln. Low margin businesses have greater incentives to avoid paying taxes and other social contributions, meaning over time, public institutions and infrastructure decays, leading to a decline in social cohesion. The pursuit of low value work

CONTEXT



CONTEXT

There are several reasons why the high value work agenda is particularly important and relevant today. A number of trends are converging to change the world of business.

These trends have been well documented in the business and management literature. The main ones are summarised below.

- ✖ Companies face new and different competitive threats as economies in regions such as Asia and Latin America continue to grow and the falling costs of technology continue to globalise and ‘democratise’ the supply chain. The pressure to find new ways to differentiate products and services is, therefore, intense.
- ✖ Recession in mature markets has underlined the need to diversify to protect economies and workers.
- ✖ Technology has changed the nature of the relationship between customer and company, and between companies and their employees. People interact with businesses differently—and they expect different things. Viral marketing and digital ‘word of mouth’ have put more power in the hands of the consumer and increased the demand for good value and good service. There are opportunities to interact with people in different ways.
- ✖ Social and demographic changes are, in many countries, altering the composition of the labour force. More women are going out to work and more people are delaying retirement. Companies must adapt to reflect the increased diversity of the workforce and changes in the skills base. There are significant opportunities to use the knowledge and expertise of older people, the baby boomers who remain in the workforce, and ‘re-combine’ it in ways that add value.
- ✖ The culture of companies and the way goods and services are developed is changing. Command and control leadership has made way for flatter, more participative models—structures that encourage the spread of knowledge. Some companies operate less as organisations, in the hierarchical sense, more as ecosystems of knowledge

High value work is not the exclusive preserve of skilled workers or niche businesses in specialist parts of the economy. It is everyone's business.

workers. Examples include the Brazilian conglomerate Semco, famous for its laissez-faire management style, and America's WL Gore & Associates (see case study, page 47). The expectations of workers are changing. The need for 'self-actualisation' for autonomy and involvement, is growing.

- ✖ Companies are under increasing social, legal and economic pressures to use resources wisely and to behave responsibly. Sustainable business—business that meets the needs of the present without putting the needs of the future at risk—has become part of the main agenda.

There are other factors too. Prevailing macro-economic policies are being challenged. It's increasingly apparent that the 'race to the bottom'—competing as a low-tax and low-wage economy—is economically and socially unsustainable. It does not generate enough value to ensure a vibrant local economy or the levels of welfare required to maintain social cohesion.

From an international perspective, Finland's position is not yet critical. It has managed to sustain significant levels of social protection, which means in turn that it has maintained social cohesion and protected people from poverty. In common with several other North European countries, it has continued to invest actively in labour market policy at a higher rate than other OECD countries, and Finnish unemployment remains relatively low. Over the medium term, however, this is not sustainable without an effective, productive economy.

Already, we have seen signs of what might be termed structural weaknesses. The Finnish electronics and forestry sectors declined sharply after the financial crisis. Finland was one of the OECD countries that had not recovered to pre-crisis levels of economic output by 2013 (see chart, page 14). One result was that the proportion of young people not in education, employment or training (so-called NEETS) quickly increased.

Slow economic growth and low value-added push the less-skilled into low value work and increases trends towards casualisation. It also increases the political pressure to cut back spending on social protection. For these reasons, high value work is not the exclusive preserve of skilled workers or niche businesses in specialist parts of the economy. It is everyone's business.

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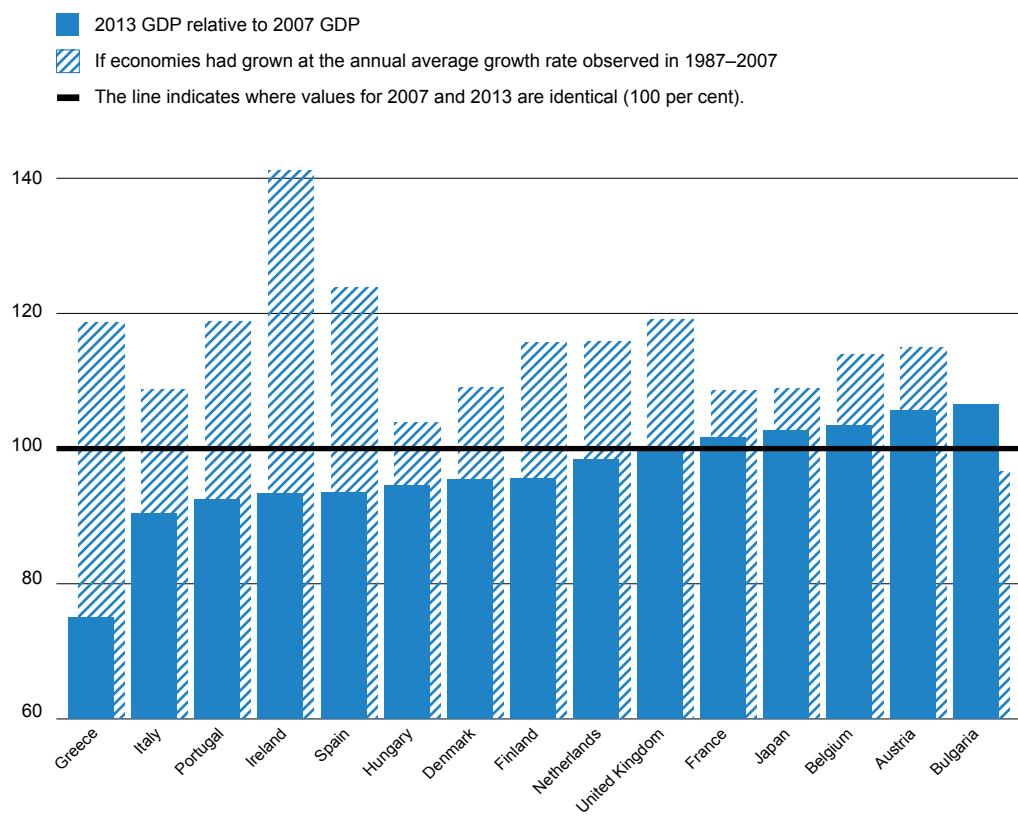


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In an earlier project, the AFW used trends analysis to identify a number of driving forces that were reshaping the world of work. These were: technological development, open collaboration and value pluralism. These forces create the landscape for change, but don't of themselves help businesses make better strategic choices. In this report, we have built on that work to understand the opportunities they provide for businesses to generate more value.

fig. 2

IMPACT ON SELECTED EUROPEAN COUNTRIES OF THE FINANCIAL CRISIS



SOURCE: IMF, World Economic Outlook Database, October 2013.

OUTLINE OF THE REPORT

in this report we will explore four ways in which Finnish employers and decision-makers can respond effectively to today's challenges.



The first section, **Service Innovation**, focuses on adding higher value service elements to products and responding better to customer needs.



In the second section, **Resource Innovation**, we look at how businesses can create new systems to meet the challenges of environmental and resource constraints.



In the third section, **Value in Authenticity**, we consider the implications of key cultural shifts for brands and the stories they tell about themselves.



Finally, in **Rich Knowledge**, we examine the importance of knowledge flows in the creation of high value products and jobs.

SERVICE INNOVATION



Service Innovation

It's about: Redesigning service.

Key idea: Understanding the whole context of your customers.



SERVICE INNOVATION

Adding service elements to increase value relative to the volume of goods produced is as old as industrialisation. The strategy, however, gains new relevance in a world with stretched resources. Companies that want to maintain or increase their revenues while reducing their impact on the environment and controlling costs will inevitably look to add service components to products and to differentiate on service.

Advances in digital technology and the application of smart data are creating opportunities to add higher value services—and arguably taking customer relationship management to new levels.

The business benefits of this service innovation are considerable. The cost of keeping existing customers is estimated to be 10 to 20 per cent of acquiring new ones across industries⁵; Bain & Company research has found that a customer is four times more likely to defect to a competitor if the problem is service-related than price- or product-related⁶.

Investment in services as well as employees who have the knowledge, personal skills and motivation to provide them is, therefore, becoming increasingly important to drive high value growth for business.

Driving high value through services

Some of the most striking service innovations have been in the business-to-business (B2B) sector. Rolls-Royce no longer sells aero engines: instead, it sells flying time as measured by a certain number of engine-hours. Its engines are monitored in-flight from a control centre near Derby, in the English Midlands, and updates are sent to customers when engines need checking or tuning.

Other B2B examples of this shift from volume to value, from 'stuff to service' include Dupont and Interface, which rent floor covering facilities rather than selling carpets, Schindler, which leases transport units inside buildings rather than selling lifts, and SafetyClean, which leases dissolving units rather than selling solvents.

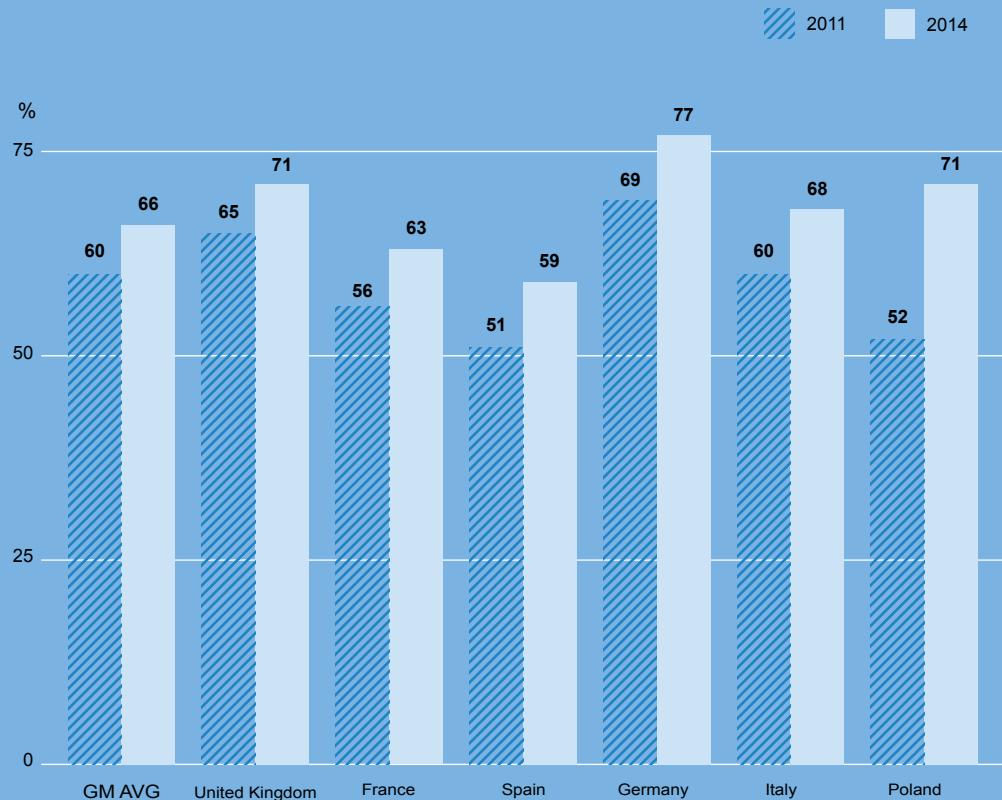
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fig.3**CONSUMERS ARE ACTIVE RESEARCHERS**

*I am increasingly likely to spend time researching
a product before making a purchase*



SOURCE: The Futures Company, Global MONITOR (24 countries n=24,000, Tracking average n=18,000, weighted)

There are clear opportunities for innovation centred on services that 'curate' online information and help people find what they want at the price they can afford and that improve the shopping 'experience' in both the physical and virtual worlds

Businesses are increasingly finding new ways to unlock value. The sharing-economy model is allowing companies to bring under-utilised resources into the marketplace and generate higher returns via services. The holiday letting agent Airbnb, which turns unused accommodation into a hospitality service, and Avancar, the Barcelona-based car sharing service (now owned by ZipCar) are two examples in the consumer space.

Better service design enables differentiation in the increasingly digitalised marketplace

Digital technology has changed both the behaviour and expectations of consumers. There are, perhaps, two parallel but slightly paradoxical trends. On the one hand, consumption has become more 'considered': people now spend more time shopping around online for the best deal—a trend fuelled, in mature markets at least, by the recession. On the other, shopping is becoming more 'experiential' and creative, and customer expectations are rising about how retailers present products and information. Customers increasingly look for simulations of what they can buy online—they might even collaborate with companies in the product design. At www.ShoesofPrey.com, for example, people have the chance to design their own shoes.

There are clear opportunities for innovation centred on services that 'curate' online information and help people find what they want at the price they can afford and that improve the shopping 'experience' in both the physical and virtual worlds.

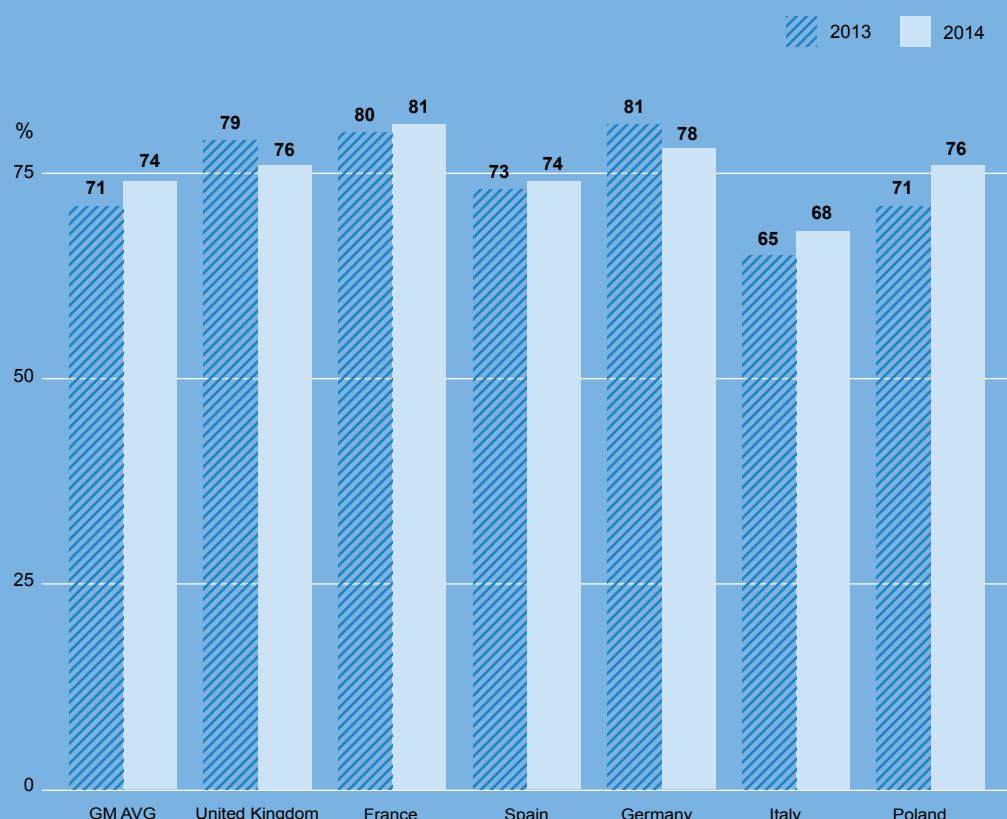
Consumers now have an unprecedented array of information at the touch of a screen. They are able to assess, quickly and accurately, the value that is being offered to them. One recent book, *Absolute Value*, argues that one consequence is that the traditional short-cuts to assessing value, such as brand, price or advertising have broken down⁷. Companies that offer value that consumers want (in terms of

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fig. 4**CONSUMERS DISLIKE THE IDEA OF DIGITAL INTRUSION**

I don't like having my online behaviour tracked and analysed because it's an invasion of my privacy

(vs: I don't mind having my online behaviour tracked and analysed so that companies can send me information and promotions I might be interested in)



SOURCE: The Futures Company, Global MONITOR (24 countries n=24,000, Tracking average n=18,000, weighted)

products, features, reliability and so on) will attract customers. Customers will pass on the news to others. And those that help the customer navigate quickly to the right choice, and can explain the benefits, differentiate themselves on service.

Innovating in curation services is especially important in reaching the younger generation. ModCloth, a US apparel retailer for Millennials, guides shopper choice by helping people to buy user-generated ‘looks’ or select outfits by occasion or even the style of a decade.

Initiatives to improve the service experience also include choice-curation apps or live-shopping assistance in online retail environments⁸.

Meanwhile, the physical and virtual worlds are merging. Adidas has introduced an in-store virtual wall that presents more choice without over-cluttering the store. Burberry’s flagship Regent Street store in London blurs the physical and digital worlds by, for example, including interactive mirrors that “transform into personalised screens” and stream global events.

In some ways, technology is leading to a return to old-fashioned retail values. It has the potential to bring the customer and company closer together and make service more bespoke and personal. The app of the high-end US department store Neiman Marcus enables users to check inventory and arrange selected items to be placed in the dressing room ahead of a customer’s arrival. Sales associates have access to these shoppers’ purchase histories, helping them to understand their preferences and make informed suggestions when the customer arrives⁹.

As technology continues to increase the ability to collect, store and analyse data on consumers, the opportunities to add value through more sophisticated forms of customer relationship management grow. There are caveats, though. Companies must respect consumer privacy. If they don’t they could destroy relationships (see chart on page 20).

This underlines the need for innovations and improvements that build trust and involve two-way communication. Those who create the most long-term value will be those who use data sensitively and in the interests of improved service.

fig. 5

THE VIRTUOUS CYCLE OF RETAILING



SOURCE: Zeynep Ton, The Good Jobs Strategy, adapted by The Futures Company

Investment in employees can drive high quality services at all skill levels

Investment in higher value services involves investment in employees—and this applies at all skills levels. Even in the context of traditional low-skill services, such as big-box retail, there is evidence that well-compensated and happy employees provide better customer service and, by extension, better value for shareholders.

Zeynep Ton, professor of operations management at MIT's Sloan School of Management, demonstrates that large retailers from Trader Joe's to the discounter chain Costco or the Spanish supermarket Mercadona, have created high value and adaptable businesses with high value jobs at their core.

To deliver high value services, companies need to invest in the wellbeing of employees as much as innovative service infrastructures.



CASE STUDY: MERCADONA¹⁰

Differentiation built on the wellbeing of service employees

Mercadona, a leading low-cost supermarket chain in Spain, is known for being a good employer. It pays more than its competitors and, unlike many other low-cost retailers, it offers regular hours, setting schedules a month in advance.

It invests €5,000 in training for every new store employee and encourages staff to develop diverse skills and expertise. Unsurprisingly, employee satisfaction is high: employee turnover is just 3.4 per cent.

As MIT Sloan School of Management Professor Zeynep Ton explains; Mercadona has mastered a virtuous cycle of retailing where good quality and quantity of labour leads to good operational execution in its stores, which drives higher stores sales and profits. Mercadona's sales per square foot are up to 50%

higher than that of competitors and sales per employee have more than doubled to €257,797 between 1995 and 2012.¹¹ This in turn enables the high labour budget that is critical to attract and develop a higher performance workforce, and in turn to deliver high value for shareholders.

Mercadona's investment in employees has also helped it to remain successful amid Spain's economic problems. Well-informed and engaged employees circulate accurate knowledge through the company, helping the company make cost-saving decisions, ranging from inventory management to packaging innovations. This has helped Mercadona cut operational costs, enabling it to protect profits and jobs and deliver low prices and good service to customers.



Summary

As resources across all industries are increasingly stretched, new forms of service are vital to companies looking to control costs and retain customers, both through personable interactions and new shopping experiences. Advances in technology, data gathering and digital curation are creating opportunities for business growth, while customer privacy has to remain paramount. These factors have given rise to a number of new service models, from offering traditional hardware products as ongoing subscriptions to the emerging sharing economy. Successful companies operating in this way have shown that investing in employees, from the bottom level up, is integral to proving services that are useful and valuable.

QUESTIONS FOR YOUR BUSINESS

- × How can you add service elements to your current products, and what could this do to strengthen your relationship with your customers?
 - × In what ways could better service design across different channels create a more seamless experience for your customers?
 - × What happens to your products (or services) when they reach the end of their life with your customers?
 - × What factors are currently preventing your employees from giving better service to customers and the company?
-

RESOURCE INNOVATION



Resource Innovation
It's about: Redesigning material flows.
Key idea: Understanding the whole life
of your products/services.

RESOURCE INNOVATION

Sustainability presents one of the biggest challenges and biggest opportunities for businesses today. Companies are increasingly constrained by the availability and price of raw materials, and by regulations designed to encourage business processes to become more 'green.' Alongside this, sustainable manufacturing closer to home is becoming increasingly attractive to businesses, as the cost of overseas production goes up relative to the falling costs of new, environmentally friendly technologies.

Across the world, people increasingly demand environmentally responsible behaviour from business. Forty-one per cent of Europeans say they have stopped buying a product because the company does not take the environment seriously. (The proportions are highest in Spain and Turkey, at 53 per cent and 55 per cent respectively.¹²) Leading businesses are acknowledging the change in attitudes. Philip's CEO, Frans van Houten, asserts: "We believe that customers will increasingly consider natural resources in their buying decisions and will give preference to companies that show responsible behaviour—something we are already seeing."¹³

In addition, sustainable companies seem more attractive to employees. In LinkedIn's list of the most desirable employers globally, manufacturer Unilever comes third after Google and Apple—an achievement attributed to its policy on the environment.¹⁴ (The 'Unilever Sustainable Living Plan' considers the environmental impact of the use of their products by consumers.)

Concern for environmental issues, therefore, creates a culture and focus that can unite employers, employees and consumers. The corollary is that there is a huge opportunity—and a mandate—for high-value innovations that create sustainable organisations. As the Harvard Business Review puts it: "Smart companies now treat sustainability as innovation's new frontier."¹⁵

Innovation in sustainable production and supply chain reduces business costs and improves quality, while also creating jobs and building emotional connections with employees and customers. Value can be created for everyone when sustainability is part of standard practice.

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Small and medium-sized businesses are particularly well placed to benefit from the opportunities: they're more likely to have the agility for radical new business models. The challenge is often harder for bigger and more established businesses, which tend to be more encumbered by 'legacy' processes and systems.

Sustainability drives innovation and positive change

Once sidelined as part of a separate CSR agenda, sustainability is quickly becoming an integral part of business. IKEA is now the second-largest private owner of solar panels in the US, and by 2020 it aims to produce more energy than it uses in its manufacturing and retail processes. The company's chief sustainability officer, Steve Howard, explains the rationale like this:

"Low-hanging fruit grows back. Efficiency investments that weren't commercially viable then become feasible ... It's the same with renewables. We've been on a learning curve with renewable energy investments ... we can go back to existing locations and find applications that weren't cost effective before."

The company has saved \$54m in warehouse efficiency programmes alone in the past four years.¹⁶

Social, regulatory and economic pressures mean that, in many markets, clean technology and sustainable models are now part of the 'logic' of business and enterprise. They create high-value opportunities for innovative companies and sources of competitive advantage.

Honda famously used its early compliance with new emissions regulation in California to break into the US car market in the 1970s, and its lobbying for improved efficiency standards still plays a huge role in its success. For the last decade, Honda's cars have been among the greenest in the US and its Accord was the single most popular new car in the country in 2013.¹⁷

Sustainable practices are about being successful and innovative. Julia Monk, a director at architectural engineering firm HOK argues that, "Sustainability—when it's done right—

is about resilience. That's economic resilience in addition to climate resilience. That's recruiting and retention, business continuity and proper management of assets and resources.”¹⁸

Nearshoring and the community

Companies are also looking to increase their resilience through location. After the long swing towards globalised production bases, companies are now siting their production plants closer to home, to reduce long-term costs and resource use, and increase market responsiveness. The location becomes important as a business issue, improving the way the company operates and its ability to react to the environment in which its products or services are being sold.

‘Nearshoring’ or ‘reshoring’ has become an attractive proposition for Western companies as the true cost of moving manufacturing away from consumers is understood. The environmental impact of long-distance shipping, the risks of a long supply chain, and the cost of greater inventory, together with the loss of flexibility and responsiveness, can outweigh the benefits of a global production network.

Often, this process involves bringing production closer to market, typically to lower-cost producers in the same region. But the emotional significance of bringing manufacturing back into the communities where consumers and employees live should not be underestimated. Rob Drake-Knight, co-founder of UK organic clothes manufacturer Rapanui confirms that ‘coming home’ is a win-win for his business, his customers, and his community:

“Reshoring some of our production makes good business sense ... we plan to cut and make [the material] here and do as much printing, embroidery and finishing of the garments in the UK as possible. This will improve availability of product from 80 per cent currently to nearer 100 per cent. In addition to this, we are a social enterprise that is passionate about creating more local jobs and providing opportunities for young people.”²⁰

By changing its processes, a company can become more socially and economically sustainable.

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CASE STUDY: NEWLIGHT TECHNOLOGIES

Making material out of greenhouse gases

New technology is allowing small companies to innovate around the larger businesses that have dominated sectors. The opportunities are not confined to 'obvious' sectors such as software. They exist in more traditional industries too.

AirCarbon is a carbon-negative plastic made entirely from greenhouse gases captured from other industrial processes. It was invented by Newlight Technologies, a company founded by three young American scientists and engineers. Inspired by the carbon capturing process found in nature, Newlight focuses on capturing methane-based greenhouse gases and inserts them in their polymerisation system. Once inside, the gas stream

is exposed to Newlight's biocatalyst, which separates carbon and oxygen from an air stream containing greenhouse gas and then re-assembles those molecules into a long chain PHA-based thermoplastic material called AirCarbon.

Newlight 're-configured' or 're-imagined' existing technology to make AirCarbon cheaper than oil-based plastic and of equal quality. Its cradle-to-grave carbon output (including manufacture, transportation and end-of-life energy processes) is less than that which is captured in the material's production; an achievement that has already won it business from Dell, Virgin and Sprint.¹⁹



Summary

Sustainability presents challenges to businesses in the form of regulation and rising costs, but the opportunity for competitive advantage is palpable. Small and medium sized businesses have a particular advantage, as their close control and ability to adapt to change means they can more easily bring sustainability into the heart of their business. The most powerful example of this is sustainable innovation; development of new technologies that both reduce environmental impact and lower costs. Sustainability also breeds resilience: to resource pressures, to changing consumer and employee expectations, and to supply chain issues. The opportunity to 'nearshore' manufacturing promotes sustainable practice, supports local economies and builds deeper emotional bonds with customers.

QUESTIONS FOR YOUR BUSINESS

- ✗ How can the apparent constraints of environmental regulation and consumer pressure open new opportunities for your business to innovate and out-compete?
- ✗ How well do you understand the lifetime flows of materials and information in your business?
- ✗ By adopting a view of sustainability that is 'cradle to grave', how can you improve the efficiency of your business and reduce its environmental impact?
- ✗ How might changes in your business processes in the local and world community change the profile and reputation of your business, even if this simply means communicating your existing operations better?

VALUE IN AUTHENTICITY



Value in authenticity
It's about: Reframing meaning.
Key idea: Understanding your full cultural and social context.

VALUE IN AUTHENTICITY

Companies have long been advised to create authentic brands to build relationships with their customers. Authenticity is more than marketing-speak, however. It has new importance and value in the context of social and technological shifts.

Peer-review sites and fast-travelling news about corporate conduct mean that brands in themselves are no longer strong enough signals to build connections with more sceptical and informed people. Established brand equity no longer guarantees associations of quality and value.

Companies have to create meaning and value for consumers and build trust in new ways. There are opportunities in two current trends: the increasing demand for transparency; the increasing interest in local-community welfare and the way goods and services are sourced.

There are opportunities in two current trends: the increasing demand for transparency; the increasing interest in local-community welfare and the way goods and services are sourced.

The rising need for transparency

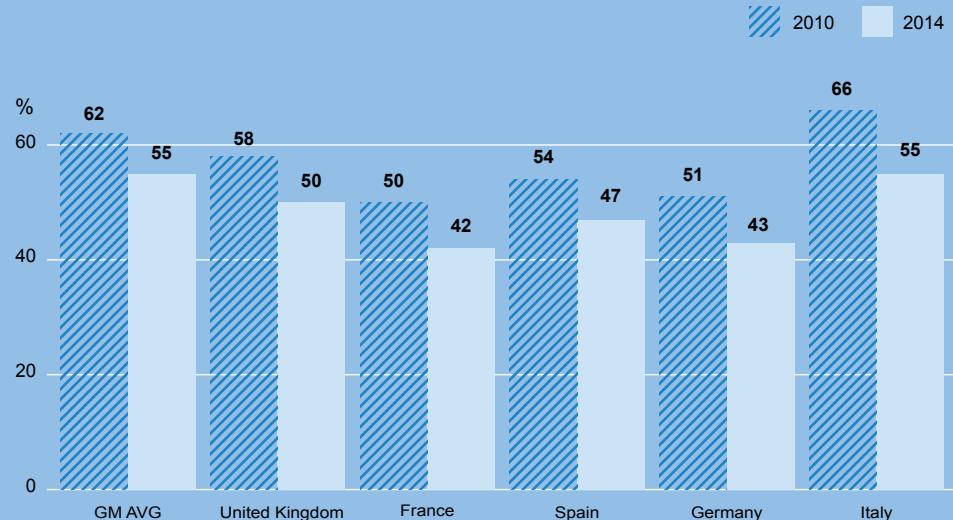
Transparency can be the antidote to mistrust. Telling customers about where and how products are made—and by whom—can make a business seem more authentic.

Providing facts and detailed data, however, won't be enough. The company needs to make some kind of emotional connection with consumers. And to do that it needs to provide compelling storytelling.

We are starting to see companies inviting customers to understand their supply chains and processes in more engaging ways. The food company Danone, for example, has been publicising the relationships it has with 20,000 independent producers. Recent marketing campaigns in its native France have been telling stories about individual suppliers. It's a strategy that reassures the customer that Danone products are traceable—important in the wake of the horse meat scandal—and that the company treats people fairly. (A customer might reasonably be suspicious of a company that keeps its suppliers anonymous.) Importantly, this kind of openness is as easy for smaller businesses as it is for multinationals like Danone, as discussed in the panel on Everlane (on page 38).

fig. 6**DECLINING CREDIBILITY OF BRAND AND BRAND VALUE**

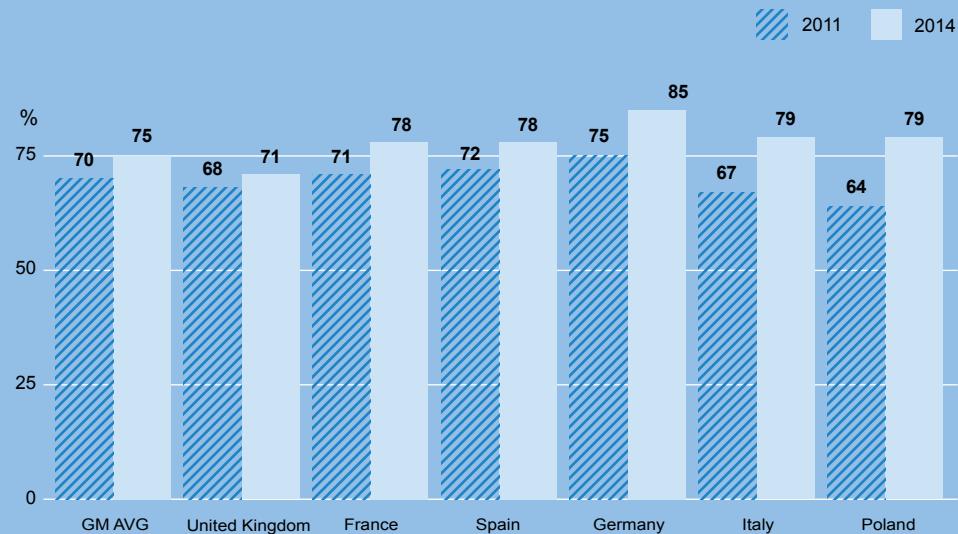
You can depend on brands that have been around for a long time to produce good quality of products, % agree



SOURCE: The Futures Company, Global MONITOR (24 countries n=24,000, Tracking average n=18,000, weighted)

fig. 7**VALUES CREATE VALUE IN THE MINDS OF CONSUMERS**

I appreciate it when companies make it clear what they stand for and stay true to their values, % agree



SOURCE: The Futures Company, Global MONITOR (24 countries n=24,000, Tracking average n=18,000, weighted)

The expectation of social value raises the importance of local impact

Businesses are increasingly expected to contribute to the communities and environments in which they operate. Origin and local impact are becoming important brand values. Linking products and services to specific locations helps generate a halo effect of trust and authenticity. Localness here, in contrast to the business proposition outlined in our discussion of Resource Innovation, is about rich storytelling that communicates to both employees and customers the social purpose and identity of a business.

Local impact can also help make the meaning and value of work more tangible to employees. This becomes especially important as attitudes towards employers shift. There's evidence that the Millennial generation put social purpose above the profit motive when they evaluate companies. According to global data, 80 per cent of 13 to 25 year olds want to work for a company that cares about how it affects and contributes to society, and more than 50 per cent would refuse to work for a socially irresponsible corporation.²¹

Importantly, this shift in brand values extends beyond sectors such as food and drink and manufacturing, where supply chains can be complex and long and where goods and components come from multiple sources worldwide. Financial service companies increasingly emphasise their contribution to the communities they operate in. Allied Irish Bank recently created an initiative called 'Big Drive for Small Businesses,' in which it diverted part of its advertising spend into campaigns for the Irish SMEs it supports. In a similar vein, TSB Bank in the UK has positioned itself as a locally orientated retail bank with a mission to help revive the local high street.

These kinds of initiatives might be interpreted as cynical attempts by banks to regain the trust of the public. They demonstrate, however, the growing importance of acknowledging local communities across a wide range of industries, and changes in the consciousness of the consumer.



CASE STUDY: EVERLANE

Radical transparency

The American online clothing start-up, Everlane, reveals every cost and mark-up in its production process. The data appears in clear graphics under every product a customer looks at. The company also displays information about and photographs of its factories on its website.

This ‘radical transparency’ signals respect for the consumer. Importantly, it also disassociates the company from the sweatshop scandals that have plagued the global textiles industry in recent decades. It connotes good practice, craftsmanship and trustworthiness.

It suggests the company will be being authentic when it says it believes in ethical trading and ethical management of the supply chain.

But this isn’t just about data. Through photographic storytelling Everlane turns the traditionally hidden space of the factory into a source of brand differentiation. It adds value to its business by connecting with the values of its customers and wider cultural changes, where more consumers take interest in the world of work and production; and it does so at low cost.

fig. 8

EVERLANE: TRANSPARENT PRICING

THE LANGLEY MUSCLE TANK





Images: Everlane

fig.9

**CONSUMERS ARE INCREASINGLY TURNING TO
LOCAL BUSINESSES IN MANY MARKETS**

Actions taken over past year out of anger/frustration with businesses and corporations: Bought things that are made locally as much as possible.



SOURCE: The Futures Company, Global MONITOR (24 countries n=24,000, Tracking average n=18,000, weighted)

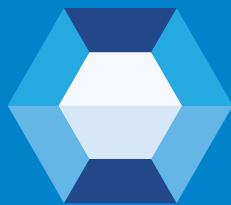
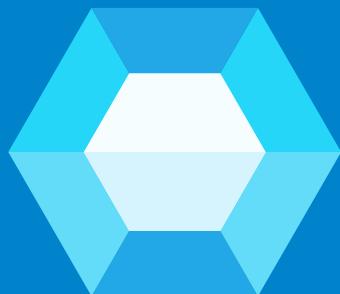
Summary

Traditional branding is no longer enough to communicate quality and value. Increasing interest in provenance and process, alongside proliferating online access to information and peer-review has meant that companies have to work harder than ever to invest meaning and purpose in their products. In an environment of increasing mistrust, radical transparency and good storytelling have become crucial tools in creating emotional connections with customers. In order for companies to attract employees and to embed themselves in the places in which they operate, a tangible sense of social purpose and meaningful contribution to the local community are also more important than ever.

QUESTIONS FOR YOUR BUSINESS

- ✗ How can you tell the story of your products and processes in a way that engages your customers?
 - ✗ What stories best showcase your business and the contribution that it makes?
 - ✗ What is distinctive about the locations you operate in and the people that you work with?
 - ✗ What values and emotions are associated with your business? What are the deep needs that you fulfil?
-

RICH KNOWLEDGE



Rich Knowledge

It's about: Capturing and codifying knowledge.
Key idea: Understanding where knowledge flows and goes.

RICH KNOWLEDGE

As the previous section shows, some activities that add value are low risk and require relatively low levels of investment.

Others are more sophisticated and challenging.

Rich knowledge, or complex knowledge, refers to a process in which ideas are transferred and synthesised as intellectual property and innovation. It's a model that applies to pioneering Internet companies such as Google. But it belongs in the physical, not the virtual, world. (The 'Google paradox' is that although it could run its operations virtually, it chooses not to. Instead, it builds offices across the world that are designed to encourage its staff to come in to work.)

Complex knowledge for businesses such as Google involves a process through which the company first makes sense of a poorly formed potential market, then translates these abstract ideas into a standardised and repeatable process, (literally codifying it) and then scaling it up to deliver to customers; and then doing it all over again.

The secret of rich knowledge businesses lies in this cycle shown in the diagram, in which a prototype is shaped from a conversation, it is proved at a small scale, it is codified and then it is scaled up. As it moves through the 'prove' and 'codify' stages, it is typically translated into a form that creates intellectual property that can be patented.

This represents a simplification of the work of British business theorist Max Boisot, who spent a lifetime understanding how knowledge moved through what he called the 'social learning cycle'. In effect, knowledge changes its form as it moves through the cycle. It starts out as a series of observations and questions, often fleshed out through conversation. As it evolves and is turned into an innovation, it becomes more stable and replicable.

The challenges of rich knowledge and the implications for skills

The complex model—or a version of it—exists beyond the software and high-tech industries. Manufacturing company W L Gore & Associates has long relied on 'social learning' to innovate and add value. (See case study on page 47) This is

not exclusive to big business. Knowledge can be transferred, re-combined and synthesised as something new by companies of all sizes.

HMK Automation, a British company that embeds technology in manufacturing products, provided the software that enabled the performer Pink to fly above her fans on a set of ‘intelligent winches’ during a recent world tour. As the Chief Executive Carl Krajewski observed, “The underlying mechanics haven’t changed much—for Pink, it was essentially a winch with a cable—but the way they interact with one another is changing dramatically.”²²

Digitisation and ubiquitous computing are likely to accelerate the spread of the model. It poses, however, considerable challenges.

The dilemma for businesses built on rich, complex knowledge is that to create value the knowledge needs to be formalised and codified, but as it becomes codified, others can work out what you did and emulate it (e.g. by ‘reverse engineering’) even if outright copying is prevented by patent and intellectual property law. Other business attributes are needed to protect the value that has been created, such as network effects, the architecture of the overall business model, or the rate of continuing innovation.

Nevertheless there are other challenges here as well. As the business moves through the knowledge cycle it needs different skills. Drawing on work by Chaharbagi and Newman, at the prototyping stage it needs ‘creators’; at the ‘proof’ stage, it needs ‘implementers’; as it codifies, it needs ‘stabilisers’; and as it scales it needs market-facing staff who can channel product and customer feedback back into the business.²³ Creators on their own are unlikely to get a product or service out of the door, while stabilisers will simply optimise the existing product set.

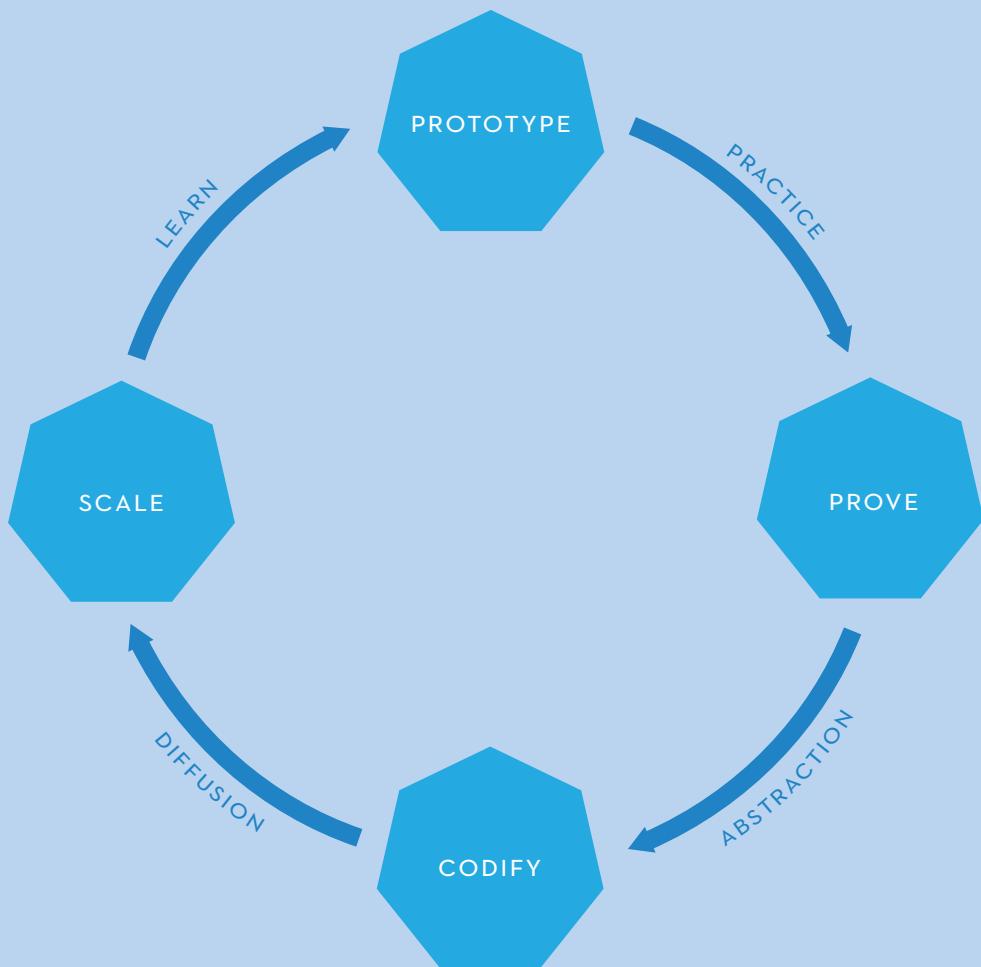
The organisation that thrives on rich complex knowledge also needs to be able to manage its internal flows of knowledge quickly and effectively, and therefore also to be culturally sensitive to the value brought to the learning cycle by different sets of employees’ skills.

The organisation that thrives on rich knowledge also needs to be able to manage its internal flows of knowledge quickly and effectively, and therefore also to be culturally sensitive to the value brought to the learning cycle by different sets of employees’ skills.



fig. 9

THE KNOWLEDGE JOURNEY



SOURCE: The Futures Company, adapted from Max Boisot



CASE STUDY: W. L. GORE & ASSOCIATES

Applying technology to new markets

W. L. Gore & Associates has been hailed by Fast Company as the most innovative company in America.²⁴ The inventor of the GORE-TEX® membrane, it has diversified into fields as diverse as medical supplies and music from its initial base in the cable sector. It applies leading edge technology to categories that might seem not to need it (for example, in the dental floss category).

Gore encourages sociability by deliberately keeping work units small (by targeting around 200 associates) and fosters a culture of curiosity. The company culture underlines the critical importance of meeting commitments made to

workgroups and project teams, but also gives employees 10 per cent of their time to explore new ideas.

The story of its entry into the music market is emblematic of its approach. An engineer who had been experimenting with Gore's technology to mountain bike cables realized that it might be possible to adapt it for guitar strings. He co-opted a small ad hoc group that was interested in the potential of this idea and they developed the 'Elixir' string, which lasts three to five times as long as conventional guitar strings. Gore, which had no history in the music business, now has a significant position in the US market for acoustic guitar strings.



Image: W L Gore

Cross-company knowledge transfer and local knowledge ecosystems

The transfer of knowledge systems also operates between companies, and is becoming increasingly important for innovative industries. As Bruce Katz and Julie Wagner of the Brookings Institution recently observed:

"In America's innovative economy 20 years ago, a worker drove to a nondescript office campus along a suburban corridor, worked in isolation, and kept ideas secret. Today, by contrast, proximity is everything. Talented people want to work and live in urban places that are walkable, bike-able, connected by transit, and hyper-caffeinated."²⁵

Nevertheless, the focus both of policy and the broader culture still tends to be on individual start-ups and entrepreneurs rather than interlinked ecosystems. As Mariana Mazzucato of the Science Policy Research Unit of the University of Sussex explains: "What I believe should be emphasised is not start-ups or entrepreneurs in and of themselves, but the innovation ecosystems within which they operate and which they depend on if they are to become what does matter: high growth innovative firms (of any size) within that system."²⁶

In the long run, local ecosystems of knowledge can produce brands with strong regional identities. Such brands can develop a cachet—think of Swiss watches or Italian fashion—and credentials that add value. They also help meet the demand for products that support local economies.

Local clusters based on the sharing of knowledge and expertise are an important part of social and economic sustainability. They help create high value and resilient jobs. Italy's textile industry, concentrated in the region of Emilia Romagna, is a prime example. Innovation based on local expertise, added to the relationship with Italy's premium fashion brands, has helped the region protect jobs in an industry where most manufacturing had moved to low wage economies. Local producers have also pushed innovation in textiles (Invista, the producer of Lycra, is one of the region's companies), taking advantage of local knowledge ecosystems to create higher margin products.

Summary

Rich knowledge describes the way in which ideas, information and innovations are shared, synthesised and transformed into tangible value. These processes generally follow a circular journey of prototyping, proving, codifying, scaling, and learning for the next prototype. A particular challenge to this lies in protecting your codified ideas from replication and translating this process into patentable property. At every stage of this process, different people with different skills are required, and managing the internal flow of knowledge is crucial for businesses to thrive. External connections are equally important, and companies that operate in rich ecosystems of other organisations, within and outside their own industry, have the potential to tap into new expertise and develop a regional identity that can become a powerful tool of brand identification.

QUESTIONS FOR YOUR BUSINESS

- ✗ What knowledge and expertise do you have as a business that is distinctive and hard to replicate?
- ✗ How is knowledge shared in your company, and what barriers currently restrict the sharing of ideas?
- ✗ What opportunities do you have for collaborative innovation outside of your company, and even outside of your industry and beyond?
- ✗ How could the application of relevant technology and expertise technology create new value for your products and services?

ACTING ON THE HIGH VALUE WORK AGENDA



So where to start on the High Value Work Agenda? The detail of that will be explored more fully in later reports, but there are some immediate starting points for business.

THE FOUR ROUTES TO HIGH VALUE WORK IDENTIFIED IN THE AGENDA ARE ABOUT:

- × Re-imagining service: taking a fuller look at the world of your customers and their relationship with your product or service
 - × Re-structuring resource use: taking a wider look at your supply chain and your value chain
 - × Re-defining meaning: through authenticity, taking a deeper look at your relationship with place, workforce, suppliers and stakeholders, and
 - × Re-configuring knowledge: taking a fresh look at what you know and how that translates into value.
-

Two of these are effectively outward-facing, looking to your markets (service and customers; meaning and authenticity) and two are inward-looking, looking to your people and processes (resources and supply chain; knowledge and workforce/partners). One of the characteristics of high value organisations, though, is that they connect both. W L Gore, mentioned in a case study, applies its rich technical expertise to thinking about possible applications, but don't go into a market until they've

understood the customer needs and benefits of their applications.

While a company might approach the creation of value through one of these four lenses, in practice it is likely to combine more than one of them to realise its new proposition.

At heart, the creation of a higher-value proposition is a strategic exercise. Successful strategy is about being distinctive, and it is always context-specific. But it is a strategic exercise with a specific focus, looking through each of the lenses as a potential leverage point that has the power to unlock value for the business. For example, while your core capability might be about design, the different lenses would take you in different strategic directions.

Unlike sports teams, however, you are not looking for "marginal gains," although you may spot some as you go. Instead, you are looking for an insight that enables you to leapfrog the market by creating significant new value, for you, for your customers, for your stakeholders and for society as a whole.

The secret is that you have to look at your business as if for the first time, looking at the needs you fulfil, the processes and resources you deploy, the knowledge you hold, the places you work and the people you work with. And then, as if a stranger in your own land, you will see its potential for creating high value and high value work.

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CREDITS

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Design was by redandblue

It is published by The Association for Finnish Work,
Mikonkatu 17 A, 00100 Helsinki.

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