



# The NLI Guide

## How Culture Change Really Happens

*Culture isn't a mystery; it's shared everyday habits. Here's how to shape them.*

By David Rock  
Heidi Grant and  
Mary Slaughter

Discover why so many attempts at change fail ●

Learn how to integrate growth mindset into change initiatives ●

Integrate priorities, habits, and systems for lasting results ●



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# The NLI Guide to Cultural Change



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## Executive summary

The biggest challenge organizations face when changing their culture is developing long-term behavior patterns as quickly and as cost-effectively as possible. Most approaches to culture change fall short because they focus almost entirely on raising awareness. At NLI, our approach to culture change focuses on two key factors:

- Establishing an organizational growth mindset
- Using Priorities, Habits, and Systems (PHS) as the strategic approach to behavior change

Growth mindset sets the stage for organizations to effectively implement culture change. Employees with a growth mindset see change as a necessary challenge, and are more equipped to adapt to a new culture because they operate by:

- Focusing on solutions instead of problems
- Staying open and determined instead of anxious and defensive
- Feeling motivated by negative emotions instead of derailed by them

Once a company has established a growth mindset, it can begin adding the framework for lasting behavior change. We call it PHS: Priorities, Habits, Systems. Each element of PHS enhances culture change in the following ways:

- Priorities outline the desired changes
- New habits create change
- Systems help cement new habits

Our goal is simple: to help companies bridge the gap between the desire to change and the behaviors needed to reach the intended outcome. At NLI, we seek to give leaders and employees every possible advantage, using science to guide our approach. By building solutions based on how the brain works, we can better help organizations bridge the intention-behavior gap. We believe that by establishing a growth mindset and implementing PHS, your company will be well equipped to produce successful, lasting culture change.

“...priorities, habits,  
and systems for  
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be in sync.”

## Introduction

While companies often set intentions to make the right cultural changes, only 30 percent of such efforts are fully successful. (Ewenstein, Smith & Sologar, 2015) So, what gives? For one, many employees and managers view culture change as a bug—one that inhibits fast growth and is yet another requirement assigned by HR (Leonard & Coltea, 2013). This perspective causes immediate resistance that can have a long-term negative effect on the desired outcome. When culture change does work, however, its impact is astounding. Steve Jobs’ decision to rejoin Apple reset the company’s direction in the late 1990s and steered it towards the powerful brand we know today. When A.G. Lafley became Procter & Gamble’s CEO in 2000, he transformed the culture from one of isolation and independent departments to one of trust and open exchange. (ATKearny. Demystifying Corporate Culture) In our own work with Microsoft, we’ve seen how embracing a growth mindset—a concept we’ll dig into deeply in this piece—has helped innovation in Redmond flourish.

At NLI, we’ve spent years studying why most changes don’t work. There’s a massive disconnect between the importance of culture and the time boardrooms spend on the topic. While 86 percent of C-suite executives say culture is important to their organization’s success, nearly half of employees say that they don’t think culture holds a relevant place in their leadership team’s agenda (Aguire, von Post, & Alpern, 2013). This dissociation is caused in part by systems and processes that are compliance focused and assessment driven, which ultimately fall short because these systems do not address what people need to truly change behavior. At NLI, we believe we have a better approach.

The fundamental insight: Culture is simply “shared everyday habits,” or the behaviors everyone across an organization carries out regularly, consciously or not. We use this understanding to

develop a culture strategy rooted in neuroscience. We understand that organizing culture around brain function, rather than a set of competencies people want to achieve, sets the stage for successful, incremental change. It’s a matter of laying the foundation of behavior change through growth mindset, and then enacting it through priorities, habits and systems. Let’s dive in.

## NLI’s approach to culture change

### Coherence matters

In order for culture change to work, coherence must exist at both an individual and an organizational level. By coherence, we mean that each piece of an initiative needs to fit with the ensemble. Architecture provides an apt example. Architects and engineers are incredibly thoughtful in designing skyscrapers. Before building a massive tower, the design and construction teams consider innumerable factors, including:

- Why are we building it?
- How long should it last?
- How many people will use it
- Will it make people come in?
- How does it fit in the surroundings?

These are the hallmarks of thoughtful design. Yet how often do companies apply these questions before instilling behavior change? The common practice in culture change is like messy architecture with no blueprint—individual pieces may work well

on their own, but they don't form a whole. Instead, we want each change implementation to add to the overall desired outcome, working together like a skyscraper's elements. Let's examine how this type of architecture applies to culture change in *Figure 1*.

We strive to create coherence and produce a change philosophy people want to embrace and move towards. The foundation that must be in place before building the skyscraper called change is an organizational growth mindset. Without it, resistance to change is much higher, and the probability of successfully creating a new company culture is much lower. Growth mindset is the greatest catalyst for culture change, and it sets the stage for companies to implement our structural change elements far more effectively.

## Growth mindset

For over a decade, Kaiser Permanente CEO and chairman George Halvorson has consistently written

a weekly letter to his employees, which celebrates the company's achievements, successes, awards, and milestones. By doing so, he's reinforced Kaiser Permanente's mission to "be the best at getting better." Halvorson understands that having this type of mindset—we call it growth mindset—helps employees focus on improvement over time, which encourages a top-down culture rooted in progress (Halvorson, 2013).

### Why growth mindset matters

In order to change habits, one must have the right mindset. People first have to believe that change is possible (Rock, 2010). Having a growth mindset helps people to view culture change as a challenge; to see it as something worth working *towards*. If we think of mindset as the soil for change, then growth mindset is ripe and fertile.

Mindset also affects how individuals perceive success or failure. People in an organization who believe their

Coherence in change architecture	Decoherence in change architecture
^ The foundations are right	∨ The foundations aren't right
^ Every part fits perfectly	∨ Parts don't fit
^ No redundancy	∨ Too many tools for the same purpose
^ New parts increase the structural integrity	∨ New parts make the whole noisier
^ <b>Every recall re-embeds the whole neural map</b>	∨ <b>Every recall reminds you the neural map is noisy</b>

Figure 1

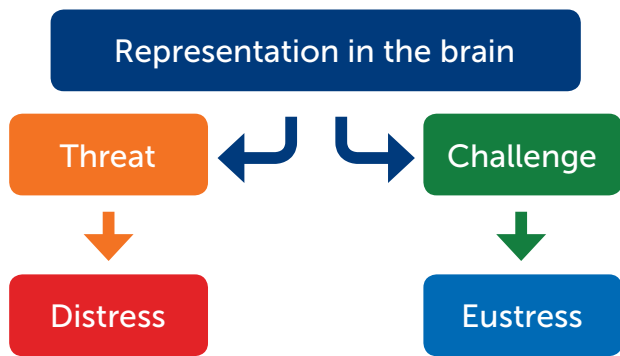


Figure 2. Change can be experienced in one of two ways.

abilities are fixed will struggle more with change than those who believe traits such as talent, creativity, and leadership ability are malleable. Figure 3 illustrates the key differences between the two mindsets.

Each mindset has different fundamental beliefs around one’s personal qualities, which affect motivations and actions. An individual with a fixed mindset seeks validation through outcomes and thinks success comes purely from talent. A fixed mindset organization is one where people are far more concerned with *proving* their ability through performance than *improving* it (Grant, et. al., 2016). Growth mindset is both the belief that skills and abilities can be improved, and that developing your skills and abilities is the purpose of the work you do. An organizational growth mindset, therefore, is a culture in which all employees are seen as possessing potential, are encouraged to develop, and are acknowledged and rewarded for improvement. Over time, with large numbers of employees, the difference in mindset can have profound effects. It’s important, then, to lay the groundwork for creating a growth mindset at an organizational level.

### Organizational growth mindset

The most effective habits a company can act on to instill a growth mindset are: (1) The willingness to experiment, (2) a focus on progress, and (3) learning from others. The systems in place must change accordingly to support these habits. For example, when the habit is a focus on progress, the systematic adjustment would be to remove ratings systems, and instead create a shared language between leaders and employees. The feedback becomes more frequent, conversational, and appropriately understood. See Figure 4.

Creating a growth mindset culture is itself a product of PHS (Priorities, Habits, Systems), the framework we use for any desired change. Remember the skyscraper? The features serve their own purpose while simultaneously strengthening the building’s overall function. If growth mindset is the foundation, then PHS is the structure. Let’s break it down.

## PHS: The framework for cultural change

If we know that coherence helps to increase the integrity of individual elements, then the priorities, habits, and systems for a desired culture change must all be in sync. With PHS, each component must complement one another, build off each other, and create a sustainable path for lasting behavior change. This section explores the individual elements with real-world examples, then ties them together to show how one is not nearly as powerful as the sum of its parts. Since we like to keep things in order, let’s start with the beginning.

### Priorities

When Joe Whittinghill took over as Microsoft’s general manager for talent, learning, and insight, the company’s leadership model was exhaustively

Threat	Challenge
∨ Focus on the problem	∧ Focus on solutions
∨ Bogged down in details	∧ Eyes on the goal
∨ Focus on maintaining the status quo	∧ Focus on making things better
∨ Anxious or defensive	∧ Open and determined
∨ Negative emotions derail you	∧ Negative emotions motivate you
Distress	Eustress
∨ <b>Fixed Mindset</b>	∧ <b>Growth Mindset</b>
∨ “Be good”	∧ “Get better”
∨ Proving	∧ Improving
∨ Demonstrating skills	∧ Developing skills
∨ Performing better than others	∧ Performing better than you did before

Figure 3







 <b>Priorities</b>	 <b>Habits</b>	 <b>Systems</b>
Creating an Organizational Growth Mindset	Experimenting	 Create an annual innovation award
	Focus on Progress	 Change ratings from number scale
	Learn from others	 Put in processes to encourage asking for feedback

Figure 4. Each new habit should include systems in place that adjust accordingly.

thorough. With over 100 skills needed to train on, employees and managers naturally found it challenging to determine their top priorities. Our work with Microsoft helped to change its cultural landscape by simplifying the company’s message to its employees. About a year later, the tech giant went from over 100 competencies to three big ideas: *Create clarity, generate energy, deliver success*. Today, these leadership principles—what we call “priorities”—have spread throughout the company and guided decision making from the top down (Rock, 2018). And while this helps create a true north for leaders and employees, these phrases alone aren’t enough to change a whole culture.

### Awareness is not enough

Defining clear priorities helps to get people to care, to want to do things differently, and to buy in to a desired culture change. Yet, studies have shown that intention itself won’t reshape behavior (Achtziger & Gollwitzer, 2010). If it did, we would all achieve our New Year’s resolutions. Still, companies spend too many resources homing in on priorities, when more of an organization’s focus should be identifying and implementing the necessary habits to change its culture. On to step two.

## Habits

General Electric has historically been known for its forced rankings to evaluate employee performance.

The traditional review models, in place since the 1970s, were proving to be ineffective in fostering a culture of growth and innovation. GE’s leadership had to create the habit of focusing on progress as a company. Their strategy? Remove performance ratings and annual reviews, and instead adopt methods of more frequent feedback conversations (Nisen, 2015). This habit change has allowed managers to focus on employee improvement rather than on assigning a number on a year-end performance review. Let’s explore the science of new habit formation GE used to drive their approach to behavior change.

### Forming new habits

Habits are created through repetition and reward. Science tells us that focusing on three key factors will best support individuals in creating new habits.

**1. Start small** If you’ve ever tried to tackle multiple resolutions all at once, you know it’s next to impossible. Often, the habits will lack cohesion with one another, leading to more stress and less progress. The cognitive load increases, and the brain processes things in a more scattered, less congruent manner. It’s better to focus on one new habit at a time.

**2. Enact the new habit daily** We can’t predict how long a specific habit will take to form, but science has shown us that the more often people act on the new behavior, the more likely it is to become routine.



1. Start small

2. Enact the new habit daily

3. Weave into existing processes

**3. Weave into existing processes** When we blend the new behavior with current activities, it's easier to latch on to, which makes it become an unconscious action more quickly.

Habits are also contagious within social contexts (Ball et al., 2010). Scaling positive pressure on an organizational level, however, is a big challenge. Following up with an employee for accountability requires supporting elements. By applying systems, companies have a makeup in place to ensure that these new habits stick.

### Systems: Making habits last

In the 1960s, NASA realized that one of the obstacles to innovation was that engineers were too cautious and fixed in their thinking. Leaders knew that simply telling engineers to think outside the box wasn't enough to work. And so, the strategy they eventually landed on was applauding failure. Soon, whenever unmanned rockets exploded, the entire department celebrated. Although the mission was a failure, they emphasized effort over outcome, which encouraged engineers to keep trying. The new habit of taking risks and being innovative was soon ingrained in NASA's culture, and it was largely supported by the system of applauding failure (Duhigg, 2012).

Systems are the structural implementations that reinforce a desired behavior. They do so by removing obstacles to adopting the new habit, enabling it to become the norm by making it easy and accessible. Would you work in a bakery if you were trying to eat healthier? Maybe, but the temptation to grab a sweet treat is much stronger when you're surrounded by them all day. Similarly, wouldn't you feel more inclined as a scientist to take more risks if you were literally encouraged to mess up? It's far better to "rig" the system by either rewarding any act related to the new goal, or by removing any stimuli that might encourage the opposite.

Now that we've covered each individual element and seen how they help companies progress, let's see how we can systematically apply PHS to several commonly-desired culture changes.

### Applying PHS in organizations

A few common areas where clients ask us to help change their culture are (1) revising performance, (2) mitigating bias, and (3) developing leaders. Here, we'll show how PHS is a tool that's applicable to these—and any—desired organizational behavior changes.

#### Revising performance

Big Bank X has a goal to change how it manages performance. The priority would be to improve the



quality of conversations around performance. The correlating habits are to be aware of The SCARF® Model to be more sensitive to people's motivations, to create more insights to help people learn faster, and to foster a growth mindset to continuously develop people. The system supporting this structure would be to reform or let go of performance ratings and build tools that support quality conversations such as conversation guides. (Rock, 2014.)

### **Mitigating Bias**

Healthcare Group Y has a goal to mitigate bias among its employees. The priority would be to minimize bias in group decisions. The best way to reduce it is to create a habit of calling out bias in real time team conversations (Grant & Howlin, 2016.). Without systematically using a clear language around

bias, calling it out becomes a tough task. Using The SEEDS Model®, we help form Healthcare Group Y's language around bias, giving it the best chance to mitigate it. The system to put in place would be gathering and sharing out wins of people identifying and mitigating bias across the organization.

### **Developing leaders**

Technology Firm Z wants to shift its culture and realizes one of the best ways of doing this is to develop its leaders. The priority might be anchored around a clear set of expectations of leaders. The specific habits to build will involve day-to-day activities that enable these expectations. The systems to put in place will include applying these leadership expectations to hiring, promotion, feedback, and assessments of leaders.

“*Systems are the structural implementations that reinforce a desired behavior.*”

## **Conclusion**

Organizational culture change is a multi-year journey requiring incremental, layered, and additive habit formation. Through research and understanding of human behavior, we've developed a practical framework for creating lasting culture change. Growth mindset is fundamental for companies to change more effectively. It creates the appropriate conditions for culture change by (1) making a company more agile and able to better adapt to challenges, and (2) giving individuals the belief that the brain is capable of more than its current capacity. Without a growth mindset, the organizational friction of changing the culture is much higher, which will cost time, energy, and money. Yet, we cannot just tell people to change. We have to give them new habits and reinforce the development of these habits with the right systems. Collectively, growth mindset and PHS represent the most scientifically sound approach to lasting culture change.

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