When change is the new normal

New research reveals now is the time to double down on workplace innovation to drive growth

Microsoft

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Foreword

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Our customers and partners across Europe tell us that keeping up with the pace of digital transformation and innovation is among their chief concerns.

What they may not be considering as thoughtfully is how their workplace culture could help them innovate – or hold them back.

To stay a step ahead of the competition, companies from every industry are looking for new ways to improve their business, from embracing the latest technology to shifting strategy, to diversifying and developing their workforce. And as you might expect, our customers and partners are eager to leverage innovations like artificial intelligence and the cloud to propel their businesses forward.

But based on our own internal cultural transformation at Microsoft over the past few years, I always encourage business leaders to give as much consideration to company culture as they do to deploying new technology. After all, it's not just about having the best technology; it's about how you and your teams react to and adapt to change, how open you are to learning and developing new skills, and how you use new tools to the greatest competitive advantage.

And yet, figuring out the people part isn't always easy. The pace of change across sectors is getting faster by the minute, but we as humans often resist change. This is just as true in the workplace.

To help organisations tackle this era of rapid digital transformation, we partnered with the London Business School and KRC Research to look at the intersection of culture, leadership and technology in workplaces across the region.

This report contains practical insights that help illuminate how companies can best adapt and achieve competitive advantage. Among the most important: creating an innovative culture at work, where new ideas are embraced and supported, and which gives employees time to learn new skills, is essential. The findings indicate that companies that do so are twice as likely to expect double-digit growth. What's more, the majority of their talent (86%) plan to stay with the company – compared with only 57% of employees at companies with less innovative cultures.

Please read on for a more detailed analysis of how companies can create and maintain a culture of innovation and learning. I hope you'll find it insightful.

Executive summary

By Dr. Michael Parke, London Business School

Change is difficult. We know that most companies today are feeling that challenge as they experience constant organisational changes. But what we didn't know, or at least didn't have much data on, is how many changes companies actually undergo, and how frequently they face them.

Our research now shows that across businesses and industries, change seems to be the new normal.

There are, however, critical factors that enable success. Companies that predict strong, sustainable growth transform to innovate. From our research, we learned valuable insights that centre around three key themes:

1. While we've known for years the value of breaking down silos in the workplace, we see in the data that the most innovative organisations today are actively **building bridges across those silos** to better connect their employees. They're creating cultures where their people are encouraged to reach beyond the bounds of their teams, and even to team up with their clients and external partners more frequently, to build connections that generate insights and drive their business forward. Technology can play a critical role in that process.

    While most companies today use technology tools to manage projects and collaborate, the secret lies in how employees use those tools. For example, the best teams leverage technology to make it easy to work across organisational boundaries, contribute at any time and from anywhere, and facilitate reaching out for support.

2. We also see that **empowerment** in the workplace continues to be critical for innovation. Our data shows that employees in the most innovative workplaces feel supported from leaders to make decisions as their projects progress. That's important as companies help their people navigate the pace of change around them. Managers especially say it's vital for them to have the right technology tools that enable their teams the freedom to work flexibly and efficiently.

3. Despite these facets of innovative culture, companies are not yet fully equipped to work optimally in the midst of **the distractions of a modern workplace**. Employees told us they are losing more than half of their optimum work time each week to interruptions, inefficiencies and distractions in their jobs.

There are factors that can help decrease suboptimal time use and allow more opportunity to work in a flow state: providing spaces to focus and get inspired, deploying technology that enables people to work in their preferred ways, and ensuring there is a culture of empowerment where people play an active role in managing their time.

Dr. Michael Parke,
Assistant Professor of Organisational Behaviour

Michael is an expert on leading teams. His research broadly focuses on how leaders can more effectively engage team members so they are more proactive, creative, and collectively produce better outcomes as a team. His research has been presented at international conferences and is published in top academic publications such as the Academy of Management Review and Journal of Applied Psychology.

His work has been featured in a variety of media outlets including Harvard Business Review, BBC, Bloomberg, and Management Today. Michael's teaching has been highly recognised, including winning the Best Teacher Award in 2019. Professionally he has worked with a number of clients, including PwC, Microsoft, Current Global, Gartner, KRC Research, Willis Towers Watson, MDVIP, Taylor Farms, and Samsung.
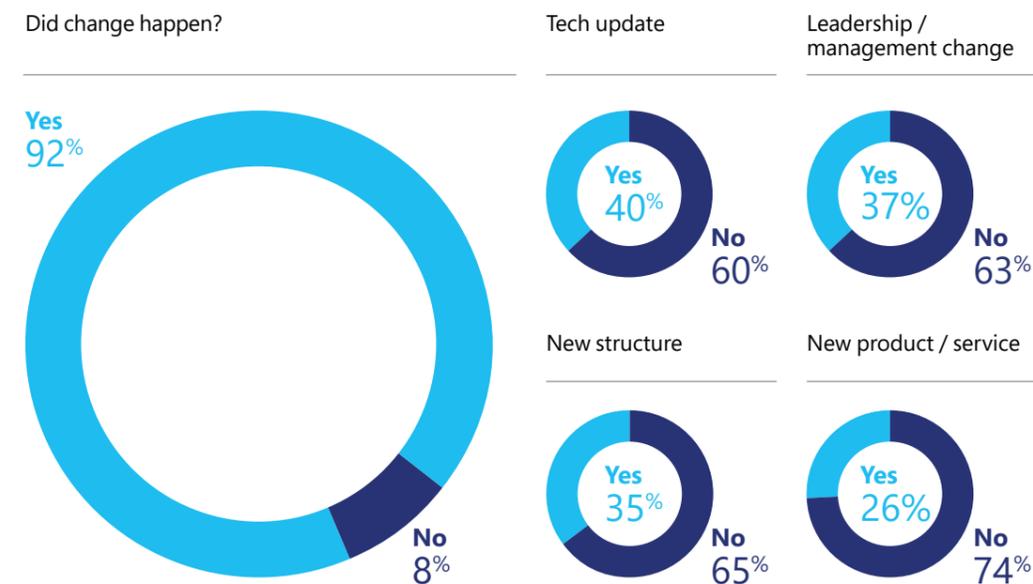
The race to transform

In the age of artificial intelligence and the cloud, change is the new normal.

In fact, **92% of business leaders surveyed say their organisations have experienced a major transformational change in the last few years**. That means in today's business world, change is nearly ubiquitous.

An ever-changing workplace

We asked business leaders: "Did any of the following changes happen in the past few years?"

Did change happen?

Yes
92%

No
8%

Tech update

Yes
40%

No
60%

Leadership /
management change

Yes
37%

No
63%

New structure

Yes
35%

No
65%

New product / service

Yes
26%

No
74%

Technology often plays a key role in transformation – either as the subject of the change or a facilitator. Moreover, while technology advances rapidly, people by nature are creatures of habit and therefore slower to change.

"The process of adopting new behaviors in a workplace still moves at a human's pace," says Dr. Michael Parke of London Business School.

"This means that the success of organisational changes, even technological in nature, still depends on whether people resist or change their behaviours and whether they do so fast enough. Leaders thus need to equip their people to navigate change effectively."

In other words, staying ahead of the curve is as much about people and culture as it is about IT. To come up with the creative solutions that will expand their bottom line, companies must ensure their people are ready, willing, and equipped to embrace frequent change.

Our survey data shows that, even with the most successful companies, workplace culture is the biggest hurdle leaders face in driving transformation, outweighing the need for the right technology. Determining what to change ranks a close third.

But companies that are pulling ahead have figured out how to successfully foster a culture that sets the stage for future growth. When we compared the business performance of companies with highly innovative cultures with the performance of those with less innovative cultures, our survey found that companies with highly innovative cultures are more than twice as likely to expect double-digit growth.

These companies also are winning the war on talent: 86% of employees in highly innovative cultures want to stay in their jobs, compared to 57% of employees in lower-innovation workplaces, the survey shows.

What are the biggest challenges to large scale transformation in your company?*

1. Shifting company culture
2. Making sure tech and IT infrastructure support the change
3. Determining exactly what needs to change

*Respondents were asked to pick up to three challenges.

"Any business leader knows that innovation is the key to growth or survival," Dr. Parke says.

"The challenge, however, is how to establish a culture that consistently innovates again and again to avoid getting left behind."

What is innovation culture?

This study uses the Organization for Economic Co-operation and Development's definition of innovation: the implementation of a new or significantly improved product, process, marketing method, or organizational method in business practices, workplace organization, or external relations.

In highly innovative business cultures:

- Employees can tackle problems from new angles and in new ways
- Employees are supported in developing new ideas
- Organisations are flexible in adapting to changes in their operations

We looked at where leaders focus their innovation capabilities by exploring three different aspects of innovation:

- Products and services
- Business operations
- Ways of working

What can business leaders learn from the most innovative companies we surveyed? These companies put an emphasis on how they work. The research points to three ways successful leaders can improve the way their organisations work to drive a culture of innovation:

- Don't just tear down silos: build bridges
- Empower teams and create a learning culture
- Protect attention and promote flow

Read on for more insights on how leaders can pursue a workplace that drives innovation and propels the business forward.

Tearing down silos and building bridges

In yesterday's business world, having knowledge meant having power. Holding the right information conferred status in the workplace. But in an age where the pace of business continues to accelerate, those days are over. It's never been more important for teams to swiftly find and use the most up-to-date, critical information to make strategic business decisions that impact their companies and customers.

When we look at companies with the most innovative cultures, **we see that leaders are tearing down silos and replacing them with partnerships and transparency**. They are more likely than their peers to see effective collaboration and knowledge sharing as vital for business growth. They also see more value in extending this collaboration to partners, customers, and other parties outside their organisation.

Among leaders of highly innovative cultures in the survey:

- **86% said collaboration within their teams** is very important for future business growth, compared to 70% in less innovative cultures.

- **86% said internal collaboration across teams** is very important for growth, compared to 72% of leaders in less innovative businesses.

- **79% said collaborating externally with their partners** is vital for growing their business, compared to just 54% of their counterparts in lower-innovation companies.

Companies with lower-innovation cultures also value collaboration. But it's clear that when it comes to transformation, those leading the pack are replacing silos with connections.

60%

Sixty percent of younger workers (ages 18-35) in highly innovative companies say that it's easy to share ideas and brainstorm with anyone, while 51% of older workers (ages 50+) say the same.
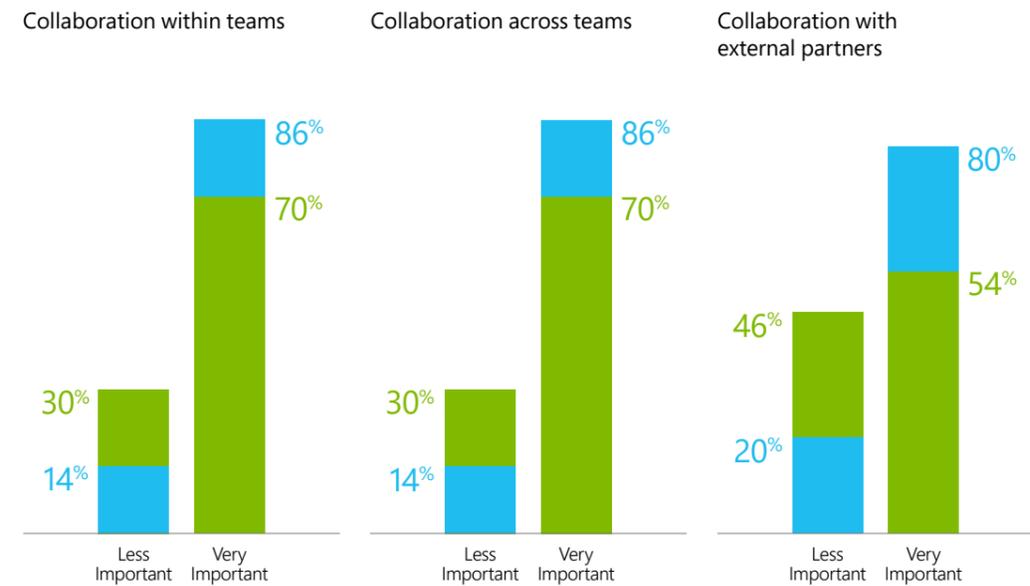
54%

What companies can do

Leaders looking to tear down silos can prioritise avenues and tools for their employees to more easily collaborate within and outside of their teams. For example, in companies that make extensive use of the right collaboration technology, 61% of employees say that it's easy to work together – whereas only 29% of those with no collaboration tool agree.

Similarly, working from anywhere at any time is easy, according to 52% of employees who use a modern collaboration tool, while only 18% agree if there is no tool available.

The importance of collaboration for business growth
We asked business leaders: "How important is collaboration to achieve future growth?"

Collaboration within teams

86%
70%
30%
14%

Less Important   Very Important

Collaboration across teams

86%
70%
30%
14%

Less Important   Very Important

Collaboration with external partners

80%
54%
46%
20%

Less Important   Very Important

■ Less innovative culture
■ Highly innovative culture

Industry lens:
Prioritising collaboration for future growth

Which industries view collaboration as most important for growth?
1. Telecommunications
2. Technology
3. Consumer services

Which industries view it as least important?
1. Consumer goods
2. Basic materials
3. Utilities

*Respondents were asked to pick up to three challenges.

Empowering teams and creating a learning culture

Successful leaders today are not just managers. They are mobilisers, committed to helping their teams embrace collaboration and navigate the obstacles that stand in the way of individual and shared progress.

The research shows that in the most innovative companies, nearly three in four employees say their leaders create a culture where it's okay to make mistakes, compared to just half of employees in lower-innovation companies. Also employees in innovative company cultures are more likely to feel they can voice opinions at work, compared to people in lower-innovation settings (75% versus 50%).

Why autonomy is vital for innovation

In the most innovative companies, 73% of workers say their teams can choose how they approach the work, as opposed to only 45% of workers in lower-innovation workplaces. Additionally, nearly twice as many people in high-innovation workplaces feel they are empowered to make decisions, compared to employees in lower-innovation companies.

When workers feel empowered, they are much more likely to collaborate nimbly and naturally, embracing teamwork to take on new challenges or find solutions to existing ones. Those in more innovative workplaces are nearly twice as likely to say it's easy to reach out to colleagues for support (70%, versus 39% in less innovative cultures), get together with other colleagues to work on a project (61%, compared to 31%), or share ideas and brainstorm (60% versus 29%).

Dr. Parke notes that this type of culture is fundamental to achieving profound growth – departing from tradition to achieve ambitious goals.

A strong learning culture

We asked employees which of the following applied to their workplaces:

Less innovative culture
Highly innovative culture

"Profound growth requires innovation. To foster innovation, you need people to feel trusted and supported to experiment and learn. There can be real returns on engagement, growth, and innovation for leaders who learn to let go and coach teams to constantly improve."

Empowerment breeds collaboration

We asked business employees: "How easy is it to do the following things in your company?"

Share ideas/brainstorm with anyone

71%
40%
60%
29%

Not so easy | Easy

Get together to work on something

69%
39%
61%
31%

Not so easy | Easy

Reach out for support

61%
30%
70%
39%

Not so easy | Easy

■ Less innovative culture
■ Highly innovative culture

Industry lens:
People feel like they can speak up

Employees are more likely to feel that leaders empower people to speak up in:

1. Oil and gas
2. Healthcare
3. Financials

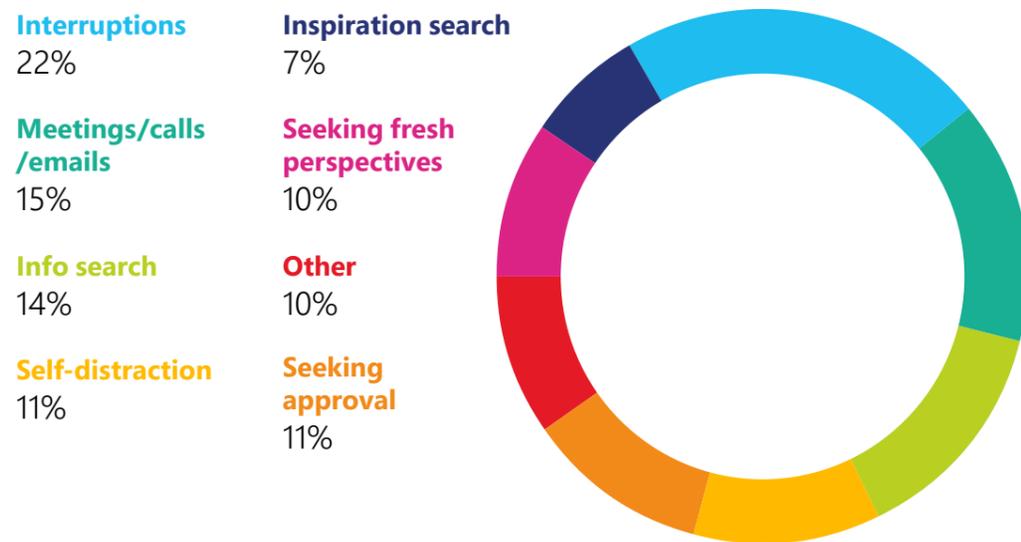Employees are less likely to feel that leaders empower people to speak up in:

1. Utilities
2. Telecommunications
3. Consumer goods

Protecting attention, promoting flow

As the pace of business continues to accelerate, workers can feel like they are being pulled in multiple directions. As a result, employees' performance and satisfaction are under constant threat.

Workers across industries say a staggering 52% of their time each week – more than half of their work productivity – is spent inefficiently due to unnecessary interruptions, inefficient meetings, calls, emails and searching for information from their colleagues.

Optimal work time lost each week to workplace inefficiencies and distractions

Interruptions
22%

Inspiration search
7%

Meetings/calls /emails
15%

Seeking fresh perspectives
10%

Info search
14%

Other
10%

Self-distraction
11%

Seeking approval
11%

Promoting flow

There's tremendous untapped potential for businesses if we can better protect workers' attention and allow more opportunity for people to work in a flow state.

In a flow state, individuals and teams are able to approach tasks with optimal energy and focus, without consciously feeling like they under strain. In this state, satisfaction and efficiency soar. People who are able to work in a flow state are three times happier in their jobs than those who do not find flow at work.

What is flow?

People are often happiest when in a state of concentration or complete absorption with the activity at hand and the situation—their flow state. Distinguished Professor of Psychology and Management Mihaly Csikszentmihalyi's investigations into 'optimal experience' have revealed that this state of consciousness is what makes an experience genuinely satisfying.

When workers have found their flow or are in the zone, they are so involved in an activity that nothing else seems to matter. They often experience deep enjoyment, creativity, and full involvement with life.

How flow states impact employee happiness

Employees without flow

19% Happy

81% Not happy

Employees in flow

67% Happy

33% Not happy

"Decades of research tell us that one of the most important contributors to people's engagement is being able to make progress on meaningful work."

Dr. Parke says. "Protecting employees' focus, so they can make quick progress on their important work goals, is vital for their engagement, accomplishment, and willingness to adapt to changing demands."

Autonomy promotes flow

My team(s) can select different ways to do the teams' work

72%
High Flow

49%
Low flow
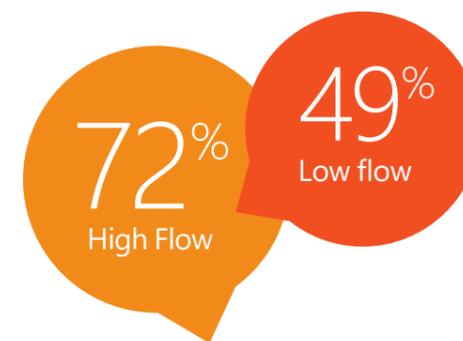
One way to optimise flow in the workplace is to ensure individuals and teams can address challenges in their own way. In the survey, 72% of employees who regularly achieve a flow state say their teams can choose how they tackle their work. In workplaces with low states of flow, only half of teams have that kind of autonomy.

Furthermore, it's twice as likely for employees to be in flow when it's easy in their organisations to make decisions quickly—so empowerment is key.

Protecting attention

Business leaders must also think holistically about ways they can protect employees' attention so that they have more opportunity to work in a flow state. In fact, the amount of time wasted can be cut by more than half (52% to 19%) when employees have a combination of the right office environment, the right technology tools, and the support of managers who encourage diverse ways of working.

In innovative companies, 49% of employees feel that their tech tools support the way they work, while 41% feel the same way in less innovative companies. While this difference is not insignificant, it does show that there is more to innovation than technology.

Interestingly, when it comes to how the physical office environment supports flow, people most desire dedicated spaces where they can focus—and yet 65% of workers report not having these spaces available.

In highly innovative companies, 73% of older employees (ages 50+) find it easy to focus on a piece of work and get it through the door, versus 65% of younger employees (ages 18-35).

Industry lens:
Time wasted at work

How do industries stack up when it comes to the amount of time employees waste at work?

Most time wasted each week:
1. Oil and gas
2. Telecommunications
3. Finance

Least time wasted each week:
1. Basic materials
2. Technology
3. Industrials

Next steps for business leaders

When a company's leaders align on adapting their culture to advance innovation, it's critical that they ensure managers are fully equipped to be agents of change.

Leaders can:

1. **Give managers the headspace for thinking about transformation:** 82% of managers in highly innovative companies say they have the time they need to focus on transformation initiatives, compared to 42% of managers in less innovative cultures.

2. **Empower people with the right technology:** 86% of managers in highly innovative companies say they have the right technology to help drive change, but that drops to 48% among managers working in less innovative cultures.

3. **Equip managers with the right skills:** 87% of managers in highly innovative companies say they have the right training to help drive change, whereas only 61% working within less innovative cultures feel this way.
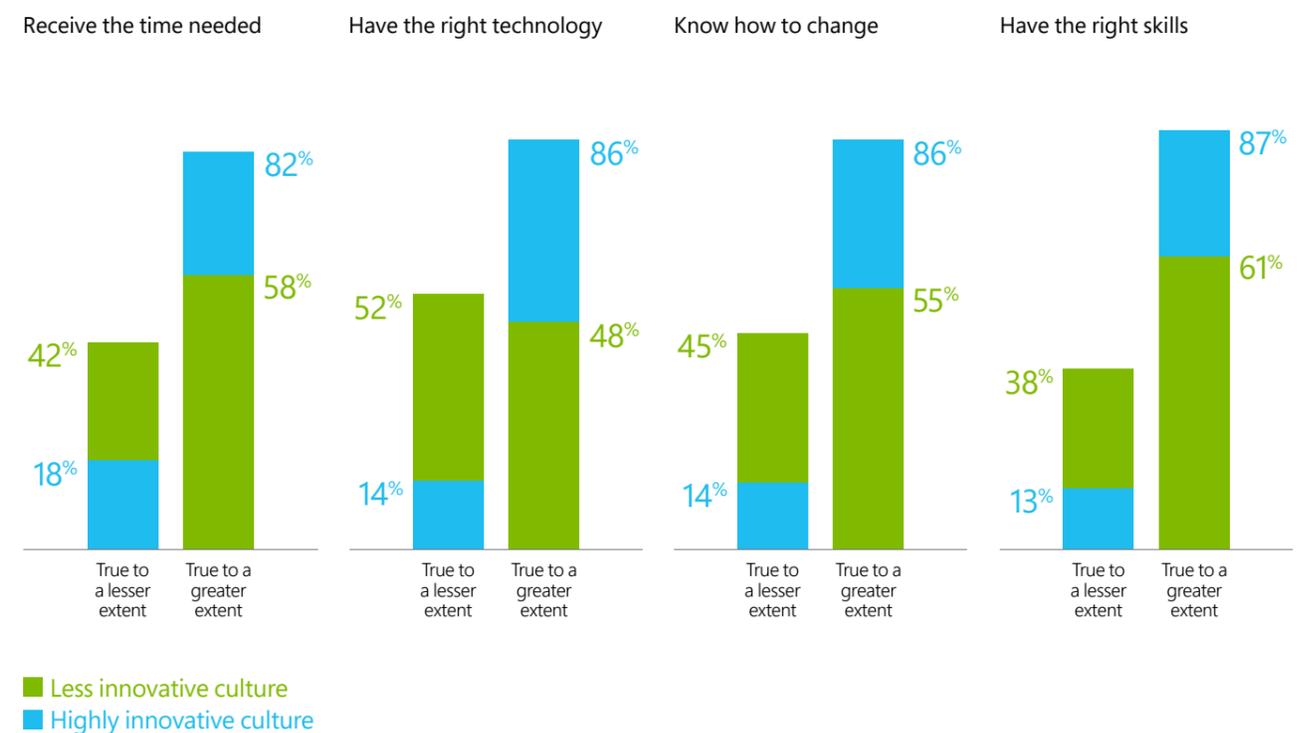
In highly innovative companies, the numbers show that managers get the support they need to make change a reality.

Furthermore, managers in innovative companies appear to be more closely aligned with the needs of their team members. Approximately 58% of employees in innovative organisations agree that managers do a great job at leading teams, while 68% of managers say that about themselves. However, in a less innovative climate, 42% of leaders state that they are doing a great job, yet only 22% of employees say the same.

Younger employees and managers are much more in lockstep at highly innovative companies: 56% of managers say they are doing a great job, and 55% of employees (ages 18-35) say the same.

Managers as change agents

We asked business leaders: "How prepared and supported do you feel to drive change with regard to the following aspects?"

Receive the time needed

- 42% — True to a lesser extent (Less innovative culture)
- 18% — True to a lesser extent (Highly innovative culture)
- 58% — True to a greater extent (Less innovative culture)
- 82% — True to a greater extent (Highly innovative culture)

Have the right technology

- 52% — True to a lesser extent (Less innovative culture)
- 14% — True to a lesser extent (Highly innovative culture)
- 48% — True to a greater extent (Less innovative culture)
- 86% — True to a greater extent (Highly innovative culture)

Know how to change

- 45% — True to a lesser extent (Less innovative culture)
- 14% — True to a lesser extent (Highly innovative culture)
- 55% — True to a greater extent (Less innovative culture)
- 86% — True to a greater extent (Highly innovative culture)

Have the right skills

- 38% — True to a lesser extent (Less innovative culture)
- 13% — True to a lesser extent (Highly innovative culture)
- 61% — True to a greater extent (Less innovative culture)
- 87% — True to a greater extent (Highly innovative culture)

■ Less innovative culture
■ Highly innovative culture

More resources
& methodology

To learn more about how to get the best out of your teams.
Download <u>Unblocking teamwork: four tools and strategies to improve collaboration</u> now.

Microsoft commissioned research across 15 European markets in August 2019. The online survey was designed and conducted by KRC Research and supervised by Dr. Michael Parke, professor at London Business School. KRC polled 9,113 managers and employees from large (250+ staff) businesses, with an average sample size of 600 respondents per country (500 employees and 100 managers).

The survey included respondents from 10 industries: basic materials, consumer goods, consumer services, financials, healthcare, industrials, oil and gas, technology, telecommunications, and utilities. Respondents were not informed that Microsoft commissioned the survey.

Markets we surveyed:
1. Austria
2. Belgium
3. Denmark
4. Finland
5. France
6. Germany
7. Italy
8. Ireland
9. The Netherlands
10. Norway
11. Portugal
12. Spain
13. Sweden
14. Switzerland
15. United Kingdom

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