

MAGAZINE WINTER 2023 ISSUE / RESEARCH FEATURE

# Managing the New Tensions of Hybrid Work

Leaders are meeting employee demands for more flexible work arrangements amid concerns over the impact on organizational culture and innovation capability.

Jonathan Trevor and Matthias Holweg • December 13, 2022

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Pep Boatella

Developing corporate culture and inspiring innovation were tough three years ago, when everyone sat in adjoining cubicles all week, drinking coffee from the same pot. Now that hybrid work appears to be here to

## The Research

- The authors' research into hybrid work originated from a

stay, with many employees dividing their working hours between home and a company location, these challenges are magnified. New research shows that managers are deeply concerned about the downsides of hybrid arrangements for two domains that are, beyond most others, inherently social: Although evidence of damage to innovation and culture remains largely anecdotal, the potential threat is real.

We define *hybrid work* as a flexible balance, with working hours divided between a company location and elsewhere, typically a home office. Its endurance became manifest during the two years we studied market-leading global corporations that had adopted the model during the COVID-19 pandemic. All of the managers in our sample said that their companies intended to create long-term hybrid strategies or had already done so.

The imperative to support hybrid working is largely workforce demand. Employees — pointing to their strong performance when they worked from home during the worst of the pandemic — are reasonably demanding greater flexibility to work where and when they want. Leaders know they have to offer flexible working arrangements to attract, retain, and motivate top talent.

And companies enjoy other benefits from these arrangements. For example, 90% of the companies we studied experienced modest productivity gains in the first year of pandemic-induced remote work, thanks

series of online workshops with managers from 20 global companies that began in March 2020 and continued every three months for a year. Participants included managers from Aon, AXA, Barclays, Capgemini, Deutsche Telekom, DHL, DLL, Evonik, IBM, Maersk, Ricoh Europe, Shell, Unilever, Vodafone, Walgreens Boots Alliance, and Zurich.

- The authors fielded a survey of the managers from May to mid-June in 2021 and then conducted interviews from late June to September 2021.
- They obtained participant feedback on the initial results in a November 2021 workshop and gathered additional information at a two-day workshop in London in March 2022.

largely to readily available conferencing and collaboration technologies. Additional reported advantages include improved communication among managers and team members, accelerated delivery of results against short-term goals, and reduced presenteeism (that is, showing up at the workplace despite illness).

The question, therefore, is less about whether to adopt hybrid work than how to do so. Managers must meet employees' immediate demands for greater flexibility without sacrificing culture-building and innovation, which are the cornerstones of long-term competitive advantage. Too often, such employer-employee tensions are reduced to debates over the ideal number of in-office days, but blanket policies generally are not viable.<sup>1</sup>

## Matching Tasks to Work Environment

A more nuanced approach looks at hybrid work through the lens of types of tasks, differentiating between those that should and should not be performed remotely. Such a model explicitly links social and creative tasks with work performed best in the physical office environment. And it encourages in-person informal interactions that forge close ties among colleagues. These ties enhance the performance of innovation- and culture-focused tasks, even when some of those tasks are done remotely.

More than half of the organizations we studied made their decisions to permit hybrid work based on the nature of the tasks being performed by their people. We identified four categories.<sup>2</sup>

**Individual procedural tasks**, such as entering data or processing claims, can be performed without interacting with others. Consequently, for remote work, only supervision became more difficult.

**Focused creative tasks**, such as writing code or designing a brochure, require little teamwork and are easily supported by technology. They are the easiest to transition to virtual work.

**Coordinated group tasks**, such as town halls, routine project work, regular review meetings, and group information-sharing, may be largely standardized but still require human interaction. These are more difficult to accomplish with remote participants, but it is possible with communication technology.

**Collaborative creative tasks**, such as product development, creative problem-solving, and strategic planning, are the most social type — and important elements of innovation processes. For managers in our study, it was experiences with collaborative creative tasks in hybrid environments that exposed the potential negative consequences for culture and innovation. The inherently collaborative nature of such tasks is the core challenge that drives the debate over hybrid work.

# Weaker Ties Weaken Culture

The managers in our sample saw many advantages to the virtual collaboration tools that helped companies weather COVID-19. Such tools can be highly efficient for information transmission, break down barriers within teams, create a more level playing field for contributions, and enable better communication between managers and employees at scale. But they have limits.

Our study respondents reported that collaboration technology was relatively poor for fostering high-quality interactions, especially among people who didn't know each other well and had loose network connections.

Under those circumstances, forming meaningful relationships that engender shared ways of working and deep commitment was especially difficult, managers said. Remote working also appeared to erode organizational loyalty. One manager quipped that for fully remote workers, the most notable difference between two employers might simply be whether meetings are held on Zoom or Teams.

Managers saw  
the weakening of  
employees' ties  
to both the  
organization and  
each other as  
potentially

harmful to organizational culture. In strong cultures, values and beliefs are widely shared and firmly held.<sup>3</sup>

That requires sufficient socialization to establish common interests, assumptions, and language. A strong culture facilitates smooth interaction among individuals, groups, and teams while also distinguishing people's organization-specific identities and behaviors.<sup>4</sup> A weak organizational culture is associated with higher levels of conflict and mistrust, and with working in silos.<sup>5</sup>

Global insurance company AXA also feared losing cultural cohesion. Pre-pandemic, just 38% of AXA's workforce preferred to perform a significant amount of work remotely. In late 2021, that figure was 90%. Managers saw that change as a harbinger of loosening ties: Employees either had weaker connections to one another or had never formed those connections in the first place. But they knew that to remain competitive in the war for talent, AXA would need to offer flexible work. So the company is pursuing efforts to maintain a sense of community and nurture its culture in the absence of in-person interaction.

Such concerns may be heightened in companies that facilitate corporate alignment and cross-team collaboration via a matrixed structure. Specialty chemical firm Evonik Industries, which has operations in more than 100 countries, 22 lines of business, and around 33,000 employees, uses this organizational approach, grounding it in a strong emphasis on shared culture. In the early stages of the pandemic, leaders

perceived hybrid work as both an opportunity and a potential concern and worked to build and maintain common cultural values across different lines of business and geographies.

## Innovation Challenges

Innovation is a contact sport. Nonroutine outcomes require close, serendipitous, and open-ended interactions.<sup>6</sup> The managers we interviewed found that less time in the office meant fewer opportunities for these encounters, such as continuing a discussion while walking out of a meeting. And with offices sparsely populated, chances diminished that the right people would experience the kind of creative collisions that ignite new ideas. As Apple CEO Tim Cook put it when stressing the importance of employees' being physically present together, "Innovation isn't always a planned activity."

The virtual environment is poorly suited for such serendipitous encounters. Some managers in our sample tried to emulate spontaneity online with no-agenda virtual get-togethers that, contrary to their purpose, required scheduling and often felt artificial. As the novelty disappeared, so did participants. Employees in our sample also complained that work had become more transactional and operational in the hybrid environment. They missed feeling engaged and noticed a decline in the infusion of new ideas.

From an enterprise perspective, innovation capability requires the flow of valuable knowledge within an organization and, when appropriate, out to its extended network. The exchange of technical information through email and virtual platforms didn't change much during the pandemic. But mechanisms for creating, sharing, and embedding knowledge were eroded by a reduction in close network connections, strong ties, and the meaningful exchange of ideas and inspiration. With a decrease in social capital, managers said, intellectual-capital development suffered.

While the long-term effects of hybrid work are not yet known, some companies are already noticing a drop in innovation projects. EOS, a leading provider of industrial 3D printing solutions, found that during the pandemic, rather than creating novel designs, its customers doubled down on manufacturing items they had produced previously. As a result, EOS received 30% fewer customer requests to develop new 3D printing solutions. Remote work by its customers' engineers, who had fewer opportunities to brainstorm in spontaneous watercooler conversations and scheduled collaborative sessions, was partly responsible. This slowdown in innovation by customers had a knock-on effect on the demand for EOS's services.



Shell, among the world's largest energy companies, is undergoing major changes, including a realignment from petrochemicals to renewable energy. That pivot requires the ability to solve complex strategic and operational problems. But the reduction of in-person communication took a toll on the kinds of innovative thinking needed for such work. As the company switched to hybrid work during the pandemic, leaders noticed a dip in the production of new ideas, business proposals, and collaborative solutions. In response, Shell called all of its energy traders back to the office to better collaborate on key deals and negotiations.

Finally, as JPMorgan Chase's CEO, Jamie Dimon, has pointed out, if the ability to come into the office differs across genders and roles, then diversity in the physical workplace will decline. Diversity, research shows, is an important contributor to innovation.

## The Real and Virtual Balance

As the pandemic eases and work shifts from purely virtual to truly hybrid, managers focused on the long term are trying to maintain vitality in corporate culture and innovation. That involves balancing the time employees spend doing in-person and virtual work and also optimizing office hours to forge and reinforce social ties and engage in creative collaborations. Much of the challenge comes down to questions of time and space.<sup>7</sup>

**How much time?** The first calculation managers must perform is the ratio of office work to remote work. Companies in our sample were approaching a (still rough) consensus on this. They expected that, on average, 60% of meetings would remain online — a dramatic increase over pre-pandemic levels. There was a clear bias toward holding meetings to perform collaborative creative tasks — those associated with innovation and culture-building — in person. But managers believed that even meetings with more routine agendas, including coordinated group tasks such as information-sharing and reviews, should not all be held online. For example, some companies chose to alternate between in-person and virtual town halls.

Of course, attending meetings is just one part of what knowledge workers do. Extrapolating to all tasks, managers estimated that an average of 40% of employees' work requires a physical presence. Those in-person tasks include problem-solving and unstructured exploration, which is similar to brainstorming, as well as things like serendipitous encounters and conversations. The remaining 60% of tasks, managers believed, could be performed remotely, using virtual collaboration when necessary. With careful scheduling, most knowledge workers would return to the office at least two days a week.

Global telecommunications company Vodafone settled on two to three days a week in the office, with teams choosing their own schedules. Employees spend some

of that time connecting face to face, building their networks, developing relationships, and sharing advice. Office time is also devoted to what the company calls “cocreation and inspiration” (*collaborative creative tasks*) and “concentration” work (*focused creative tasks*). How time is spent varies to accommodate employer needs, employee preferences, and the requirements of different tasks, explained Robert Leeson, Vodafone’s head of global office IT and digital workplace.

The company also has introduced quarterly Spirit of Vodafone days. Onsite and meeting-free, they focus on employees’ well-being, connection, and personal growth. Additionally, with line manager approval, employees may work from any location without being required to come into a Vodafone office for up to four weeks per year.

Other companies we studied required specific teams to convene in person more often. Office services and technology company Ricoh requires bid teams to meet in an in-office war room to craft and pitch complex bids. That process was more difficult when team members had never met in person.

**Which people?** The specific activities employees engage in when they’re in the office might not be scheduled in advance, but the days they will work onsite generally are. To build relationships, work creatively and collaboratively, and deal with complex or nuanced issues, the relevant people must be physically present at the same time.

Some managers in our sample left it to team leaders to decide when members must be present. Others chose an “anchor days” approach, stipulating that the entire workforce must be present on given days.

Global asset financing company DLL recently introduced new guidelines for hybrid work that take employees’ professional and personal requirements into account. In order to achieve both flexibility and collaboration, the company segments its people according to their roles and tasks. Office-based staff members are encouraged to be physically present at least two days a week, including on anchor days, so that entire teams are together as much as is practically possible. Field and international staff members have greater flexibility but are responsive to clients’ requirements. To further support hybrid work, DLL intends to train managers to run more engaging and productive virtual meetings, introduce “co-anchor days” that bring together teams from different departments, and regularly survey members to improve hybrid practices and processes.

New hires present a particular challenge. All companies in our sample worried about onboarding staff members. Aware that meeting new colleagues can’t be taken for granted in hybrid environments, they are managing this process in a more purposeful, structured way.

**What kind of space?** There is one disadvantage to gathering all employees in the office at once: It limits a company’s ability to cut back on office space — one of the tangible benefits of having more remote workers.

Nonetheless, all of the companies in our sample envisioned a significant overhaul of their real estate footprints. They planned, on average, an astonishing 40% reduction in floor space.

These smaller, less-populated offices also will be configured differently, and employees will operate differently within them.<sup>8</sup> The top planned changes cited by our sample are additional social areas (80%), creativity spaces (75%), meeting rooms (74%), shared offices (74%), and hot-desking (71%). Corner offices are on their way out. The implication is that offices will become less functional and more social. One executive described the reimagined workspace as a clubhouse: a positive social environment for employees to gather.

Vodafone, for example, is revamping its physical space to enable staff members to interact in ways it hopes will drive the value of its social capital. Individual offices are yielding to a mix of spaces, some for focused collaboration and others that facilitate unscheduled interaction. Shell is experimenting with open-plan office layouts that incorporate benches and tables rather than traditional desks. For meetings and collaboration, it will use technology that provides the same experience for virtual and in-person employees — for example, digital whiteboards that can be operated from within the room and remotely.

The digital whiteboard example raises a key point: Virtual as well as real-world environments require attention for hybrid work to succeed. The two should

complement each other. That is the job of managers.

Technology on its own — while a powerful tool — cannot obviate the downsides of increased remote work.<sup>9</sup>

With 60% of meetings remaining virtual, managers must learn to facilitate those events so that they accomplish more than the basic exchange of information. All the organizations in our sample were urgently reviewing how to train supervisors to better orchestrate connections and collaborations in hybrid work environments. They also must battle “meeting inflation,” a common complaint among the hundreds of executives we taught virtually during the pandemic, and a significant risk when technology makes scheduling and scaling meetings so easy. In hybrid environments, it becomes especially critical that meetings and other scheduled interactions online move the work forward as much as in-person gatherings do.

This is a watershed moment in the future-of-work debate. The global pandemic heightened the urgency with which companies must revisit tired assumptions about managing work for value. Our research produced broad-brush findings consistent with the widespread adoption of hybrid work. Most organizations have accepted that good work does not always require a physical presence.

Yet discussion about hybrid work focuses too much on how many days employees should spend in the office versus working from home. That lack of nuance contributes to tension between employees, who demand

flexible work, and employers, which have legitimate concerns. Both sides can justify their competing claims. Employees state, correctly, that many tasks can be performed as well or better away from the office or in virtual environments. However, our research indicates that remote work is not conducive to all tasks. Hidden costs — appreciable over the long term — might significantly harm company culture and the ability to innovate.

A more constructive approach is to focus on the individual task being performed and why it does or does not require an employee to be physically present. That shifts the narrative away from blanket policies that many employees consider unjust and creates the buy-in from staff members that hybrid work needs in order to succeed. It is possible to have the best of both worlds, as many commentators claim — but only if hybrid work is treated as a matter of strategic concern, with costs and benefits given careful consideration.

Like online dating applications, virtual work is an efficient means of sharing information and connecting. But it is a superficial experience, no matter how sophisticated the technology. Humans are social animals. The goal is to capitalize on meaningful in-person interactions so as to catalyze collective effort, creativity, passion, and enterprise in both the real and virtual worlds. Those are the ingredients of both culture and innovation for which there is no substitute.

## Topics

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Leadership

Workplace, Teams, &amp; Culture

Talent Management

Collaboration

Culture

## ABOUT THE AUTHORS

Jonathan Trevor is an associate professor of management practice at the University of Oxford's Saïd Business School and author of *Re:Align: A Leadership Blueprint for Overcoming Disruption and Improving Performance* (Bloomsbury, 2022).

Matthias Holweg is the American Standard Companies Professor of Operations Management at Oxford's Saïd Business School. The authors are grateful to Ricoh Europe for supporting the research.

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