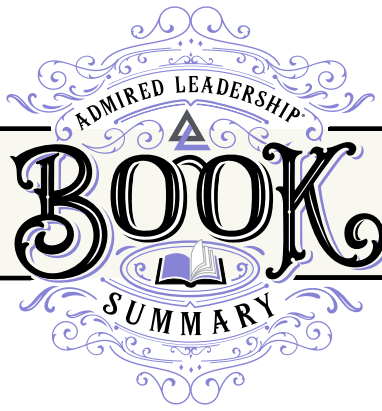




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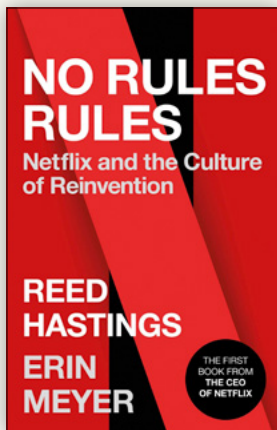
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No Rules Rules

Netflix and the Culture of Reinvention

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Netflix has defied tradition for decades with a culture unlike any other, succeeding in adapting and innovating where other companies haven't. This book focuses on how to lead a company with freedom and responsibility, while inspiring trust and creativity from top to bottom. Co-authored by Netflix CEO Reed Hastings and Erin Meyer, *No Rules Rules* explores the philosophy behind one of the world's most iconic companies, describing the step-by-step changes made in reinventing the company's culture. Meyer, a professor, author, and (originally) a skeptic, interviewed over 200 employees globally to understand and explain Netflix.

KEY QUOTE

"I hoped to promote flexibility, employee freedom, and innovation, instead of error prevention and rule adherence." – **Reed Hastings**

Key concepts:

Talent Density: A great workplace consists of colleagues who are truly exceptional – "stunning" colleagues is the Netflix phrase. Good work motivates greater work and bad performance is contagious. Get rid of any employee who is not performing at an exemplary level.

Increase Candor: Say what you think with positive intent. Openness to feedback must be modeled by the top. Clarify the difference between selfless candor and acting like a jerk.

Remove Controls: Remove written vacation policy and the need to ask for time off. Managers must spend time discussing what is appropriate. Netflix found that "giving employees more freedom led them to take more ownership and behave more responsibly" (p. 52-53).

Continue Removing Controls: Remove travel and expense approvals. Freedom and lack of process are more efficient for Netflix, and our message is “even if your employees spend a little more when you give them freedom, the cost is still less than having a workplace where they can’t fly” (p. 64). Set the context up front for what is appropriate.

Fortify Talent Density: Pay employees top of market salaries and follow the “rock-star principle” – hire one rock-star employee and pay significantly more than you would a team of five non-rock-stars. Don’t wait for stunning talent to come to you with a competitor’s offer before increasing their salary.


Pump Up the Candor: Open the books. Leaders must live the message of transparency by sharing as much as possible with everybody. Be humble. “Whisper wins and shout mistakes” (p. 122).

Now Release More Controls: Eliminate decision-making approvals. People desire and thrive in jobs that give them control over their own decisions. This model only works with high talent density and extreme organizational transparency.


Max Up Talent Density: The keeper test asks, “If a person on your team were to quit tomorrow, would you try to change their mind? Or would you accept their resignation, perhaps with a little relief?” (p. 171)

Max Up Candor: Create a circle of feedback. Implement candor sessions every six months, just like dentist appointments. Feedback should never be anonymous. Meet outside the office and receive feedback in person.

Eliminate Most Controls: Lead with context, not control. If your company’s goal is innovation and flexibility, keep decision-making decentralized. Build up “decision-making muscle” in colleagues, so they make better independent decisions in the future.



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Going Global: In other countries, find people who fit the Netflix culture and train them in the “Netflix way.” But be humble and flexible in adapting to other cultures, as well.

Finally: With the right conditions in place, welcome constant change. The metaphor of making music is relevant here: Do not provide a symphonic orchestra’s score – work on creating jazz and form an improvisational band.

SECTION ONE: FIRST STEPS TO A CULTURE OF FREEDOM AND RESPONSIBILITY

First Build Up Talent Density: A Great Workplace Is Stunning Colleagues

When employees perform well, performance trends upward. Good work motivates greater work.

Professor Will Felps conducted a study about contagious behavior in the work environment and found that, “one individual’s bad behavior brought down the effectiveness of the entire team” (p. 9). “If you have a group with a few merely adequate performers, that performance is likely to spread, bringing down the performance of the entire organization” (p. 9).

Netflix understands that talent density improves performance and Netflix coaches their managers to have the courage to get rid of any employee who is not performing at an exemplary level. “Jerks, slackers, sweet people with nonstellar performance, or pessimists left on the team will bring down the performance of everyone” (p. 11). Engaging “stunning” colleagues is the foundation of any successful workplace, and the goal of any leader is to develop a work environment consisting exclusively of exceptional people.

Then Increase Candor: Say What You Really Think (With Positive Intent)

“I began encouraging everyone to say exactly what they really thought, but with positive intent – not to attack or injure anyone, but to get feelings, opinions, and feedback out onto the table, where they could be dealt with” (p. 14). Netflix lives by the mantra of only saying things about someone that you would say to their face. They understand why it may be difficult to speak up in the workplace but began their culture of candor at the top. It is “when employees begin providing truthful feedback to their leaders that the big benefits of candor really take off” (p. 23).

Positive feedback stimulates your brain to release feel-good hormones. Consulting firm Zenger Folkman collected data on feedback from over 1,000 people and found that “92 percent agreed with the comment, ‘Negative feedback, if delivered appropriately, improves performance’” (p. 21).

Candor is not enough if the leader is not also open to the feedback. The leader must provide “belonging cues” when **hearing** feedback. And Netflix managers spend time coaching employees on how to give feedback. When giving feedback, aim to assist and make the feedback actionable.

When receiving feedback, appreciate the insight, then accept or discard the message as warranted.

Candor does not work if the person giving feedback acts like a jerk. Managers must clarify the difference between being selflessly candid and acting like a jerk. With coaching on feedback in place, the boss is no longer the primary individual to correct an employee's behavior or actions.

Now Begin Removing Controls: Remove Vacation Policy and Remove Travel and Expense Approvals

Vacation Policy: Netflix experimented with removing written vacation policies and the need to ask for time off. “Today, in the information age, what matters is what you achieve, not how many hours you clock, especially for the employees of creative companies like Netflix” (p. 39). The policy works if the managers spend time discussing what behaviors fall within the realm of acceptable and appropriate.

Leaders must demonstrate the policy in action to influence the behavior of all other employees. A company should “start by getting all leaders to take significant amounts of vacation and talk a lot about it” (p. 43).



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Travel and Expenses: Do not waste time on expenses. Encourage employees to spend company money like it's their own, but to act in Netflix's best interest as you do so. "Real life is so much more nuanced than any policy could ever address" (p. 57).

Set the context upfront for what is appropriate. "Employees have a lot of freedom to decide for themselves how to spend company money, but it's clearly not a free-for-all" (p. 59). "The biggest expense from the freedom is probably the number of people choosing to fly business class" (p. 63-64).

The freedom and lack of process is more efficient for Netflix. "But this is the most important message of this chapter: even if your employees spend a little more when you give them freedom, the cost is still less than having a workplace where they can't fly" (p. 64).

SECTION TWO: NEXT STEPS TO A CULTURE OF FREEDOM AND RESPONSIBILITY

Fortify Talent Density: Pay Top of Personal Market

"The success of Netflix is founded on these types of unlikely stories: small teams consisting exclusively of significantly above-average performers – what Reed refers to as 'dream teams' – working on big, hairy problems" (p. 76). Netflix follows the "rock-star principle" where you hire one rock-star employee and pay significantly more than what you would pay a team of five non-rock-stars. There are few operational jobs at Netflix, as the talent is focused on creativity. Break the mold of hiring multiple employees and make a lean workforce.

As you do so, eliminate bonuses – they are bad for flexibility and can diminish performance. "High performers naturally want to succeed and will devote all resources toward doing so whether they have a bonus hanging in front of their noses or not" (p. 82). A Dan Ariely study from 2008 found that creative work requires that your mind feel a level of freedom (p. 83). Contingent pay and bonuses work for routine tasks but decrease performance for creative work.

Always pay top-of-the-market salary and conduct thorough searches to ensure your offer is at the top. In fact Netflix "told all managers that they shouldn't wait for their people to come to them with a competitor's offer before raising salaries. If we didn't want to lose an employee and we saw her market value rising, we should increase her pay accordingly" (p. 96).

Pump Up Candor: Open the Books

Organizational transparency is paramount. Leaders must live the message of transparency by sharing as much as possible with everybody. "The trust we demonstrate in them in turn generates feelings of ownership, commitment, and responsibility" (p. 110). "In general, we try to open up the process as early as possible, to create buy-in, and to help people see that. Although things will always be changing, at least they will be kept informed" (p. 117).



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Leaders must practice humility. Hastings says, “whisper wins and shout mistakes” (p. 122). For ultimate transparency, think of symbolic messages, too. Open the financial books to your employees in addition to decisions. Talk openly about your mistakes.

Now Release More Controls: No Decision-Making Approvals Needed

Netflix practices a dispersed decision-making model so employees never act to only please their boss. This model only works with high talent density and extreme organizational transparency. “Our dispersed decision-making model has become a foundation of our culture and one of the main reasons we have grown and innovated so quickly” (p. 131).

“People desire and thrive on jobs that give them control over their own decisions. The more people are given control over their own projects, the more ownership they feel, and the more motivated they are to do their best work” (p. 133). Take bets that you believe in. Netflix encourages all employees to take bets, even when the boss or others think the ideas lack merit.

Big-ticket decisions should be dispersed across the workforce. Encourage dissent when innovating, socialize the idea, then test out the bet. When bets fail, talk openly about it, or, in Netflix terminology, “sunshine” it.

SECTION THREE:

TECHNIQUES TO REINFORCE A CULTURE OF FREEDOM AND RESPONSIBILITY

Max Up Talent Density: The Keeper Test


The Keeper Test: “If a person on your team were to quit tomorrow, would you try to change their mind? Or would you accept their resignation, perhaps with a little relief? If the latter, you should give them a severance package now, and look for a star, someone you would fight to keep” (p. 171).

Use this test to ensure that the critical elements of talent density, candor, and freedom persist despite change and growth. Netflix is not a “family.” It is more like a professional sports team.


“If you’re serious about talent density, you have to get in the habit of doing something a lot harder: firing a good employee when you think you can get a great one” (pp. 166). Despite the culture of firing and hiring the best, Netflix’s annual turnover rate is around the average in the field of technology. Give a generous severance for those fired and speak openly about why someone left.

Max Up Candor: A Circle of Feedback

Netflix aims to keep candor high with a few tactics. They do not use performance reviews, as the feedback in those reviews goes downward and is normally from one source (boss). Historically, performance reviews are based on annual goals, which do not apply to Netflix and their culture of creativity.



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“Candor is like going to the dentist. Even if you encourage everyone to brush daily, some won’t do it” (pp. 190-191). Implement candor sessions once every six months just like dentist appointments. Netflix encourages everyone to give feedback to any colleague. They use two processes:

- 1) **“State your name”:** This reinforces a culture of transparency. Eliminate anonymous feedback.
- 2) **“Live 360”:** Meet outside the office and receive feedback in person

Netflix leaders share comments and 360 reports company-wide. “That’s exactly why you as the leader need to share your 360 evaluations with your teams, especially the really candid stuff about all the things you do poorly. It shows everyone that giving and receiving clear, actionable feedback isn’t so scary” (p. 195).

And Eliminate Most Controls: Lead With Context, Not Control

This model is not suitable for all companies. Consider your industry and what you want to achieve. Either lead with context or control. Leading with context only works if you have high talent density. Netflix leads with context. “The benefit is that the person builds the decision-making muscle to make better independent decisions in the future” (p. 210).

“When considering whether to lead with context or control, the second key question to ask is whether your goal is error prevention or innovation” (p. 214). “If you’re starting up your own company and your goal is innovation and flexibility, try to keep decision-making decentralized, with few interdependencies between functions, in order to nurture loose coupling from the outset” (p. 217).

A mantra at Netflix is “highly aligned, loosely coupled.” Ensure all employees follow an established North Star: the general direction the company is moving towards. Alignment towards a North Star is not the typical pyramid hierarchy, but a tree with the CEO as the roots and management as the branches. As a leader, when someone fails “ask what context you failed to set” (p. 220).



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Ensure all employees follow an established North Star: the general direction the company is moving towards. Alignment towards a North Star is not the typical pyramid hierarchy:



SECTION FOUR: GOING GLOBAL

Bring It All to the World: “Be humble and flexible” as you expand internationally (p. 241).

Netflix hires people who fit and appreciate the unique Netflix culture and trains them to understand and work the “Netflix way.”

Yet, it is important to understand different cultures. Compare your corporate culture to the culture you are working in – **The Culture Map** by co-author Erin Meyer is a useful tool – to understand and address differences, especially with respect to how feedback is communicated.

There are five “A’s” when giving feedback, and the fifth is important when working within other cultures:

1) Aim to assist

2) Actionable

3) Appreciate

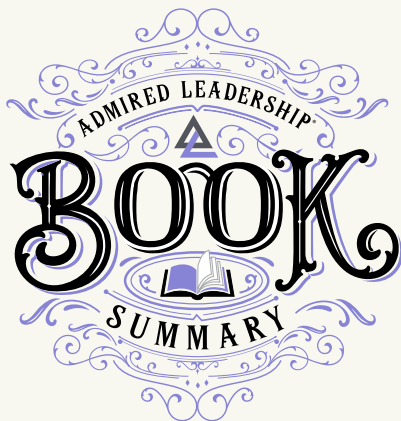
4) Accept or decline

5) **Adapt** your delivery and your reaction to the culture you are working with to get the results that you need

CONCLUSION:

Change doesn’t happen overnight. Gradually build the right conditions and context, and stay engaged, constantly debating and evolving. “Welcome constant change. Operate a little closer to the edge of chaos” (p. 272).

Reed Hastings and Erin Meyer (2020). **No Rules Rules: Netflix and the Culture of Reinvention**, Penguin Press.



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