

Reference Guide on our Freedom & Responsibility Culture

These slides are meant for reading,
rather than presenting

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?

Seven Aspects of our Culture

- Values are what we Value
- High Performance
- Freedom & Responsibility
- Context, not Control
- Highly Aligned, Loosely Coupled
- Pay Top of Market
- Promotions & Development

Lots of companies have
nice sounding
value statements



Enron Had A Nice-Sounding Value Statement with 4 Values

Enron headquarters



- **Integrity**
- **Communication**
- **Respect**
- **Excellence**

Their 4 values were chiseled in marble in the main lobby, but had little to do with the real values of the organization

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

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

“You question actions inconsistent with our values”

Part of the Courage value

Akin to the honor code pledge:
“I will not lie, nor cheat, nor steal, *nor tolerate those who do*”

All of us are responsible for value consistency

Values reinforced in hiring,
in 360 reviews, at comp review, in
exits, and in promotions

Seven Aspects of our Culture

- Values are what we Value
- High Performance
- Freedom & Responsibility
- Context, not Control
- Highly Aligned, Loosely Coupled
- Pay Top of Market
- Promotions & Development

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



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

Like every company,
we try to hire well

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

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

The other people should get a generous severance now,
so we can open a slot to try to find a star for that role

The **Keeper Test** Managers Use:

“Which of my people,
if they told me
they were leaving in two months
for a similar job at a peer company,
would I fight hard to keep at Netflix?”

Honesty Always

To avoid surprises, you should periodically ask your manager: “If I told you I were leaving, how hard would you work to change my mind to stay at Netflix?”

Hard Work – Not Directly Relevant

- It's about effectiveness – not effort – even though effectiveness is harder to assess than effort
- We don't measure people by how many evenings or weekends they are in their cube
- We do try to measure people by how much, how quickly and how well they get work done – especially under deadline

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

Seven Aspects of our Culture

- Values are what we Value
- High Performance
- Freedom & Responsibility
- Context, not Control
- Highly Aligned, Loosely Coupled
- Pay Top of Market
- Promotions & Development

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

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

With the Right People,
Instead of a
Culture of Process Adherence,
Culture of
Freedom and Responsibility,
Innovation and Self-Discipline

Seven Aspects of our Culture

- Values are what we Value
- High Performance
- Freedom & Responsibility
- Context, not Control
- Highly Aligned, Loosely Coupled
- Pay Top of Market
- Promotions & Development

"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 The Little Prince

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

Context, not Control

Provide the insight and understanding to enable sound decisions

Context

- Strategy
- Metrics
- Assumptions
- Objectives
- Clearly-defined roles
- Knowledge of the stakes
- Transparency around decision-making

Control

- Top-down decision-making
- Management approval
- Committees
- Planning and process valued more than results

Managers: When you are tempted to “control” your people, ask yourself what context you could set instead

Are you articulate and inspiring enough about goals and strategies?

Seven Aspects of our Culture

- Values are what we Value
- High Performance
- Freedom & Responsibility
- Context, not Control
- Highly Aligned, Loosely Coupled
- Pay Top of Market
- Promotions & Development

Three Models of Corporate Teamwork

1. Tightly-Coupled Monolith
2. Independent Silos
3. Highly Aligned, Loosely Coupled

Tightly-Coupled Monolith

- Senior management reviews and approves nearly all tactics
- Lots of x-departmental buy-in meetings
- Keeping other groups in agreement has equal precedence with pleasing customers
- Mavericks get exhausted trying to innovate
- Highly coordinated through centralization, but very slow, and slowness increases with size

Independent Silos

- Each group executes on their objectives with little coordination
- Work that requires coordination suffers
- Alienation and suspicion between departments
- Only works well when areas are independent
 - e.g. GE: aircraft engines and Universal Studios

Highly-Aligned Loosely-Coupled
teamwork effectiveness
is dependent on
high performance people
and **good context**

Goal is to be
Big and Fast and Flexible

Seven Aspects of our Culture

- Values are what we Value
- High Performance
- Freedom & Responsibility
- Context, not Control
- Highly Aligned, Loosely Coupled
- Pay Top of Market
- Promotions & Development

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

Good For Each Employee to Understand Their Market Value

- It a healthy idea, not a traitorous idea, to understand what other firms would pay you, by interviewing and talking to peers at other companies
 - Talk with your manager about what you find
 - Minor exception: interviewing with groups that directly compete with Netflix, because their motive is in part confidential information

Efficiency

- Big salary is the **most efficient** form of comp
 - Most motivating for any given expense level
 - No bonuses – just include in salary – so much simpler
 - No free stock options – just big salary
 - Great health plan options, but high employee co-pay
 - No philanthropic match
 - Instead, **put all that expense into big salaries**
 - Give people big salaries, and the freedom to spend as they think best

Seven Aspects of our Culture

- High Performance
- Values are what we Value
- Freedom & Responsibility
- Context, not Control
- Highly Aligned, Loosely Coupled
- Pay Top of Market
- Promotions & Development

Baseball Analogy: Minors to Majors

- Very talented people usually get to move up, but only true for the very talented
- Some luck in terms of what positions open up and what the competition is
- Some people move to other teams to get the opportunity they want
- Great teams keep their best talent
- Some minor league players keep playing even though they don't move up because they love the game

Netflix Doesn't Have to be for Life

- In some times, in some groups, there may not be enough growth opportunity for everyone
- In which case we should celebrate someone leaving for a bigger job that we didn't have available to offer them
- If that is what the person prefers

Two Necessary Conditions for Promotion

- **Job has to be big enough**
 - We might have an incredible manager of something, but we don't need a director of it because job isn't big enough
 - If the incredible manager left, we would replace with manager, not with director
- **Person has to be a superstar in current role**
 - Could get the next level job here if applying from outside and we knew their talents well
 - Could get the next level job at peer firm that knew their talents well

Timing

- If manager would promote employee to keep them if employee were thinking of leaving, manager should promote now, and not wait
- Both tests still have to be passed
 - Job big enough
 - Superstar in current role

Seven Aspects of our Culture

- Values are what we Value
- High Performance
- Freedom & Responsibility
- Context, not Control
- Highly Aligned, Loosely Coupled
- Pay Top of Market
- Promotions & Development

Why is culture important?
What is our culture trying to
support?

Culture is How a Firm Operates

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

Continuous Success =
Continuous growth in revenue,
profits & reputation

Need a culture that supports
rapid innovation *and*
excellent execution

Need a culture that supports
rapid innovation *and*
excellent execution

Both are required for
continuous growth

There is tension between these two
goals; between creativity and discipline

Need a culture that supports
effective teamwork of
high-performance
people

Need a culture that supports
effective teamwork of
high-performance
people

High performance people and effective teamwork
can be in tension also – stars have strong opinions

Need a culture that avoids the rigidity, politics, mediocrity, and complacency that infects most organizations as they grow

This slide deck is our current best thinking about maximizing our likelihood of continuous success

Our culture is a work in progress

Every year we try to refine our culture further as we learn more