Culture is How a Firm Operates

What practices give Netflix the best chance of continuous success for many generations of technology and people?

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Reference Guide on our
Freedom & Responsibility Culture

These slides are meant for reading,
rather than presenting

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Freedom & Responsibility
Applies to our
Salaried Employees

Our hourly employees are important,
but have more structured job roles

Culture: what gives Netflix the best chance of continuous success for many generations of technology and people?

The *real* company values,
as opposed to the
nice-sounding values,
are shown by who gets
rewarded, promoted, or let go

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Real company values are the
behaviors and *skills*
that we particularly *value*
in fellow employees

We Particularly Value
in our Colleagues
these Nine Behaviors and Skills...

Judgment

You make wise decisions (people, technical, business, and creative) despite ambiguity

You identify root causes, and get beyond treating symptoms

You think strategically, and can articulate what you are, *and are not*, trying to do

You smartly separate what must be done well now, and what can be improved later

Communication

You listen well, instead of reacting fast, so you can better understand

You are concise and articulate in speech and writing

You treat people with respect independent of their status or disagreement with you

You maintain calm poise in stressful situations

Impact

You accomplish amazing amounts of important work

You demonstrate consistently strong performance so colleagues can rely upon you

You focus on great results rather than on process

You exhibit bias-to-action, and avoid analysis-paralysis

Curiosity

You learn rapidly and eagerly

You seek to understand our strategy, market, subscribers, and suppliers

You are broadly knowledgeable about business, technology and entertainment

You contribute effectively outside of your specialty

Innovation

You re-conceptualize issues to discover practical solutions to hard problems

You challenge prevailing assumptions when warranted, and suggest better approaches

You create new ideas that prove useful

You keep us nimble by minimizing complexity and finding time to simplify

Courage

You say what you think even if it is controversial

You make tough decisions without excessive agonizing

You take smart risks

You question actions inconsistent with our values

Passion

You inspire others with your thirst for excellence

You care intensely about Netflix' success

You celebrate wins

You are tenacious

Honesty

You are known for candor and directness

You are non-political when you disagree with others

You only say things about fellow employees you will say to their face

You are quick to admit mistakes

Selflessness

You seek what is best for Netflix, rather than best for yourself or your group

You are ego-less when searching for the best ideas

You make time to help colleagues

You share information openly and proactively

Great Workplace is
Stunning Colleagues

Great workplace is *not* day-care, espresso, health
benefits, sushi lunches, nice offices,
or big compensation,
and we only do those that are efficient at
attracting stunning colleagues

Imagine if *every* person at Netflix
is someone you
respect and learn from...

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Like every company,
we try to hire well

But, unlike many companies,
we practice "adequate performance
gets a generous severance package."

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We're a *team*, not a family

We're like a **pro sports team**,
not a kid's recreational team

Coaches' job at every level of Netflix
to hire, develop and cut **smartly**,
so we have stars in every position

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Brilliant Jerks

- Some companies tolerate them
- For us, the cost to teamwork is too high
- Diverse styles are fine – as long as person embodies the 9 values

Why are we so manic on high performance?

In procedural work, the best are **2x** better than the average.

In creative work, the best are **10x** better than the average, so huge premium on creating effective teams of the best

Stunning colleagues!

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The Rare Responsible Person

- Self motivating
- Self aware
- Self disciplined
- Self improving
- Acts like a leader
- Doesn't wait to be told what to do
- Never feels "that's not my job"
- Picks up the trash lying on the floor
- Behaves like an owner

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Responsible People
# **Thrive** on Freedom,
and are **Worthy** of Freedom

Our model is to *increase*
employee freedom as we grow,
rather than limit it, to continue to
attract and nourish
innovative people,
so we have better chance of
long-term continued success

Most Companies
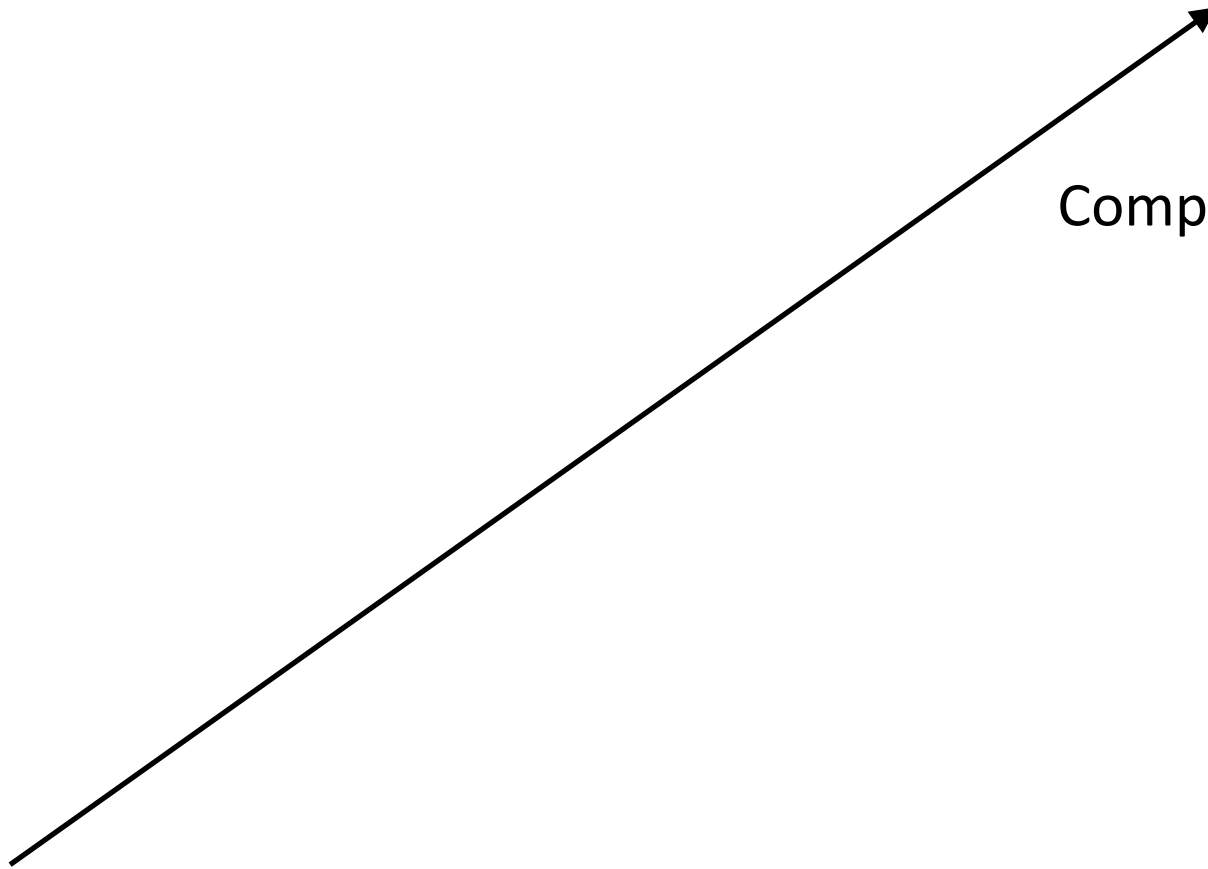# Curtail Freedom as they get Bigger

Bigger

Employee Freedom

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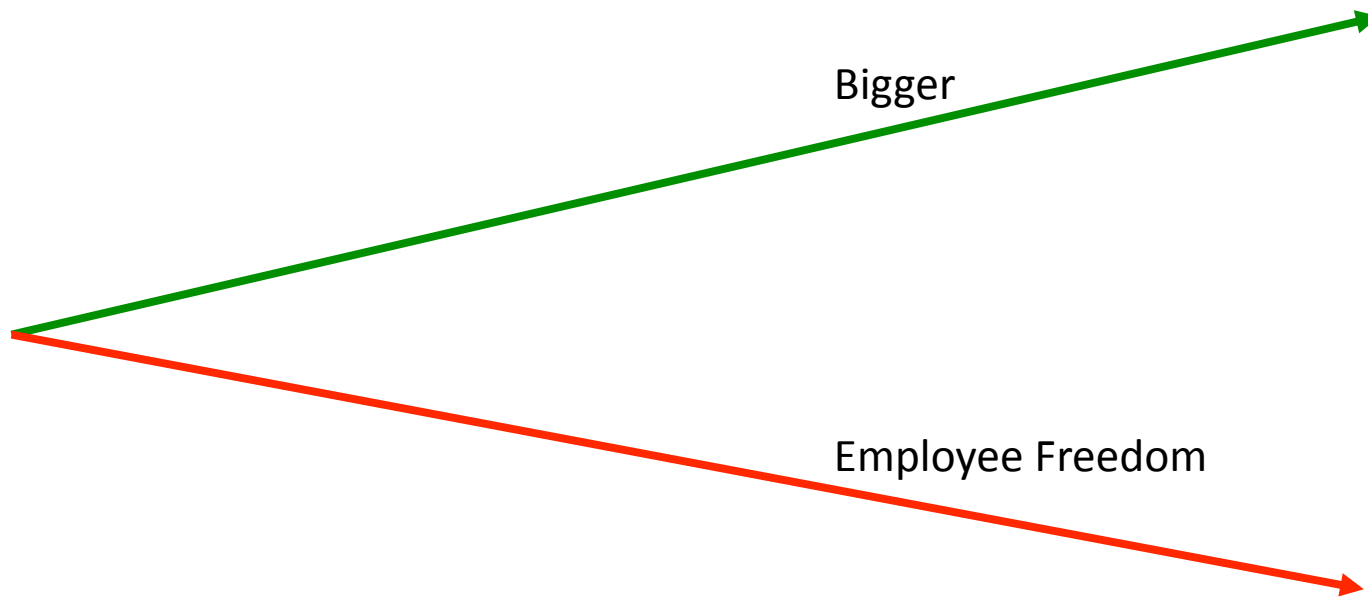
Most Companies Curtail Freedom
As They Grow to Avoid Errors
(sounds pretty good to avoid errors)

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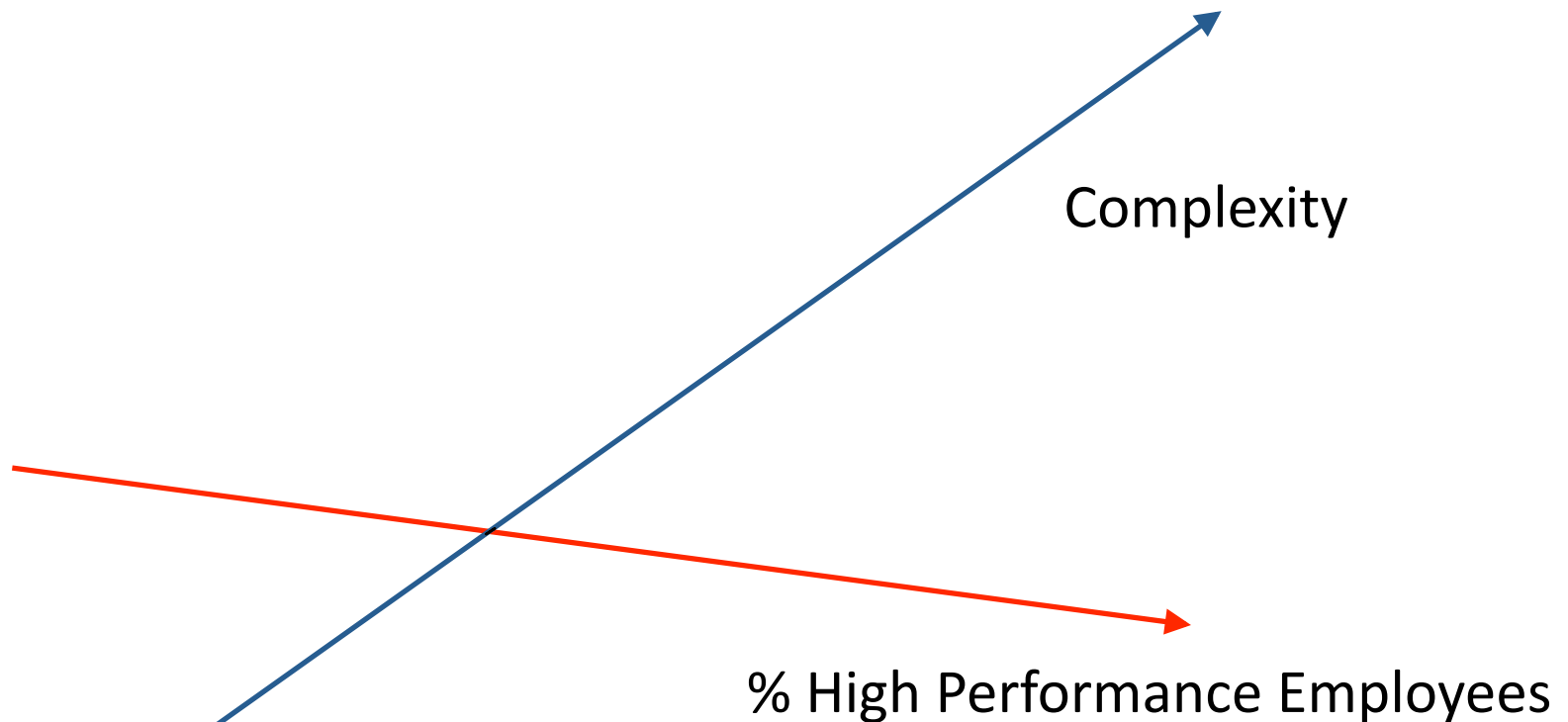# Desire for Bigger Positive Impact
Creates Growth
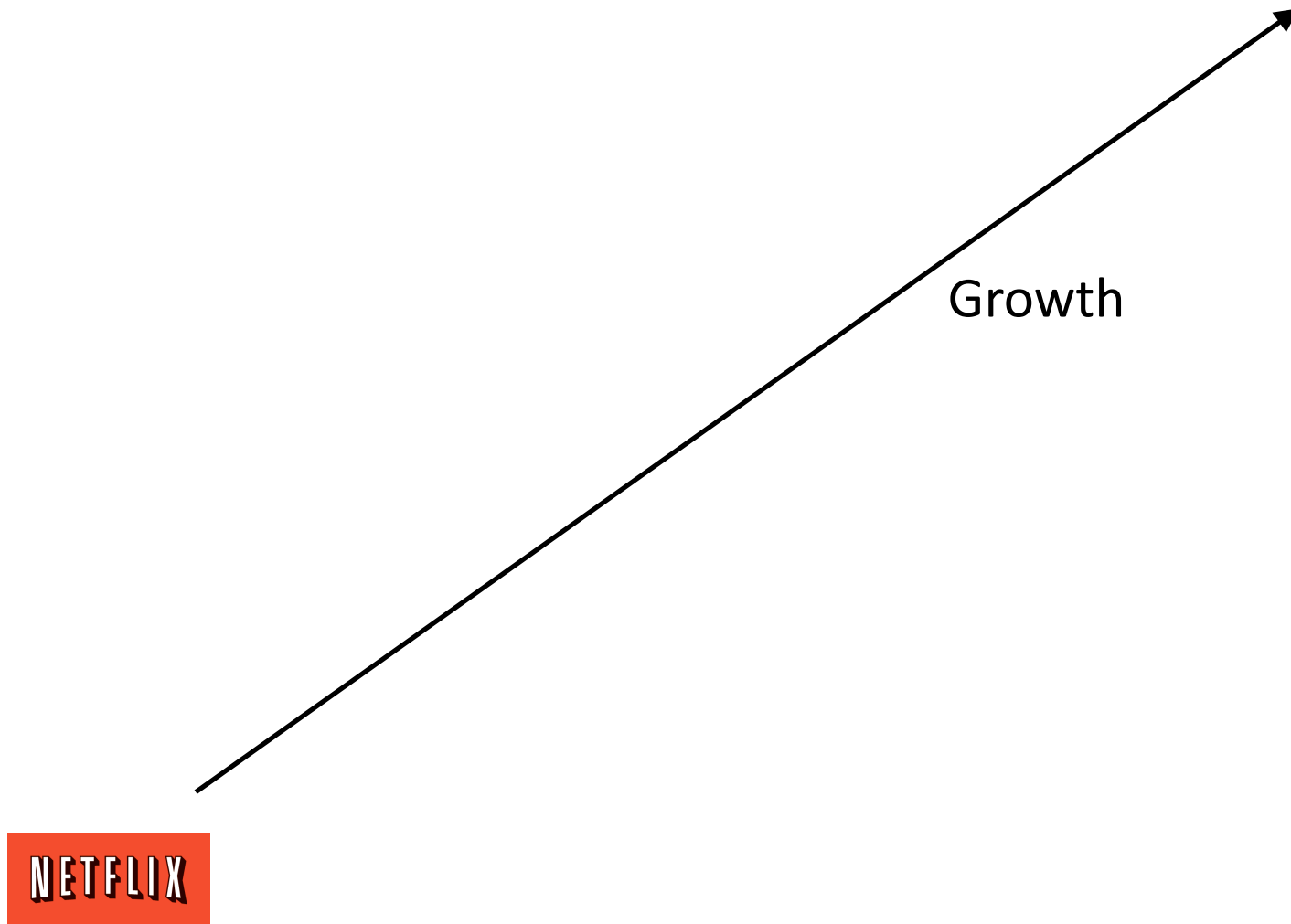
Growth

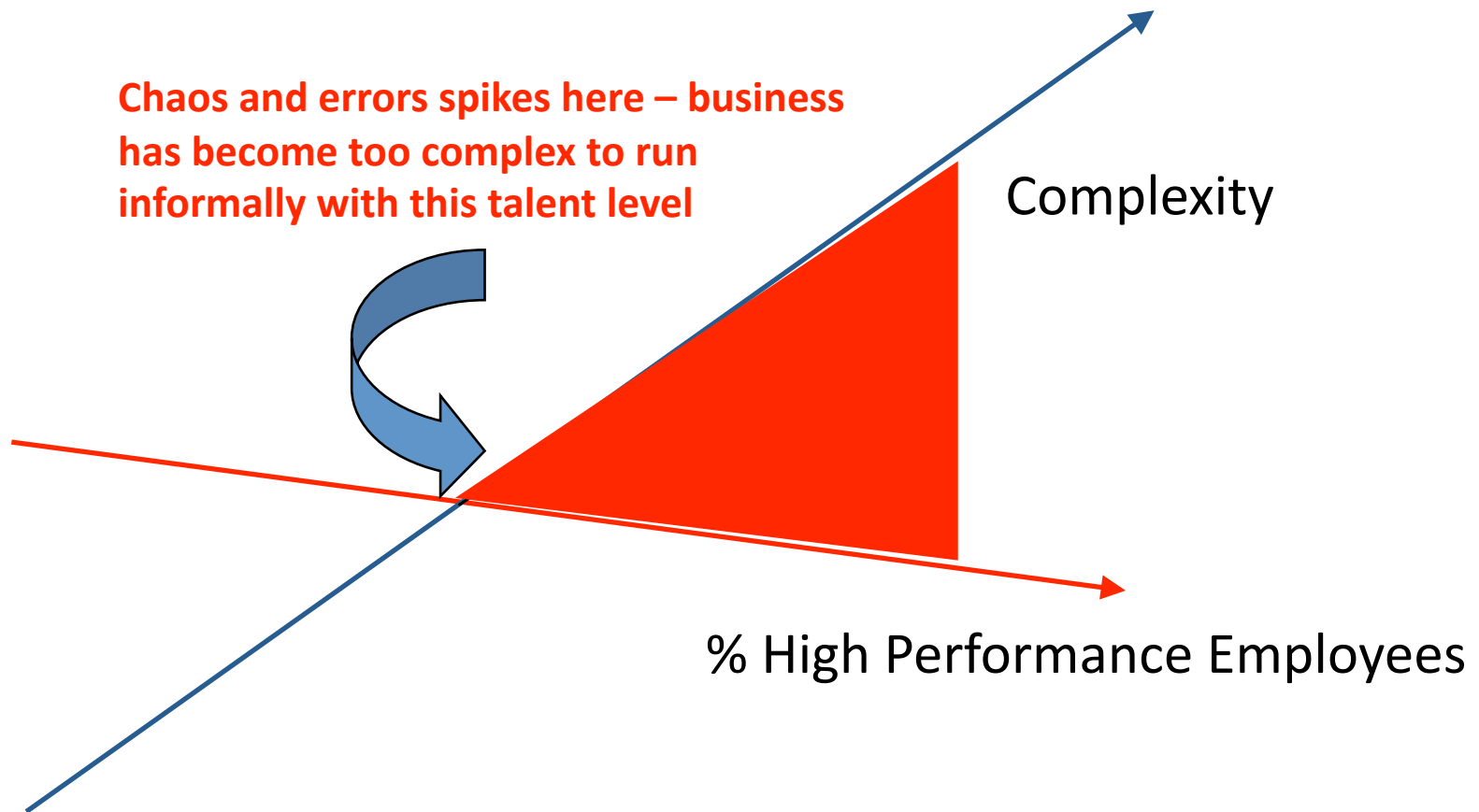# Growth Increases Complexity

Complexity

Growth Shrinks Talent Density
in Most Firms

Complexity

% High Performance Employees

Chaos Emerges

Chaos and errors spikes here – business has become too complex to run informally with this talent level
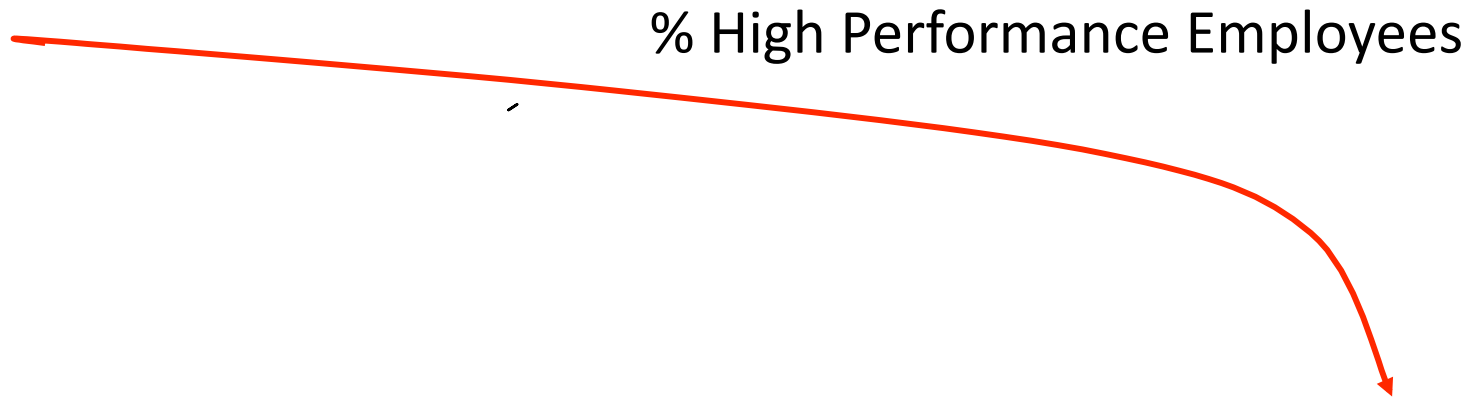
Complexity

% High Performance Employees

Process Emerges to Stop the Chaos
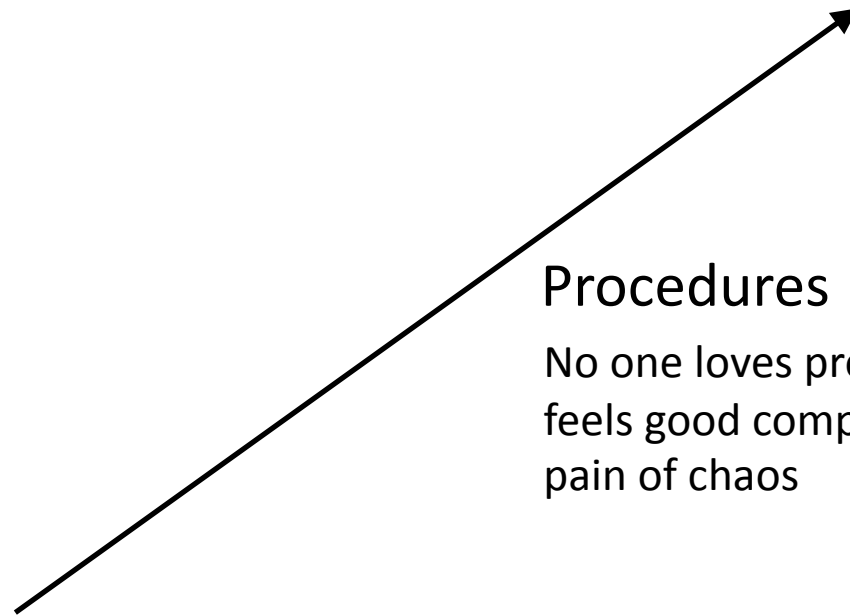
Procedures

No one loves process, but
feels good compared to the
pain of chaos

Process-focus Drives More Talent Out

% High Performance Employees

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Strong Near-Term Outcome

- A highly-successful process-driven company
  - With leading share in its market
  - Minimal thinking required
  - Few mistakes made – very efficient
  - Few curious innovator-mavericks remain
  - Very optimized processes for its existing market

Then the Market Shifts…

- Market shifts due to new technology or new competitors or new business models
- Company is unable to adapt quickly, because the employees are extremely good at following the existing processes, and process adherence is the value system
- Company generally grinds painfully into irrelevance, due to inability to respond to the market shift

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Seems Like Three Bad Options

1. Stay creative by staying small

2. Try to avoid rules as you grow, suffer chaos

3. Use process as you grow to drive efficient execution of current model, but cripple creativity, innovation, flexibility, and ability to thrive when market inevitably shifts

A Fourth Option

- Avoid Chaos as you grow with Ever More High Performance People – not with Rules

- Then you can continue to run informally with self-discipline and avoid chaos

- The run informally part is what enables and attracts creativity

The Key: Increase Talent Density faster than Complexity Grows

% High Performance Employees

Business Complexity

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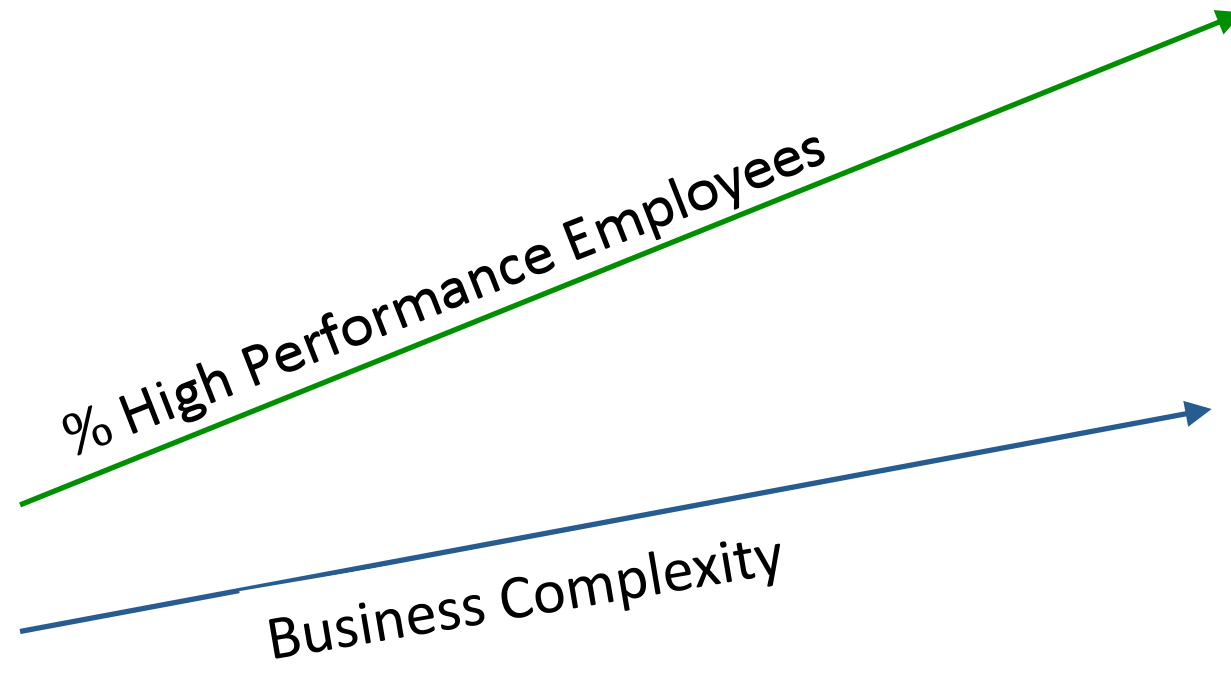
With the Right People,

Instead of a
Culture of Process Adherence,

Culture of
Freedom and Responsibility,
Innovation and Self-Discipline

Mostly, Though, **Rapid Recovery** is the Right Model

- Just fix problems quickly
  - **High performers make very few errors**
- We're in a creative-inventive market, not a safety-critical market like medicine or nuclear power
- You may have heard preventing error is cheaper than fixing it
  - Yes, in manufacturing or medicine, but…
  - **Not so in creative environments**

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"Good" vs "Bad" Processes

- "Good" processes help talented people get more done
  - Web site push every two weeks rather than random
  - Spend within budget each quarter so don't have to coordinate every spending decision across departments
  - Regularly scheduled strategy and context meetings
- "Bad" processes try to prevent recoverable mistakes
  - Get pre-approvals for $5k spending
  - 3 people to sign off on banner ad creative
  - Permission needed to hang a poster on a wall
  - Multi-level approval process for projects
  - Get 10 people to interview each candidate

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Rule Creep

- "Bad" processes tend to creep in
  - Preventing errors just sounds so good
- We try to get rid of rules when we can, to reinforce the point

Example: Netflix Vacation Policy and Tracking

Until 2004 we had the standard
model of N days per year

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Meanwhile…

We're all working online some nights
and weekends, responding to emails at
odd hours, and taking an afternoon now
and then for personal time.

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An employee pointed out…

We don't track hours worked per day
or per week, so why are we tracking
days of vacation per year?

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Netflix Vacation Policy
and Tracking

"there is no policy or tracking"

"There is also no clothing policy at Netflix, but no one has come to work naked lately." – Patty McCord, 2004

Lesson: you don't need detailed policies for everything.

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"If you want to build a ship, don't drum up the people to gather wood, divide the work, and give orders. Instead, teach them to yearn for the vast and endless sea."

-Antoine De Saint-Exupery,
Author of <u>The Little Prince</u>

*translation uses 'people' instead of 'men' to modernize

The best managers figure out how to get great outcomes by setting the appropriate context, rather than by trying to control their people

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Why Managing Through Context?

High performance people will do
better work if they understand the
context

Investing in Context

This is why we do new employee college, and why we are so open internally about strategies and results

Pay Top of Market is Core to High Performance Culture

One outstanding employee gets more done
and costs less than two adequate employees

We endeavor to have only
outstanding employees

Three Tests for Top of Market for a Person

1. What could person get elsewhere?

2. What would we pay for replacement?

3. What would we pay to keep person?

   – If they had a bigger offer elsewhere

Annual Comp Review

- Hiring is market-based at many firms, but at Netflix we also make the annual comp review market-based
  - Applies same lens as hiring
- Essentially, rehiring each employee each year, for purposes of comp
  - At annual comp review, manager has to answer the Three Tests for the personal market for each of their employees

Annual Comp Review

- Some people will move up in comp very quickly because their value in the marketplace is moving up quickly, driven by increasing skills and/or great demand for their area

- Some people will move down or stay flat because their value in the marketplace has moved down or stayed flat
  - Depends in part on inflation and economy
  - Still top of market, though, for that person

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Compensation Not Dependent on Netflix Success

- Whether Netflix is prospering or floundering, we pay at the top of the market
  - i.e., sports teams with losing records still pay talent the market rate
- Employees can choose how much they want to link their economic destiny to Netflix success or failure by deciding how much Netflix stock or stock options they want to own

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When Top of Market Comp
Done Right...

- Nearly all ex-employees will take a step down in comp for their next job

- We will rarely counter with higher comp when someone is voluntarily leaving because we have already moved comp to our max for that person

- Employees will feel they are getting paid well relative to their other options in the market