Penguin Readers

NO RULES RULES

Netflix and the Culture of Reinvention

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Introduction

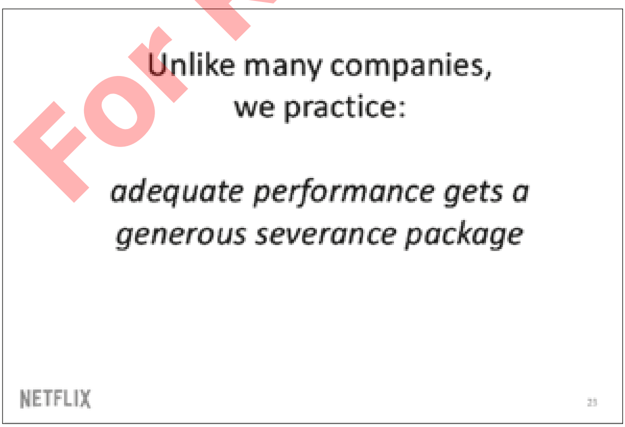
Reed Hastings: In 1997, Marc Randolph and I started Netflix, a small **company** that allowed people in the United States to order DVDs on a website and get them by mail. About two years later, we asked Blockbuster, a huge company that rented videos from its stores, to buy Netflix for $50,000,000. We had 100 people working for us, only 300,000 **subscribers**, and we were losing $57,000,000 that year.

It wasn't really surprising that the answer was no. What could we do that Blockbuster couldn't do itself? But the world changed and two years later we **went public**. Blockbuster was still much bigger than Netflix. But, by 2010, unable to move from renting DVDs to **streaming**, Blockbuster was closing.

The year 2019 was great for Netflix. Our movie *Roma* won three Oscar **awards**. Many years before, we changed from DVDs to internet streaming, and now in 2019 we made our own TV shows and movies for more than 167,000,000 subscribers in 190 countries around the world. We introduced a new way for people to watch and enjoy great stories.

How did we do this when companies like Blockbuster did not? By putting people and **innovation** first and by having very few **controls**. Netflix is different from other companies because we have No **Rules**.

Erin Meyer: Business **culture** isn't always easy to understand, but Netflix culture is famous for being open. Millions of business people have studied the Netflix Culture Deck—these are 127 training **slides**, first **developed** for company **employees**, but which Reed shared on the internet in 2009. Here are two examples of slides:



This means that, if you are just OK at your job, then you're given a lot of money to leave.

When I first read these slides, I thought about how badly the company **managed** its workers. It **probably** couldn't **innovate** because people didn't feel safe in their jobs.

Another Netflix slide explains that you shouldn't tell people how many days' vacation they can take—a great way to stop people from taking a day off work and make it sound like a good idea.

Research shows that people who take holidays are happier, enjoy their jobs more, and **achieve** more. With vacation days in their **contracts**, many workers don't take the number of days that they can. Without a number in the contract, maybe they'll take even fewer days off.

Another slide says that as a **manager** you must always be open. Then no one in your group can really be surprised by your ideas. Of course, no one wants to work in a place full of secrets and lies. But sometimes it's better to be careful how you say things to people, or it can become difficult to work together.

The Netflix Culture Deck didn't seem like a culture that I wanted to be part of, but I could see that it worked. The business world loves Netflix, and subscribers and **critics** do, too. Its shows have won many different awards. Netflix programs, like *Orange Is the New Black* and *The Crown*, have become some of the most **successful** shows of the last ten years. *Stranger Things* became maybe the world's most-watched TV **series**. Foreign-language shows like *Elite* in Spain, *Dark* in Germany, *The Protector* in Turkey, and *Sacred Games* in India, have all made storytelling better in their home countries and **created** new **global** actors.

Employees also love Netflix. In a 2018 **survey**, **tech** workers chose Netflix as the number-one company they wanted to work for, before Google, Elon Musk's Tesla, and Apple.[1] An **anonymous** survey[2] of over 5,000,000 employees, from 45,000 US companies, said that Netflix had the second-happiest workers.

Unlike other companies, Netflix has been successful in four big areas of change in the **entertainment** business in the past fifteen years:

- From mailing DVDs to streaming old TV series and movies over the internet.
- From streaming old shows to **licensing** new ones made by other companies (like *House of Cards*).
- From licensing other companies' programs to making their own award-winning TV shows and movies (like *Stranger Things*, *La Casa De Papel*, and *The Ballad of Buster Scruggs*).
- From US-only to a global company in 190 countries.

Something special happened at Netflix, which hasn't happened in other companies.

Blockbuster didn't change when it needed to. Nokia couldn't move to modern **smartphones**, and AOL didn't develop high-tech internet. My own first business, Pure **Software**, couldn't make the changes it needed either, because it wasn't able to be **innovative** or **flexible**. As the company grew and we **hired** new workers, we developed new **processes** to manage our problems. With rules and processes at the center of our work, many **creative** people left to find new jobs. We didn't innovate quickly enough, so the company was sold to our largest **competitor**.

With my next company, Netflix, I wanted employees to be freer, more flexible, and innovative. Over many years, trying out different ideas, we found a way for this to work. You don't develop processes, you allow employees to be freer to think for themselves. Then, they'll make better **decisions**, which they'll feel **responsible** for. This also gives you happier, more **motivated** workers, and a more flexible company.

I wanted someone with an open mind from outside the company to study our culture and write this book with me. I like Erin Meyer's book *The Culture Map* so I asked her.

In February 2015, I was reading about Netflix's **success** and I really wanted to know how it worked. Then, a few months later, Reed Hastings invited me to work with him. I have done over 200 **interviews** with present and past Netflix employees around the world. I decided that they could be anonymous, but, true to Netflix culture, many openly shared their stories.

CHAPTER ONE

Build talent

In early 1997, Marc Randolph and I started thinking about opening a mail movie business. Amazon was doing well with books. Why not films? But mail was expensive: $4 to send movies each way.

Then a friend told me about DVDs, which came on to the market that fall. I sent myself some CDs in the mail. It cost $0.32 and they arrived two days later.

In May 1998, we started Netflix, the world's first online store renting DVDs. We had thirty employees and 925 movie titles, almost all the DVDs you could get at the time. By early 2001, we had 400,000 subscribers and 120 employees. To **avoid** the **management** mistakes of Pure Software, there weren't too many rules or controls. But Netflix still wasn't a great place to work.

Then, in the spring of 2001, a lot of internet companies suddenly **failed**, and there was no more money for tech companies. Unhappy employees were soon unhappier, because we had to **fire** one third of them.

I sat down with Marc and Patty McCord, head of **Human Resources**, and we carefully put employees into two groups: the eighty best ones that we wanted to keep; and the forty not-so-good ones that had to go. Creative people who worked and **collaborated** well immediately went into the "keepers" group. Some people were great, but their work was just OK. Others worked very hard, but could make bad decisions and needed a lot of help. A few were very **talented**, achieved a lot, but **complained** too much. Most of these people had to go. It wasn't easy.

I was worried about the **motivation** of the "keepers," who might feel angry that the company wasn't **loyal** to its employees. Now that they also had to do the work of those who were fired from the company, might they be unhappier than before?

The day we told people about their jobs was terrible. People cried, shouted, or walked away angrily. Those who stayed were sad. But, in a few weeks, things were a lot better. A third of our employees lost their jobs, but the office was suddenly full of life, **passion**, and ideas.

I couldn't believe it—the same eighty people were getting everything done with a passion that seemed greater than before. They were working longer hours, but they were happy. I was happier, too. I woke up every morning and couldn't wait to get to the office. Patty jumped into the car with a big smile on her face, saying, "Reed, what's going on? Is this like being in love?"

Patty was right. The office was full of people who were in love with their work.

I'm not saying that it's good for people to lose their jobs, and we're lucky that we haven't had to do anything like that at Netflix again. But, in the days and months after, I understood more about both employee motivation and management **responsibility**. The lessons we learned became the beginning of the things that make Netflix successful.

Before we continue, I'd like to tell you about Patty McCord, who was important in the **development** of Netflix for over ten years. She has been a good friend and **colleague**, maybe because we're so different. I know about math and **technology**, she understands how people **behave**. I see numbers and rules that join people and conversations. Patty sees feelings and **behavior** that I cannot see. During our many car rides, we talked about the changes at Netflix and we decided that it was a better workplace because of what she called:

"**talent density**."

Before people lost their jobs, there was some **talent** across the company. But later, with only the most talented eighty people left, there was more talent for each employee—high talent density. We learned that everyone wants to work for a company with high talent density. High **performers** do very well in **environments** where the talent density is high.

Our employees were learning more from others and **teams** were achieving more, faster. People were more motivated and happier. Most important, working with really talented people was exciting, **inspiring**, and a lot of fun. This is still true today with 7,000 employees.

Today, I understand that a team with one or two OK performers brings down the **performance** of everyone on the team. For top performers, a great workplace isn't a wonderful office or a free lunch. It's about enjoying the talented and **collaborative** people around you, who can help you grow. When everybody is excellent, performance goes up as employees learn from and **motivate** others.

From the 2001 job losses, Reed learned about performance—both good and bad. If you have OK performers, many excellent people **perform** just OK, too. If you have a team with only high performers, each pushes the others to achieve more.

Will Felps, of the University of New South Wales in Australia, did a study to explore this behavior in the work environment. He asked teams of four students to complete a management **task** in forty-five minutes. But he didn't tell the students that some teams had actors playing different parts: someone who doesn't want to work; someone who says lots of stupid things; or someone who complains all the time.

Felps found that, in teams of really talented and intelligent people, everyone behaved worse because of one person's bad behavior. He noticed, too, how others in the team started behaving just like the actor.

The study showed what Patty and I learned in 2001. If you have a group with a few OK performers, that brings down the performance of the **organization**.

In 2002, with a new understanding of what makes a great place to work, we decided that we wanted to do everything we could to keep the talent density in the company. We wanted the very best employees. We wanted to give them top pay. And we wanted to train our managers to fire any employees who didn't perform excellently.