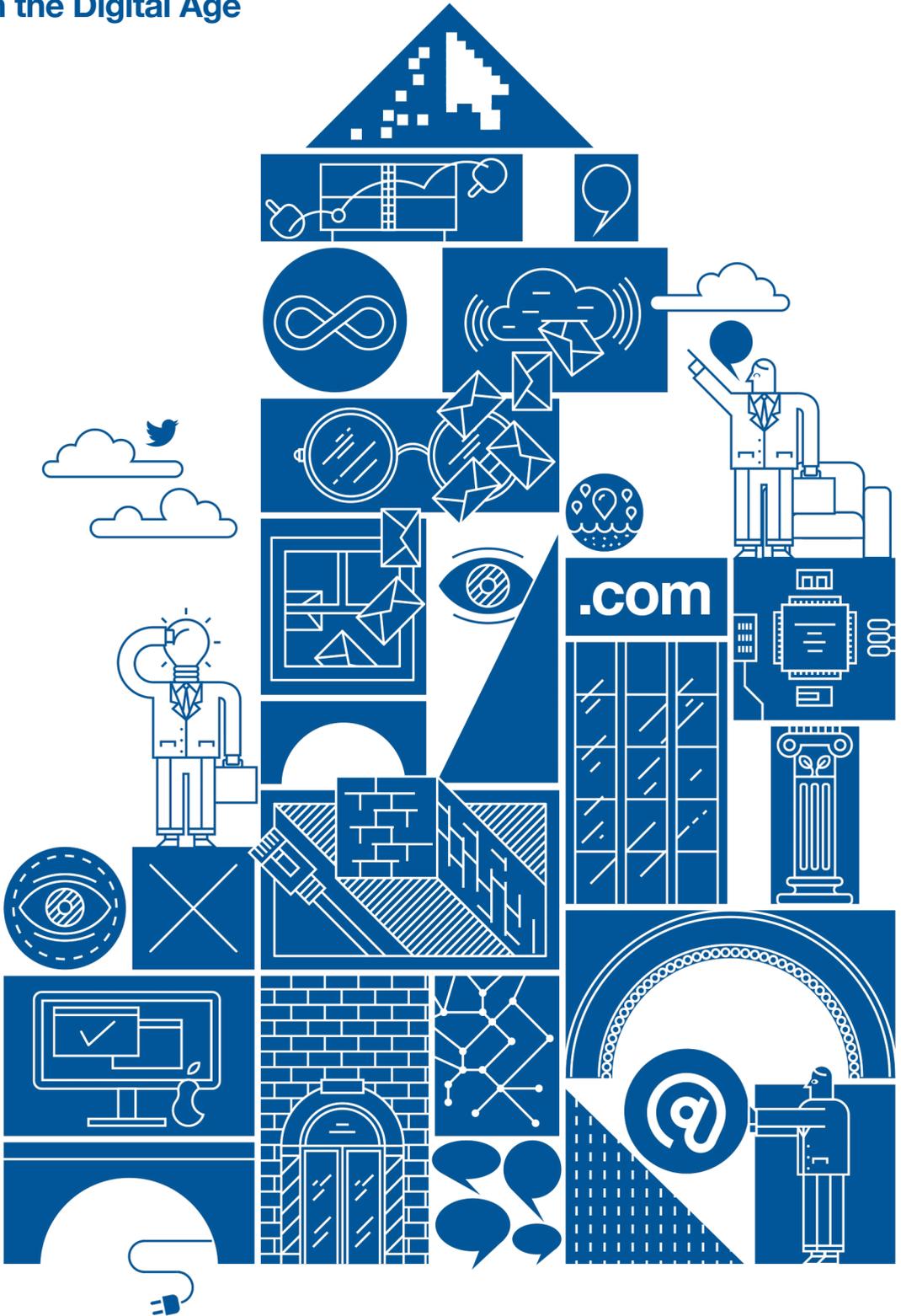


Reinventing the Company

in the Digital Age



Reinventing the Company

in the Digital Age

If It's Innovation You Want, Think About Job Quality

Chris Warhurst and Sally Wright

Warhurst and Wright's article outlines the current orthodoxy about innovation, showing that innovation is failing to deliver the anticipated enhanced performance, and how job quality and its potential role in helping lever innovation is underappreciated.

They argue that innovation is misconstrued and that its levers are misdiagnosed. They offer a solution to these problems, pointing out that a different model of innovation exists, one that can be boosted by drawing on a different kind of quality as a resource—job quality. Good job quality underpins organizational innovation and when adopting job quality as a lever for innovation, companies need to rethink how they manage and organize their employees inside the workplace. They see that developing an approach that integrates job quality and innovation would be not just desirable but also feasible for many companies.

Chris Warhurst

University of Warwick



Chris Warhurst is Professor and Director of the Institute for Employment Research at the University of Warwick in the UK. Previously he was Professor of Work and Organizational Studies at the University of Sydney, Australia, and Founding Director of the Scottish Centre for Employment Research in Glasgow in Scotland. His research focuses on three topics: job quality, skills, and esthetic labor. He is the author of 17 books and he has provided expert advice to departments and agencies of the UK, Scottish, Hungarian and Australian Governments as well as the OECD.

Sally Wright

University of Warwick



Sally Wright is a Senior Research Fellow at the Institute for Employment Research at the University of Warwick in the UK. Her research interests include minimum wages, low pay, working conditions, workplace restructuring, workforce and skills development, gender pay equity, and work/life balance. She previously worked in the Workplace Research Centre at the University of Sydney, Australia, where she managed the Australia at Work research project. She is currently investigating job quality and employment restructuring in Australia, with a project for Eurofound, an agency of the European Commission.

Key Features for the Company of the Future:

Consider Job Quality to Boost Innovative Performance

Innovation and job quality share many workplace practices and can be synergistic, mutually reinforcing each other.

Introduce Job Quality Audits

The aim should be for the company to maintain good job quality or improve existing job quality as a means of developing its innovative capacity.

Maximize Innovative Performance and Job Quality

The company can thereby contribute to its competitiveness as well as national economic recovery and competitiveness.

If It's Innovation You Want, Think About Job Quality

Introduction

For many years “quality” has been offered as the route to firm competitiveness. This quality was centered on the making of company products, whether goods or services, and “getting things right the first time,” as the total quality management (TQM) movement highlighted.¹ In recent years there has been a new emphasis on innovation as a, if not the, route to competitiveness.² The European Union (EU) regards innovation as an overarching driver of economic recovery and growth and the Innovation Union is one of the seven flagship initiatives within Europe 2020, the new strategy for the EU.³ National governments too within the EU understand and promote the importance of innovation: for example, the UK now has a ministerial department formally dedicated to innovation—the Department for Business Innovation & Skills. The EU and its member states are therefore keen to support innovation through policy.⁴

However, little real progress has been made in boosting innovation in the EU. Indeed, the current innovation performance of the EU continues to lag behind key international competitors amongst the advanced economies such as Japan, and its lead over new competitors from the developing countries

such as China is decreasing.⁵ Part of the problem, we argue in this chapter, is that innovation is misconstrued and, as a consequence, its levers are misdiagnosed. This chapter offers a solution to these twin problems, pointing out that a different model of innovation exists and one that can be boosted by drawing on a different kind of quality as a resource—job quality. This link is fortuitous, as job quality is also now back on the policy agenda within the EU, though not because it might help improve innovative performance but because it contributes to individual, firm and national economic well-being and offers a route to economic and jobs growth.⁶ In adopting job quality as a lever for innovation, companies will need to rethink how they manage and organize their employees inside the workplace.

The next section of this chapter outlines the current orthodoxy about innovation but how the dominant approach to innovation is failing to deliver the anticipated enhanced innovative performance. The following section outlines the changing attitudes to job quality but signals that its potential role in helping lever innovation is underappreciated. The subsequent section highlights the shared workplace practices of innovation and job quality, and how the latter can boost the former. The concluding section offers tentative suggestions as to how change might be achieved within companies so that they benefit from an integrated approach to innovation with job quality.

Innovation: Important but Underperforming

There are three types of competitive strategy that companies can follow, based on cost, quality or innovation.⁷ Governments in the advanced economies want their firms to avoid having cost based strategies, realising that they cannot compete with low cost labor in the developing economies. As one lande government-funded initiative in Germany put it, their firms “can’t beat Beijing on price.”⁸ As an alternative to cost, quality was heavily emphasized in the 1980s and 1990s, as best illustrated by the TQM movement. In the last decade more emphasis has been placed on innovation. And with good reason: innovation seems to offer a win-win opportunity for government and companies. Innovative companies in more innovative countries are growth-heavy and more productive, with a link established between innovation, competitiveness and productivity.⁹ In terms of employment outcomes, innovative firms create more and better jobs and offer an important stepping stone in the integration of some vulnerable groups into employment. Innovation thus contributes to an inclusive, not just high-skill, high-employment economy.¹⁰

The European Commission’s “Innovation Union Scoreboard”¹¹ distinguishes and ranks four groups of countries in the EU according to their innovation performance. The top group, the “innovation leaders,” include, significantly, Denmark,

Finland, and Sweden—Scandinavian countries. The bottom group, politely labeled “modest innovators,” center on former Soviet Bloc countries such as Bulgaria and Romania. Country rankings have remained relatively stable over time, with the UK, for example, continuing in the second group of “innovation followers.”

As an alternative to cost, quality was heavily emphasized in the 1980s and 1990s, as illustrated by the TQM movement. In the last decade more emphasis has been placed on innovation

Innovation encompasses a wide range of activities including new products and processes as well as marketing and organizational innovations. The *Oslo Manual*,¹² adopted by the European Commission, standardizes data collection and statistical measurement of innovation. It distinguishes four types of innovation within two categories of technological and non-technological innovations. The technological encompasses product and process innovations; the non-technological encompasses marketing and organizational innovations. Product innovation is the introduction of a good or service that is new or significantly improved with respect to its characteristics or intended uses. Process innovation is the implementation of a new or significantly improved production or delivery method. Marketing innovation is the implementation of a new marketing method involving significant changes in product design or packaging, product placement, product promotion or pricing. Organizational innovation is the implementation of a new organizational method in the firm’s business practices, workplace organization or external relations.

In terms of inputs to boost innovation, the EU identifies three “enablers”: first, human resources, meaning more graduates and PhDs; second, attractive research environments, meaning more and better cited scientific publications; and third, finance and support, meaning more research and development (R&D) and more venture capital investment. This emphasis centers on technological innovation and what is termed the STI mode—“science, technology, and innovation.” It is a top-down, science-centric approach to innovation focused on having more workers with more qualifications and encouraging more R&D to create more, new intellectual property (i.e. products).¹³ Intriguingly, none of these enablers focus on the innovative process within workplaces; rather they are contextual—improving the supply of both suitably qualified workers and available finance to companies most obviously.

The problem is that, as the European Commission notes,¹⁴ EU innovation performance growth overall has been modest, touching just 1.6% over 2008-12. With the exception of the UK, innovation leaders and followers all improved their innovation performance. Worryingly, however, there is a growing divide

in innovative performance between the bottom and top ranked groups of countries in the EU. Moreover, with the economic crisis in Europe, it is the public sector that is currently propping up R&D expenditure. Holding tight onto its STI approach to innovation, the Innovation Union wants to boost innovation by having more firms with more new products and has set a target for investment in R&D of 3% of EU GDP by 2020.¹⁵

This type of innovation is important but not sufficient. It might work well for hi-tech manufacturing companies operating in niche high value added markets which employ relatively few workers, but has little relevance for companies in mass services where most workers are now employed.¹⁶ Denmark is in that top ranked group of countries classified as innovation leaders, and one of the reasons for its economy doing relatively well, according to Lundvall,¹⁷ is that its innovation focus envelops traditional industries, including those in services. In other words, it encourages a different approach to innovation. If full economic recovery is to be realized in the UK and the rest of the EU, innovation in companies needs to be boosted; the scope of innovation must be expanded and alternative approaches to innovation be developed in countries and their companies.

One way of understanding the current problem, is to recognize that the current model of innovation favored by many national governments and the EU is misconstrued and innovation's real enablers underplayed. Even in innovation leader countries such as Denmark, radical innovations account for less than 6% of all innovations, according to Nielsen et al.¹⁸ As Keep states, the current top-down, science-centric approach to innovation ignores the "bottom-up, incremental workplace innovation that can enhance products, services and the means by which they are delivered."¹⁹ Increasingly, companies in the service and manufacturing industries create value through a wide range of complementary technological and non-technological changes and innovations.²⁰ Indeed the majority of innovations are not of the STI type but are bottom-up non-technological innovations—new business practices and workplace organization within firms. That is, most innovation is organizational innovation. Importantly, non-technological innovation is one of the key factors explaining the difference in performance between the EU and its superior non-EU competitors. As the European Commission once acknowledged, "non-technical innovation may well be the 'missing link.'²¹ This claim has substance: organizational innovation has positive effects on growth at both national and company levels. "At the societal level, investments into organisational change ... influence up to some ten percent of economic growth" and within companies, "the magnitude of the effects on efficiency outcomes is substantial, with performance premiums ranging between 15 per cent and 30 per cent for those investing in Workplace Innovation."²²

As Arundel et al.²³ argue, instead of targeting higher R&D expenditure at the national level, which in any case is hard for governments to achieve, more attention should be paid to organizational innovation practices. This type of innovation is more achievable and likely to create innovation-friendly environments at firm level. Finland, for example, another one of the innovation leader countries in Europe, has adopted a “broad-based innovation policy,” which incorporates this approach, “expanding the target of innovation policy to give more significance to non-technological innovations and increasing the positive joint impacts of technological and non-technological innovations.”²⁴

Orthodox approaches to innovation are thus misfiring. A new approach is needed; one that more readily envelops organizational innovation and identifies the workplace practices that boost this type of innovation. A shift in policy thinking is already discernible in this respect. The new European Growth Agenda, noting that the global economic downturn has adversely impacted innovation, now recognizes that a broad range of factors that stimulate innovation need to be explored.²⁵ It is here that job quality is relevant to improving innovative performance at the company level.

Job Quality: Important but Underappreciated

Aspects of job quality have long been a concern of researchers and policy-makers as well as some practitioners.²⁶ However, at least in the latter part of the twentieth century, a trade-off was argued to exist between job quantity and job quality. Efforts to improve the Quality of Working Life—a movement that emerged out of the Nordic countries in the 1960s and spread to other advanced economies by the early 1970s²⁷—were abandoned in the mid-1970s in the face of (another) global economic downturn and rising levels of unemployment. Instead, governmental emphasis focused on job creation, regardless of the quality of these jobs. The argument was simple: better to create any jobs than push to create better jobs.²⁸ Intuitively, it appealed to policy-makers.²⁹

Empirically, it turns out that this argument, was little more than a myth, Osterman asserts.³⁰ To make his point, he compares a lower job-quality country—the US—with higher job-quality countries—Sweden and Denmark. Using OECD data he shows that the latter countries have higher employment participation rates for both men and women. This pattern holds within the EU. In general, EU countries with more high-quality jobs have significantly higher rates of employment and employment activity.³¹ Analyzing EU data, Siebern-Thomas³² found that improvements in job quality increased national employment rates from 60% to 64% and decreased unemployment rates from 10% to 6% over a ten-year period. Another longitudinal analysis of European data confirms this finding, affirming a positive and significant correlation between employment

rates and components of job quality.³³ Referencing the research of Erhel and her team, the European Commission now accepts that „there is no trade-off between quality and quantity of employment: with a positive link between job quality and quantity.”³⁴ There are good reasons why job quality and employment positively correlate: the links between human capital and economic growth, and the provision of security in work that increases productivity and labor market participation, for example. Policy thinking on job quality has thus shifted: the EU’s new growth agenda accepts that job quantity and job quality are not mutually exclusive and can and should be pursued together.

In general, EU countries with more high-quality jobs have significantly higher rates of employment and employment activity

Synergies can be achieved between job quality and the other main objectives of the current European Employment Strategy—namely full employment, and social cohesion and inclusion.³⁵ This dual approach is most obvious in the European Commission’s aim to create “more and better jobs” in Europe.³⁶

However, better jobs not only have positive outcomes for countries within the EU; they can also have positive outcomes at the company level. Research indicates that job quality is positively and significantly correlated with job satisfaction, commitment, and individual well-being.³⁷ Moreover, job satisfaction is negatively correlated with absenteeism³⁸ and staff turnover,³⁹ thereby offering the potential for reducing companies’ operating costs. In addition, job quality and job satisfaction have been linked to labor productivity, with more productive industries having higher proportions of good-quality jobs.⁴⁰ Importantly, research also reveals that industries and countries with above average job quality are more productive and innovative.⁴¹ There are thus bottom-line benefits for companies pursuing higher job quality.

The problem is that job quality varies across European countries.⁴² Prior to the global economic downturn and the EU crisis, job quality had various trajectories in the EU, though notably was upgrading in Nordic countries. With the crisis, job quality in the EU has come under pressure, with increased polarization in most countries.⁴³ Nevertheless, workplaces in the Nordic countries still offer the best job quality.⁴⁴ Moreover, better quality jobs have proved to be more resilient during the crisis and those countries with higher job quality, such as the Nordic countries, have fared better during the crisis.⁴⁵

An additional problem for government policy-makers and practitioners in companies is that there is no consensus about what constitutes job quality.⁴⁶ Debate amongst researchers is expansive and also evolving. Conceptually, there are differences among disciplines. Crudely, economists typically focus on pay, sociologists on skill and autonomy, and psychologists on job satisfaction.⁴⁷

There are also definitional differences. A key issue is whether job quality can or should be measured objectively or subjectively. Objective indicators focus on the characteristics of the job, whether economic or non-economic. Subjective indicators focus on the reported attitudes and experiences of the job-holder in relation to whether the job meets workers' needs.⁴⁸ As such, approaches to measuring jobs also vary. Some approaches measure job quality using a single indicator such as pay,⁴⁹ others use multiple indicators including pay, work organization, wage and payment systems, security and flexibility, skills and development and engagement.⁵⁰ Without scientific consensus, a lack of agreement exists amongst member state governments, and a comprehensive approach to job quality has not yet been actioned in EU policy.⁵¹ At best, as Muñoz de Bustillo et al. admit, current job quality indexes are driven and limited by data availability. As a consequence, whilst the European Commission appreciates the importance of job quality generally, it has yet to adequately develop a bespoke research and policy agenda around it.

Despite the debates and differences, an implicit approach to job quality is beginning to emerge amongst key researchers in the field in Europe. Most academic research on job quality at the European level now adopts a multi-dimensional approach.⁵² Even though the number of dimensions and/or indicators varies in these studies, there are clear overlaps about what constitutes job quality. Typically, both the work and employment characteristics of a job are analyzed, including, for example: work organization; learning, training and skill development opportunities; opportunities for skill use; career progression opportunities; pay and benefits; worker autonomy, participation and representation; and, more recently, employee well-being.⁵³ Importantly, many of these constituents of job quality align with prerequisites of innovation, particularly organizational innovation. Indeed, they are often the enablers of good innovative performance, and shift the focus onto the innovative process as it occurs within workplaces. However, the link between job quality and innovation is, to date, not made by governments, and the potential utility of incorporating job quality into innovation policy-thinking remains underappreciated.

Two Sides of the Same Coin: Innovation and Job Quality

Aside from not delivering sufficient and across the board improvements in innovative performance, the STI mode of innovation is disconnected from a wealth of long-standing research on what makes innovation happen in companies. Burns and Stalker's classic *The Management of Innovation* (1961)⁵⁴ focused very squarely on the top-down, science-centric approach to innovation currently favored by government. Yet, Burns and Stalker revealed in their organizational case studies, it wasn't enough to hire graduates and PhDs, put them

in company R&D facilities and then stand back to watch intellectual property flourish. Rather, the right working, management and organizational structures and practices had to be in place to lever and enable these workers' ideas and efforts. In the parlance of the time, "job design" was important, with these workers embedded in a network structure of control, authority, and communication; the latter lateral rather than vertical, and based on consultation rather than command, information rather than instruction. Similarly, and echoing much of Burns and Stalker's innovative "organic" organizations, Kanter's influential *The Change Masters* (1983)⁵⁵ identified "integrative" organizational structures and practices as delivering continual innovation. These integrative organizations featured cross-departmental and cross-functional working, with broad job definitions infused with autonomy, empowerment, challenges and, interestingly, job security, "making it possible, and interesting, for people to engage in exciting activities."⁵⁶ Policy-makers and practitioners ignore this research legacy at their peril. It is a useful reference point for anyone today interested in enabling and improving innovation in the workplace. Given the emerging, if still implicit, multi-dimensional approach to job quality amongst those key researchers in Europe, this research legacy also highlights the important role that job quality has to play in generating innovative performance.

The STI mode of innovation is disconnected from a wealth of long-standing research on what makes innovation happen in companies. Policy-makers and practitioners ignore this research legacy at their peril

The job quality of that multi-dimensional approach is associated with all four types of innovation outlined in the *Oslo Manual*. However, it is most strongly linked to non-technological innovation and, within this category, the most prevalent and effective form of innovation: organizational innovation. The reason for the strong link to organizational innovation is that this type of innovation is underpinned by a "doing, using and interacting" (DUI) mode. Resonating with organic and integrative forms of organization, this DUI mode of innovation, an alternative formulation to that of the STI mode, requires workers' skills acquisition and utilization, and employee voice and participation, for example.⁵⁷ As such, organizational innovation and job quality share many workplace practices.⁵⁸ Indeed, it might be reasonably argued that, in terms of workplace practices, innovation and job quality are two sides of the same coin.

For example, going beyond the EU's Innovation Union Scorecard, Valeyre et al⁵⁹ elaborated a typology of innovation potential amongst companies using the European Working Conditions Survey (EWCS). Fifteen variables were used to measure characteristics of work organization, including autonomous and

non-autonomous teamwork, task rotation, employee autonomy in work, constraints determining the pace or rate of work, repetitiveness and perceived monotony of work tasks, way of quality controlling, complexity of tasks, learning dynamics in work. Indicatively, these same EWCS variables were also used in a study of job quality by Holman.⁶⁰ Similarly, the OECD⁶¹ notes that employees having opportunity for skills deployment is a key feature of innovative workplaces, but adds that so is (front-line) managers' capacity to accommodate employee participation. More broadly, effective labor-management relations matter; it is engaging employees and encouraging them to mobilize, share and develop their ideas in the workplace which fosters innovation and raises productivity.

EDI refers to active and systematic participation of employees in ideation, innovating and renewing of products and services

An example of the importance of employees' active involvement in this type of bottom up innovation is provided by the Finnish government. The Finnish Funding Agency for Technology and Innovation (Tekes) has a dedicated program (Liideri—Business, Productivity and Joy at Work) to promote employee-driven innovation (EDI) in firms. It assumes that employees are willing and able to learn, and develop and deploy their creativity in their job. "At a general level, EDI refers to active and systematic participation of employees in ideation, innovating and renewing of products and services and ways of producing them, with a view to creating new solutions that add value."⁶² In an assessment of this Finnish program, over 70% of the 400 funded cases demonstrated simultaneous improvement in operational performance and the quality of working life at the firm level.

Drawing on his previous Danish research, Lundvall⁶³ argues that different forms of work organization offer employees different levels of organizational learning; higher learning work organizations are more innovative. This learning, itself enabled by skill development and use, and worker voice and participation, is also an indicator of job quality, according to Lundvall. It therefore follows that higher job quality encourages firm innovation, he notes. This link is apparent in comparisons of the Innovation Union Scoreboard (2013) and data from Cedefop⁶⁴ on the link between work organization and innovation. As we noted above, in distinguishing innovation performance groups of countries, the Scoreboard classifies Sweden as an innovation leader and the UK as an innovation follower. Cedefop makes a similar classification in assessing learning-intensive work organization and innovation performance. Sweden is located in a high cluster of countries in terms of being learning intensive, and the UK in a middling cluster of countries. Thus for Cedefop, what levers innovative capacity is also a marker of job quality—the presence of workplace learning, whether formal or informal. Job quality therefore links to innovation, with higher job

quality (more intensive learning) underpinning higher innovative performance; lower job quality (as measured by low or absent workplace learning) correlates with low innovative performance.

Furthermore, innovation and job quality might not just share practices; they might also be mutually reinforcing, creating synergies. In other words, if companies want to boost innovation, they not only need to think about job quality, they need good job quality. As Lundvall succinctly argues, higher job quality encourages innovation within companies. Thus despite being treated separately, job quality and innovation not only overlap in terms of underpinning workplace practices but these practices seem to create a mutually reinforcing dynamic. As a consequence, practically, there is “potential for convergence” according to Totterdill et al.,⁶⁵ who note that “improved performance and enhanced quality of working life ... [lie] at the heart of workplace innovation.”

Concluding Comments

Innovation is regarded as a key source of competitive advantage for companies.⁶⁶ Boosting it has been adopted as a policy aim by the European Commission and EU member states.⁶⁷ At present a top-down, science-centric (STI) mode of innovation dominates policy thinking. This STI mode is levered by highly qualified researchers creating forms of new intellectual property supported by injections of external capital. This type of innovation is important but not sufficient; indeed, innovative performance within Europe is at best uneven, and even slipping behind non-European competitors. New ways of thinking about innovation and how innovative performance can be boosted are needed.⁶⁸

Government policy thinking about innovation is like a supertanker at sea: changes of direction are slow to achieve. However, changes are needed. These changes do not require the STI mode to be abandoned but complemented by other modes of innovation with different levers, and with a different focus—the workplace. The starting point is to put more emphasis on the different types of innovation and particularly the type that occurs most in companies—organizational innovation. In this chapter we have argued that if companies want to boost their innovative performance, they need to think about their job quality. Good job quality underpins organizational innovation. Job quality and this type of innovation, with its doing, using and interacting (DUI) emphasis⁶⁹ share many workplace practices; integrated they may even be synergistic, mutually boosting each other.

There are signs, however, that a new course is being considered if not yet plotted. The European Workplace Innovation Network (EUWIN), launched in 2013 by the European Commission’s Director General of Enterprise and Industry

(DG ENTR), has called for more research on the links between workplace innovation and job quality. Beyond the EU, the OECD countries too are being exhorted to develop innovation strategies to boost growth and productivity. As with the EU, the OECD also currently favors the STI approach to innovation.⁷⁰ At the same time, the OECD also encourages its member countries to focus on creating “better jobs and better lives.”⁷¹ The OECD⁷² too is tentatively acknowledging the workplace practices that bridge innovation and job quality.

Once policy-makers embrace the link between innovation and job quality and realize that job quality can help boost innovation, the task then becomes one of identifying how policy can be translated into practice within companies. Although there are different points of intervention, some outwith the workplace, job quality occurs within workplaces. Existing research shows that senior management can and do make choices about the level of job quality within their companies. Different companies operating in the same industry and the same markets can have better and worse job quality.⁷³ Job quality, we have shown, impacts innovative capacity: good job quality tends to align with

Innovative performance within Europe is at best uneven, and even slipping behind non-European competitors. New ways of thinking about innovation are needed

higher innovative performance; lower job quality aligns with lower innovative performance. A first practical step for companies would be to introduce job quality audits. These would enable companies to identify the level of job quality across their workplaces and internal hot and cold spots of job quality, with the latter requiring intervention to make improvements. Often these improvements are cost-free financially; they simply involve managing and organizing employees differently, guided by a multi-dimension approach to job quality. If companies undertake these audits it would then also be possible for benchmarks to be set whereby companies could decide to match their job quality level, and with it their innovative capacity, against their innovative intent. Support in introducing and implementing such audits would be helped by the development of a version of the innovation ecosystems identified in the Scandinavian countries by Ramstad.⁷⁴ These ecosystems involve a network of vocational colleges and universities, consultancies, companies, social partners, and policy bodies. There would be concept agreement (i.e. over what constitutes job quality), tools for its measurement and assessment (e.g. for companies, the audit), and funding and support from government and the social partners for workplace change. Government might start by reconfiguring or supplementing the current Innovation Union Scorecard so that it better encompasses the DUI mode of innovation.

Need and opportunity exist for boosting innovative performance. Doing so at the EU and member state levels requires change within companies as well as government policy thinking. Improving contextual support through more and better finance and staff is not enough. Workplace practices need to become a focus and point of intervention. Job quality in its own right is now a feature of policy-thinking about economic growth. Developing an integrated approach between job quality and innovation would foreground the importance of those practices and how they can be better turned to the task of boosting innovation. With support, it's an approach that is not just desirable but feasible for many companies.

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About the Author

Chris Warhurst and Sally Wright

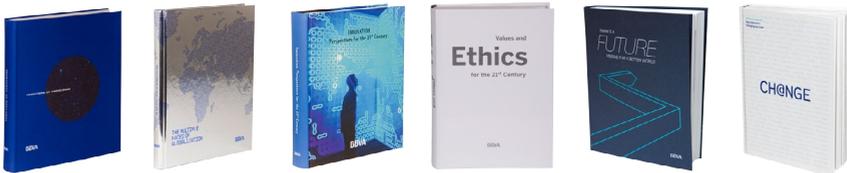
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