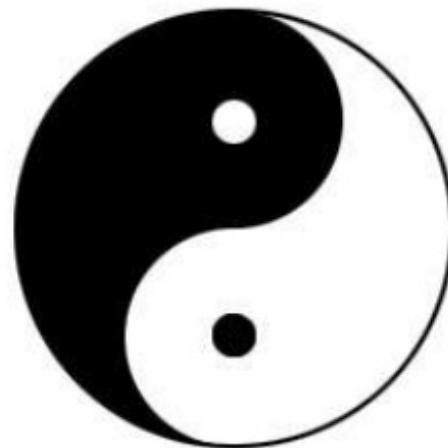


# Netflix Culture: Freedom & Responsibility



# We Seek Excellence

Our culture focuses on helping us  
achieve excellence

# 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

Many companies have nice sounding value statements displayed in the lobby, such as:

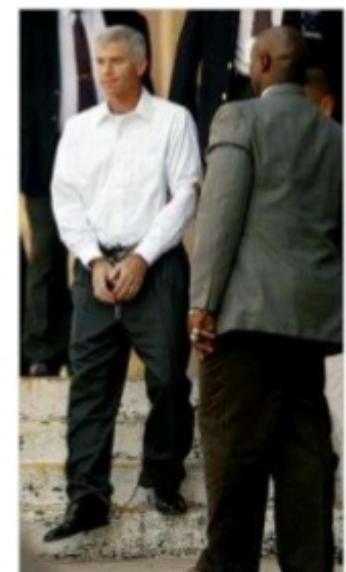
Integrity  
Communication  
Respect  
Excellence



Enron, whose leaders went to jail,  
and which went bankrupt from fraud,  
had these values displayed in their lobby:



Integrity  
Communication  
Respect  
Excellence



(These values were not, however, what was really valued at Enron)

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

Actual company values are the  
*behaviors and skills*  
that are *valued*  
in fellow employees

At Netflix, we particularly value the following nine behaviors and skills in our colleagues...

...meaning we hire and promote people who demonstrate these nine

# 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, customers, 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 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's 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

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

# Great Workplace is *Stunning Colleagues*

Great workplace is *not* espresso, lush benefits, sushi lunches, grand parties, or nice offices

We do some of these things, but only if they are efficient at attracting and retaining stunning colleagues

Like every company,  
we try to hire well

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

Netflix leaders  
hire, develop and cut **smartly**,  
so we have stars in every position

# The **Keeper Test** Managers Use:

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

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,  
for a similar job at a peer company,  
would I fight hard to keep at Netflix?

# Honesty Always

As a leader, no one in your group  
should be materially surprised of  
your views

# Honesty Always

Candor is not just a leader's responsibility, and you should periodically ask your manager: "If I told you I were leaving, how hard would you work to change my mind?"

# All of Us are Responsible for Ensuring We Live our Values

“You question actions inconsistent with our values” is part of the Courage value

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

# Pro Sports Team Metaphor is Good, but Imperfect

Athletic teams have a *fixed number* of positions, so team members are always competing with each other for one of the precious slots

# Corporate Team

The more talent we have,  
the more we can accomplish,  
so our people assist each other all the time

Internal “cutthroat” or “sink or swim”  
behavior is rare and not tolerated

We Help Each Other  
To Be Great

Isn't Loyalty Good?  
What about Hard Workers?  
What about Brilliant Jerks?

# Loyalty is Good

- Loyalty is good as a stabilizer
- People who have been stars for us, and hit a bad patch, get a near term pass because we think they are likely to become stars for us again
- We want the same: if Netflix hits a *temporary* bad patch, we want people to stick with us
- But unlimited loyalty to a shrinking firm, or to an ineffective employee, is not what we are about

# Hard Work – Not Relevant

- We don't measure people by how many hours they work or how much they are in the office
- We do care about accomplishing great work
- Sustained B-level performance, despite “A for effort”, generates a generous severance package, with respect
- Sustained A-level performance, despite minimal effort, is rewarded with more responsibility and great pay

# Brilliant Jerks

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

# Why are we so insistent on high performance?

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

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

# Why are we so insistent on high performance?

Great Workplace is  
**Stunning Colleagues**

# Our High Performance Culture Not Right for Everyone

- Many people love our culture, and stay a long time
  - They thrive on excellence and candor and change
  - They would be disappointed if given a severance package, but lots of mutual warmth and respect
- Some people, however, value job security and stability over performance, and don't like our culture
  - They feel fearful at Netflix
  - They are sometimes bitter if let go, and feel that we are political place to work
- We're getting better at attracting only the former, and helping the latter realize we are not right for them

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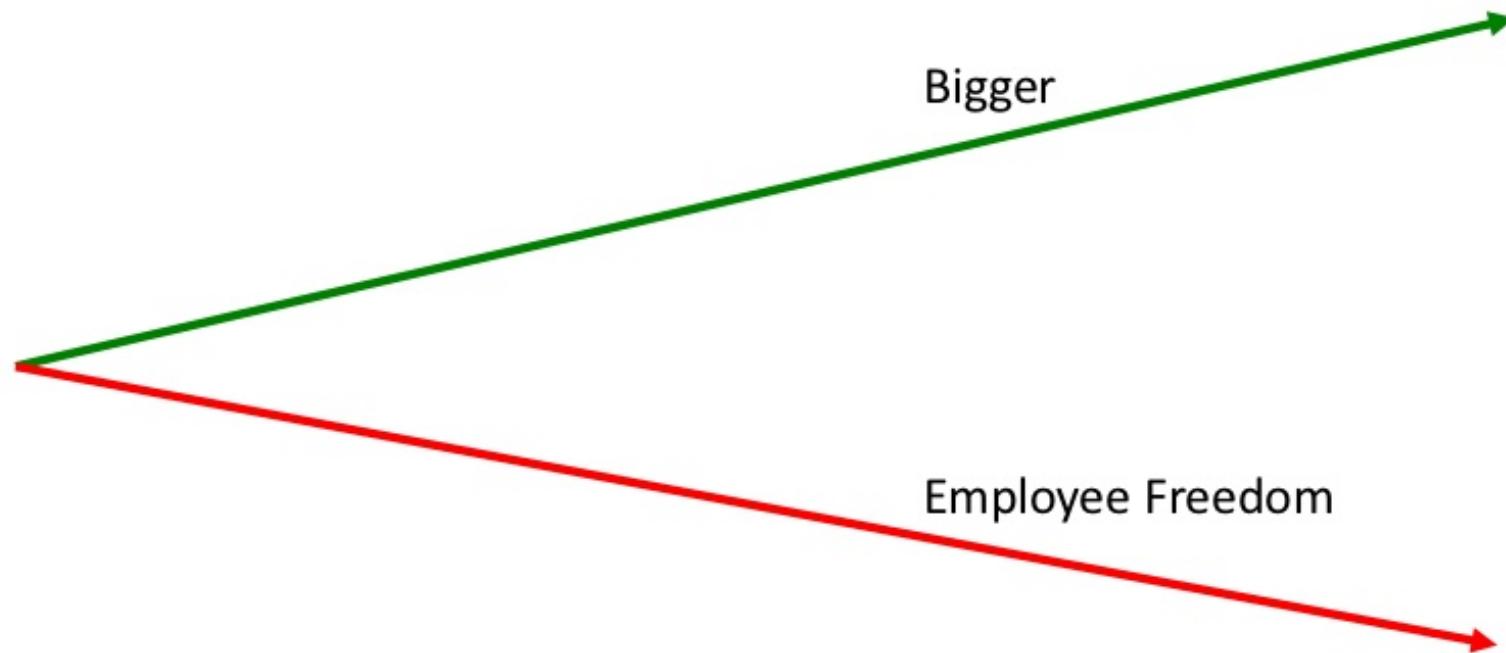
# The Rare Responsible Person

- Self motivating
- Self aware
- Self disciplined
- Self improving
- Acts like a leader
- Doesn't wait to be told what to do
- Picks up the trash lying on the floor

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

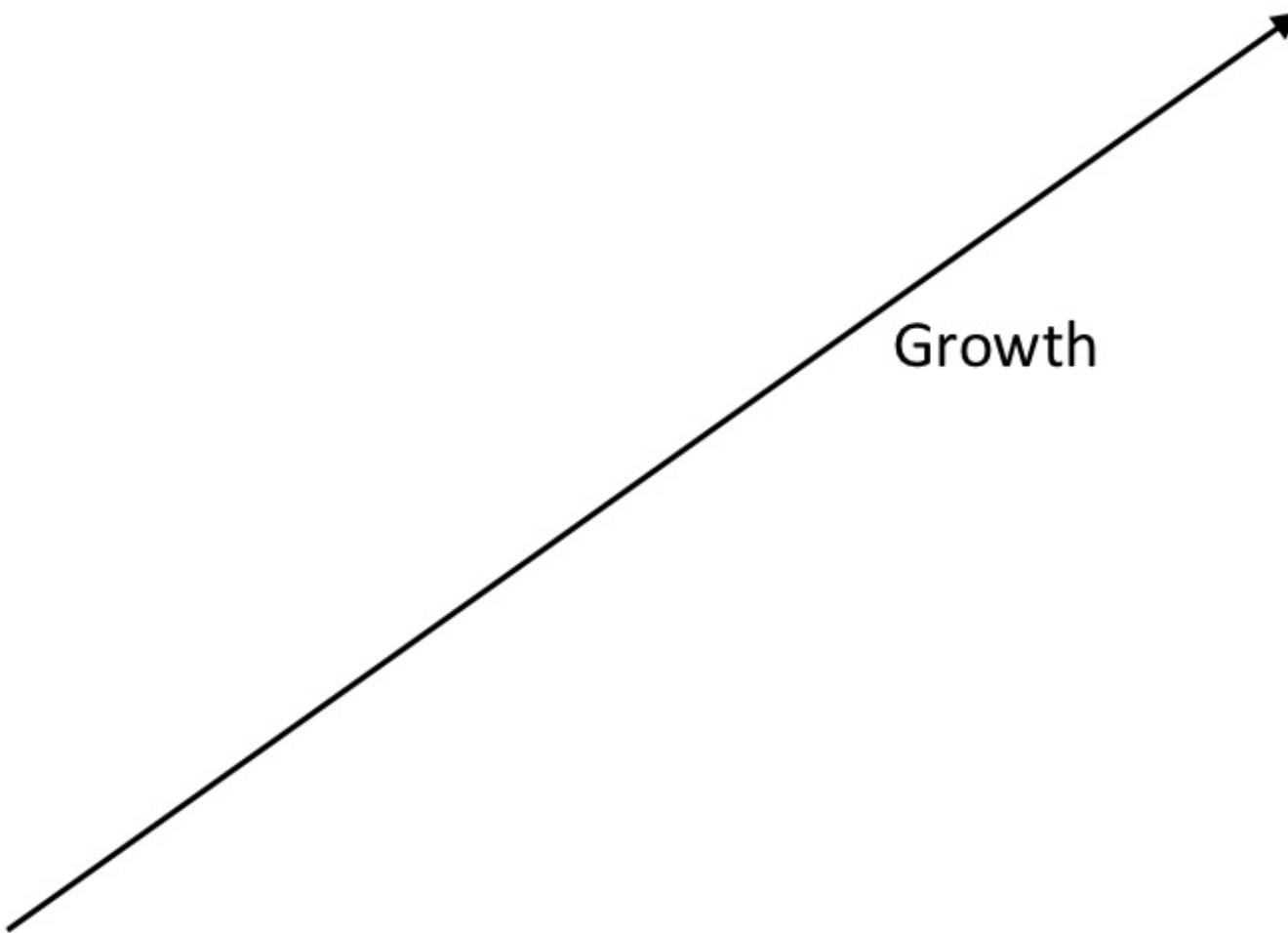
Our model is to *increase* employee freedom as we grow, rather than limit it, to continue to attract and nourish innovative people, so we have better chance of sustained success

# Most Companies Curtail Freedom as they get Bigger

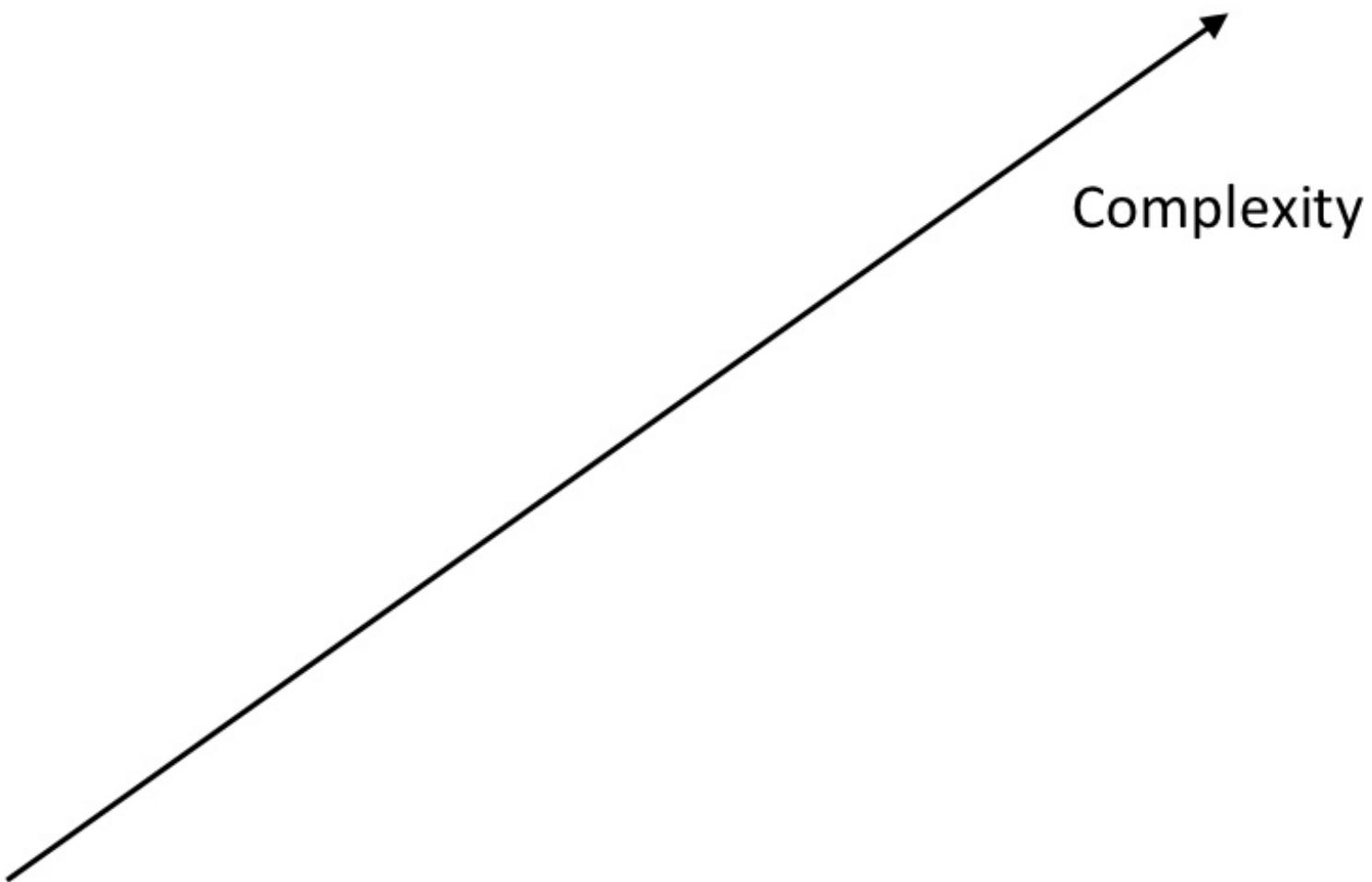


# Why Do Most Companies Curtail Freedom and Become Bureaucratic as they Grow?

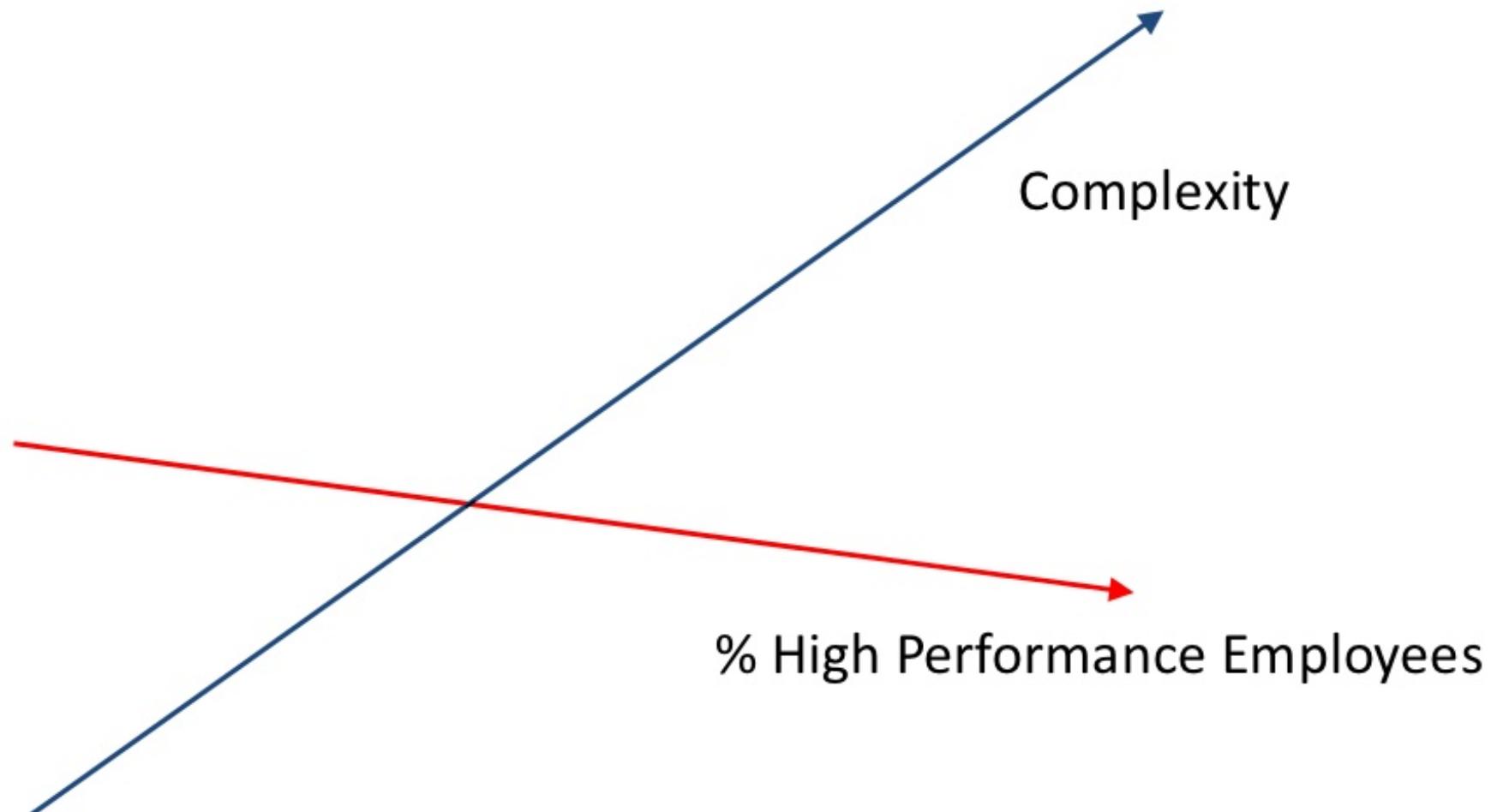
# Desire for Bigger Positive Impact Creates Growth



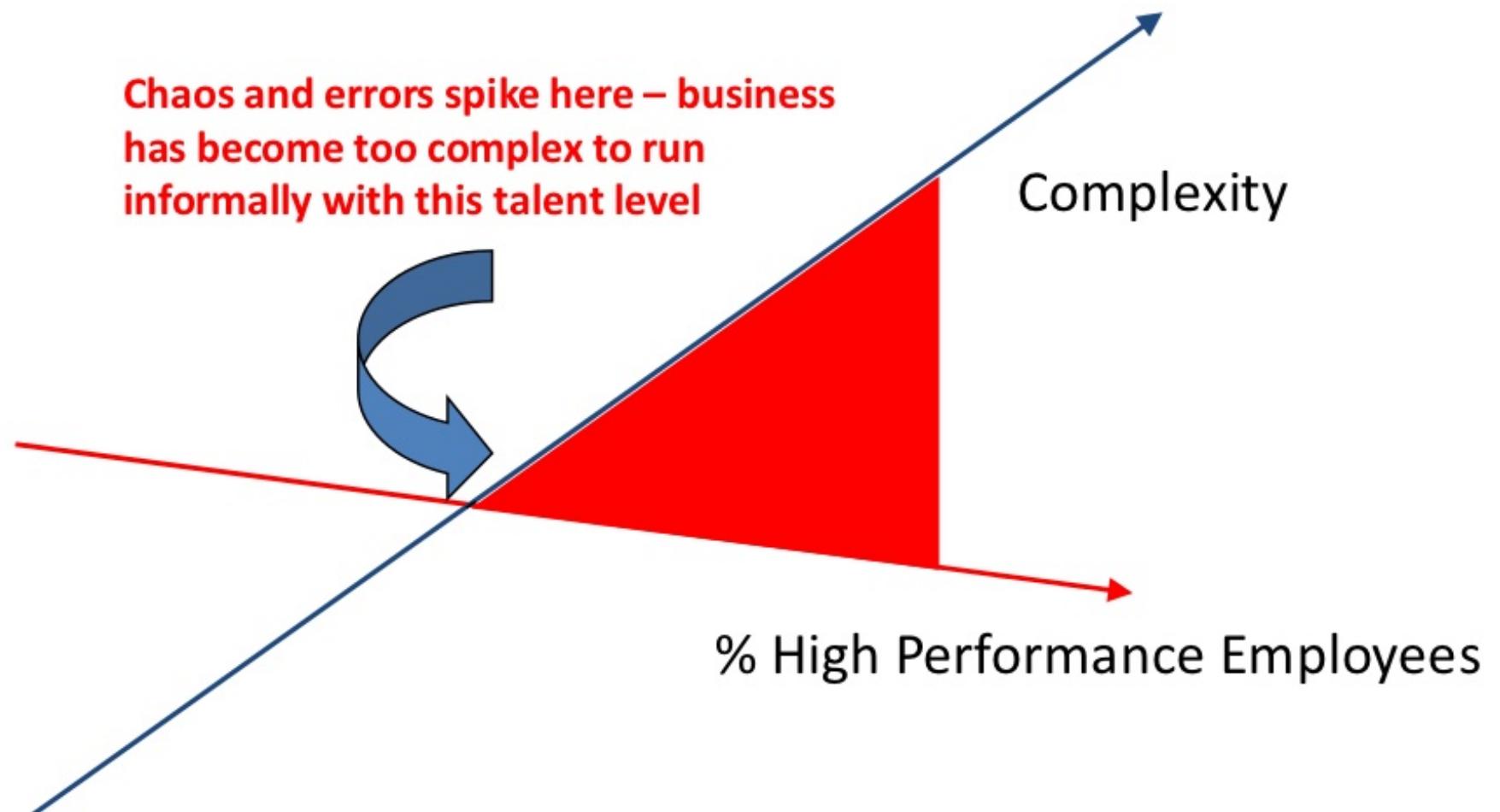
# Growth Increases Complexity



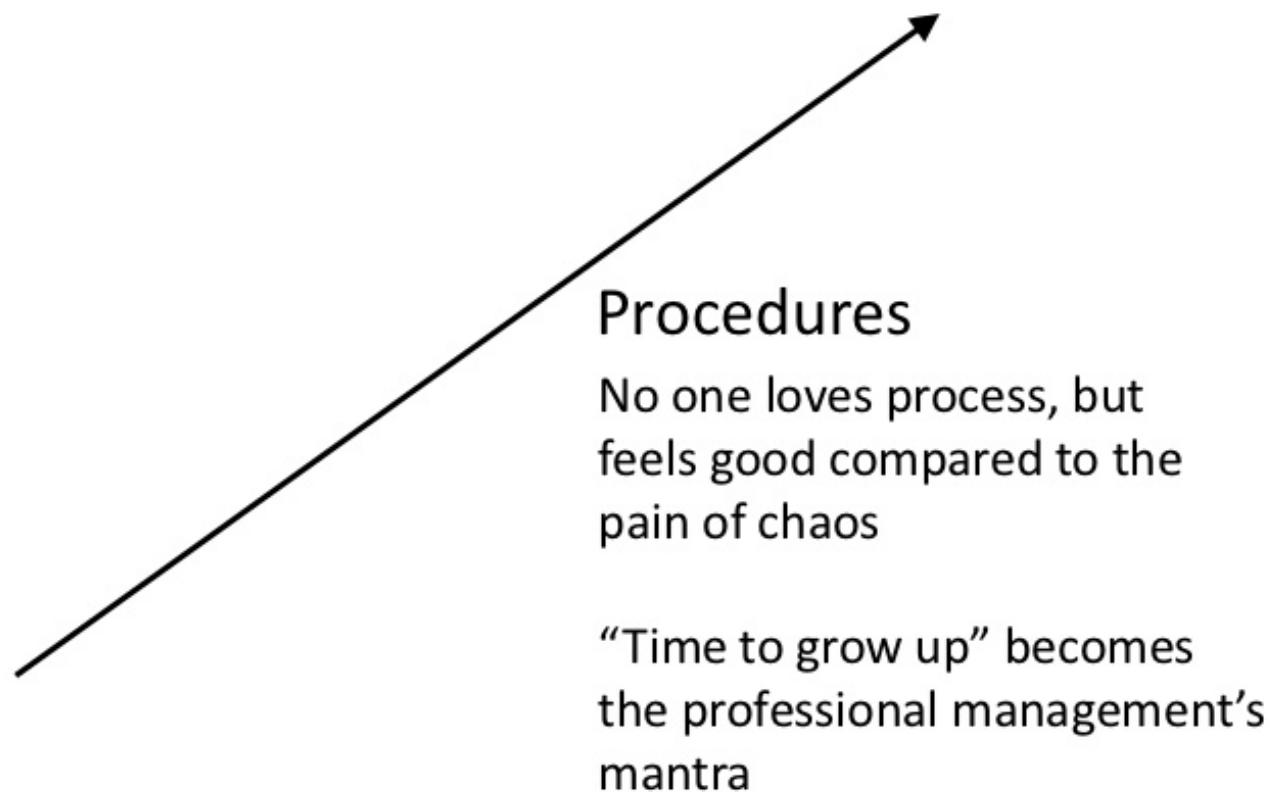
# Growth Also Often Shrinks Talent Density



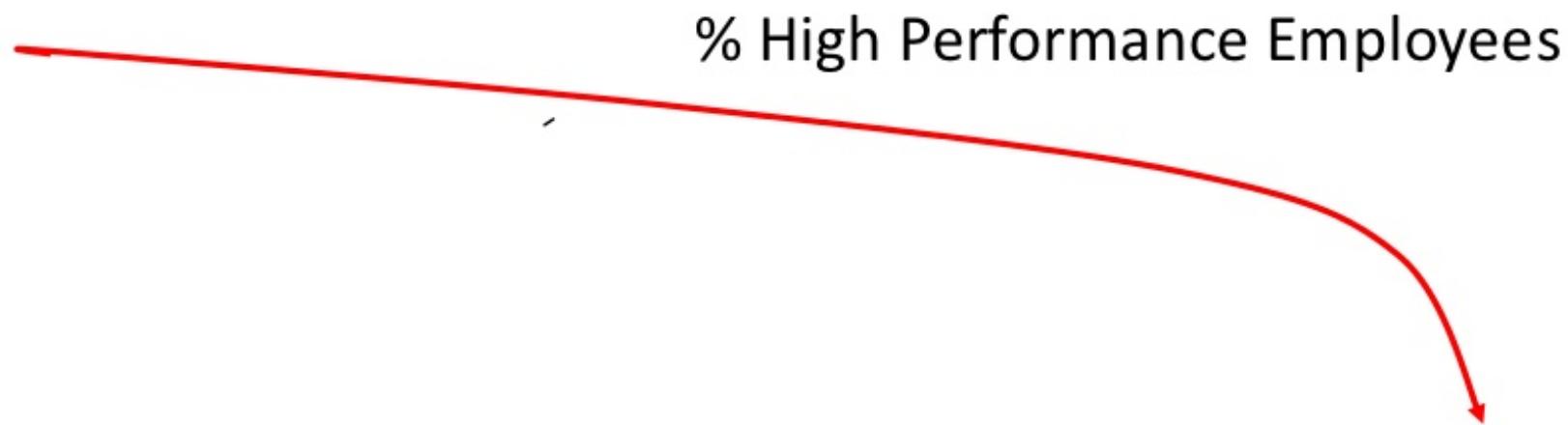
# Chaos Emerges



# Process Emerges to Stop the Chaos



# Process-focus Drives More Talent Out



# Process Brings Seductively 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
  - Efficiency has trumped flexibility

# Then the Market Shifts...

- Market shifts due to new technology or competitors or 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

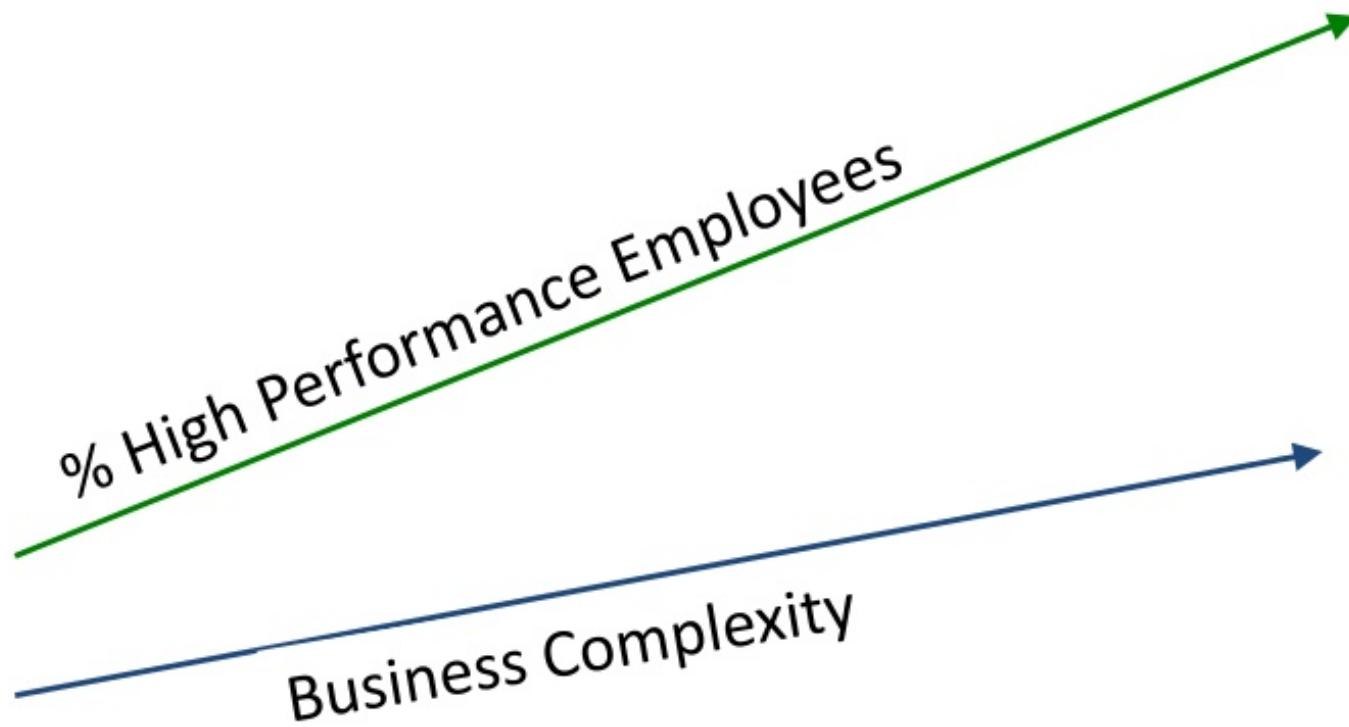
# Seems Like Three Bad Options

1. Stay creative by staying small, but therefore have less impact
2. Avoid rules as you grow, and suffer chaos
3. Use process as you grow to drive efficient execution of current model, but cripple creativity, flexibility, and ability to thrive when your market eventually changes

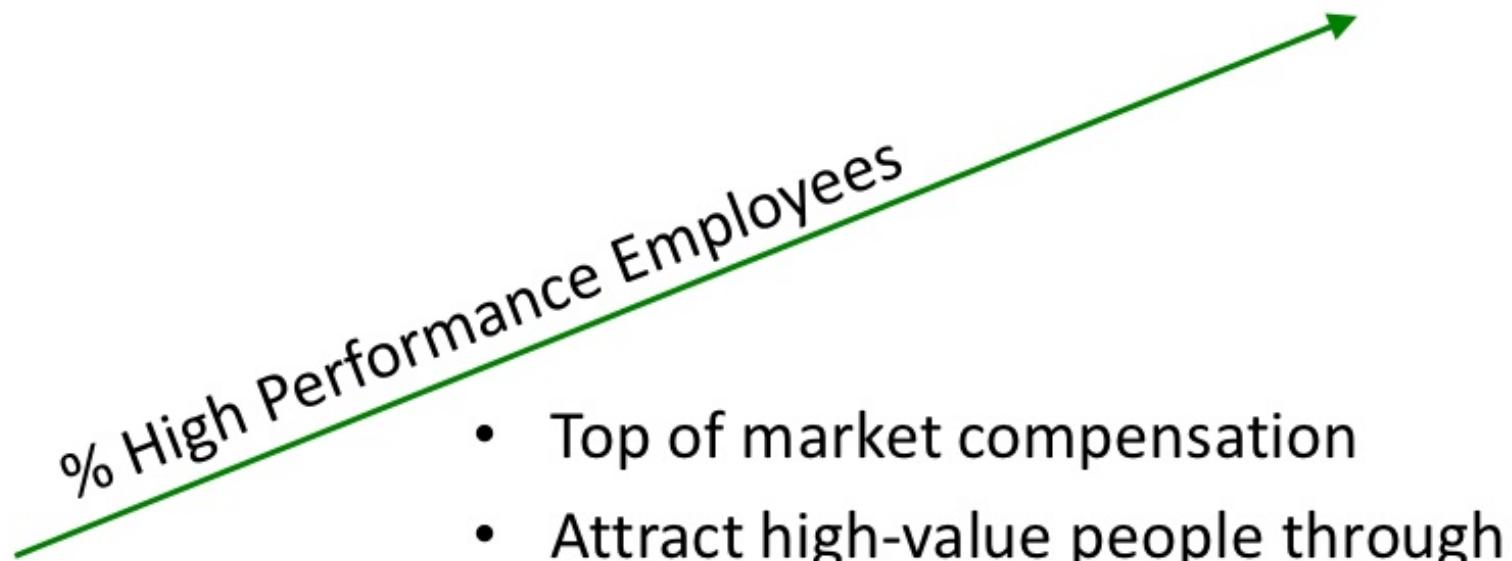
# A Fourth Option

- Avoid Chaos as you grow with Ever More High Performance People – not with Rules
  - Then you can continue to mostly 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

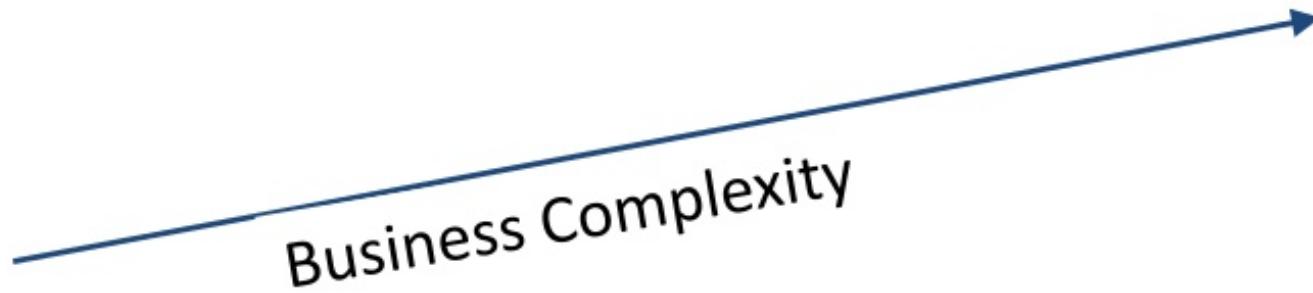


# Increase Talent Density

- 
- % High Performance Employees
- Top of market compensation
  - Attract high-value people through freedom to make big impact
  - Be demanding about high performance culture

# Minimize Complexity Growth

- Few big products vs many small ones
- Eliminate distracting complexity (barnacles)
- Be wary of efficiency optimizations that increase complexity and rigidity



Note: sometimes long-term simplicity is achieved only through bursts of complexity to rework current systems

With the Right People,  
*Instead* of a  
Culture of Process Adherence,  
  
We have a Culture of  
Creativity and Self-Discipline,  
Freedom and Responsibility

# Is Freedom Absolute?

Are all rules & processes bad?

# Freedom is not absolute

Like “free speech”  
there are some  
limited exceptions to  
“freedom at work”

# Two Types of Necessary Rules

1. Prevent irrevocable disaster
  - Financials produced are wrong
  - Hackers steal our customers' credit card info
2. Moral, ethical, legal issues
  - Dishonesty, harassment are intolerable

# 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**

# “Good” versus “Bad” Process

- “Good” process helps talented people get more done
  - Letting others know when you are updating code
  - Spend within budget each quarter so don’t have to coordinate every spending decision across departments
  - Regularly scheduled strategy and context meetings
- “Bad” process tries 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

# 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

# Meanwhile...

We're all working online some nights and weekends, responding to emails at odd hours, spending some afternoons on personal time, and taking good vacations

# 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?

# We realized...

We should focus on what people get done, not on how many days worked

Just as we don't have an 9am-5pm workday policy, we don't need a vacation policy

# Netflix Vacation Policy and Tracking

“there is no policy or tracking”

# Netflix Vacation Policy and Tracking

“there is no policy or tracking”

There is also no clothing policy at Netflix,  
but no one comes to work naked

Lesson: you don’t need policies for everything

# No Vacation Policy Doesn't Mean No Vacation

Netflix leaders set good examples by taking big vacations – and coming back inspired to find big ideas

# Another Example of Freedom and Responsibility...

Most companies have complex policies around what you can expense, how you travel, what gifts you can accept, etc.

Plus they have whole departments to verify compliance with these policies

# Netflix Policies for Expensing, Entertainment, Gifts & Travel:

**“Act in Netflix’s Best Interest”**

(5 words long)

# “Act in Netflix’s Best Interest”

## *Generally Means...*

1. Expense only what you would otherwise not spend, and is worthwhile for work
2. Travel as you would if it were your own money
3. Disclose non-trivial vendor gifts
4. Take from Netflix only when it is inefficient to not take, and inconsequential
  - “taking” means, for example, printing personal documents at work or making personal calls on work phone: inconsequential and inefficient to avoid

# Freedom and Responsibility

- Many people say one can't do it at scale
- But since going public in 2002, which is traditionally the end of freedom, we've substantially **increased** talent density and employee freedom

# Summary of Freedom & Responsibility:

As We Grow, Minimize Rules

Inhibit Chaos with Ever More  
High Performance People

Flexibility is More Important  
than Efficiency in the Long Term

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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 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 (embrace)

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

## Control (avoid)

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

# Good Context

- Link to company/functional goals
- Relative priority (how important/how time sensitive)
  - Critical (needs to happen now), or...
  - Nice to have (when you can get to it)
- Level of precision & refinement
  - No errors (credit cards handling, etc...), or...
  - Pretty good / can correct errors (website), or...
  - Rough (experimental)
- Key stakeholders
- Key metrics / definition of success

Managers: When one of your  
talented people  
does something dumb,  
*don't blame them*

Instead,  
ask yourself what context  
you failed to set

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?*

# 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, frequent department meetings, and why we are so open internally about strategies and results

# Exceptions to “Context, not Control”

- Control can be important in emergency
  - No time to take long-term capacity-building view
- Control can be important when someone is still learning their area
  - Takes time to pick up the necessary context
- Control can be important when you have the wrong person in a role
  - Temporarily, no doubt

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# Three Models of Corporate Teamwork

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

# Tightly Coupled Monolith

- Senior management reviews nearly all tactics
  - e.g., CEO reviews all job offers or advertising
- Lots of x-departmental buy-in meetings
- Keeping other internal groups happy 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
  - Everyone does their own thing
- Work that requires coordination suffers
- Alienation and suspicion between departments
- Only works well when areas are independent
  - e.g., aircraft engines and blenders for GE

# #3 is the Netflix Choice

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

# Highly Aligned, Loosely Coupled

- Highly Aligned
  - Strategy and goals are clear, specific, broadly understood
  - Team interactions focused on strategy and goals, rather than tactics
  - Requires large investment in management time to be transparent and articulate and perceptive
- Loosely Coupled
  - Minimal cross-functional meetings except to get aligned on goals and strategy
  - Trust between groups on tactics without previewing/approving each one – so groups can move fast
  - Leaders reaching out proactively for ad-hoc coordination and perspective as appropriate
  - Occasional post-mortems on tactics necessary to increase alignment

Highly Aligned, Loosely Coupled  
teamwork effectiveness  
depends on  
**high performance** people  
and **good context**

Goal is to be  
**Big and Fast and Flexible**

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# 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 that person?
  - If they had a bigger offer elsewhere

# Takes Great Judgment

- Goal is to keep each employee at top of market *for that person*
  - Pay them more than anyone else likely would
  - Pay them as much as a replacement would cost
  - Pay them as much as we would pay to keep them if they had higher offer from elsewhere

# Titles Not Very Helpful

- Lots of people have the title “Major League Pitcher” but they are not all equally effective
- Similarly, all people with the title “Senior Marketing Manager” or “Director of Engineering” are not equally effective
- So the art of compensation is answering the Three Tests for each employee

# Annual Comp Review

- At many firms, when employees are hired, market compensation applies
  - But at comp review time, it no longer applies!
- At Netflix, market comp always applies:
  - Essentially, top of market comp is re-established each year for high performing employees
  - At annual comp review, manager has to answer the Three Tests for the personal market for each of their employees

# No Fixed Budgets

- There are no centrally administered “raise pools” each year
- Instead, each manager aligns their people to top of market each year – the market will be different in different areas

# Compensation Over Time

- 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 stay flat because their value in the marketplace has done that
  - Depends in part on inflation and economy
  - Always top of market, though, for that person

# 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 by deciding how many Netflix stock options they want to hold

# Bad Comp Practices

- Manager sets pay at Nth percentile of title-linked compensation data
  - The “Major League Pitcher” problem
- Manager cares about internal parity instead of external market value
  - Fairness in comp is being true to the market
- Manager gives everyone a 4% raise
  - Very unlikely to reflect the market

# When Top of Market Comp Done Right...

- 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

# Versus Traditional Model

- Traditional model is good prior year earns a raise, independent of market
  - Problem is employees can get materially under- or over-paid relative to the market, over time
  - When materially under-paid, employees switch firms to take advantage of market-based pay on hiring
  - When materially over-paid, employees are trapped in current firm
- Consistent market-based pay is better model

# Employee Success

- It's pretty ingrained in our society that the size of one's raise is the indicator of how well one did the prior year
  - but for us the other factor is the outside market
- Employee success is still a big factor in comp because it influences market value
  - In particular, how much we would pay to keep the person

# Good For Each Employee to Understand Their Market Value

- It's a healthy idea, not a traitorous one, 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 in terms of comp
  - Stay mindful of company confidential information

# Efficiency

- Big salary is the **most efficient** form of comp
  - Most motivating for any given expense level
  - No bonuses, no free stock options, no philanthropic match
  - Instead, **put all that expense into big salaries**, and give people freedom to spend their salaries as they think best
- Health benefits: employees get \$10k per year
  - If they choose Netflix plans that are less than \$10k, they keep the difference
  - If they don't need benefits from us, they keep all \$10k
  - CEO or receptionist: everyone gets \$10k for benefits

# Optional Options

- Employees get top of market salary, and then can request to trade salary for stock options
- Some people take all cash, some people request half their comp in options
  - Both are OK
- This is consistent with freedom and responsibility, and lets employees decide how much risk/reward is comfortable for them

# Details on Stock Options

- The options are *fully vested* and are 10-years-to-exercise options, independent of how long one stays at Netflix
- These fully vested options are granted monthly at the then current stock price, so employees get price averaging on their exercise price
- These options cost employees less than half of what such options would cost in the open market, and are from pre-tax salary, so are a great deal
- Employees can change their option request annually
- Options become valuable *only if Netflix stock climbs*

# No Vesting or Deferred Comp

- We don't want managers to “own” their people with vesting – all comp is fully vested
- We want managers to be responsible for creating a great place to work, and paying at the top of market
- Employees are free to leave us anytime, without penalty, but nearly everyone stays
- Employees stay because they are passionate about their work, and well paid, not because of a deferred compensation system

# No Ranking Against Other Employees

- We avoid “top 30%” and “bottom 10%” rankings amongst employees
- We don’t want employees to feel competitive *with each other*
- We want all of our employees to be “top 10%” relative to the pool of global candidates
- We want employees to help each other, and they do

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In some time periods, in some groups, there will be lots of opportunity and growth at Netflix

Some people, through both luck and talent, will have extraordinary career growth

# 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 Netflix 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

## 1. 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 a manager, not with a director

## 2. 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 a manager would promote to prevent an employee from leaving, the manager should promote now instead of waiting
- Both tests still have to be passed
  1. Job big enough
  2. Superstar in current role

# Development

- We develop people by giving them the opportunity to develop themselves, by surrounding them with stunning colleagues and giving them big challenges to work on
  - Mediocre colleagues or unchallenging work is what kills progress of a person's skills

# Career “Planning” Not for Us

- Formalized development is rarely effective, and we don’t try to do it
  - e.g., Mentor assignment, rotation around a firm, multi-year career paths, etc.

# We Support Self-Improvement

- High performance people are generally self-improving through experience, observation, introspection, reading, and discussion
  - As long as they have stunning colleagues and big challenges to work on
  - We all try to help each other grow
  - We are very honest with each other

We want people to manage  
their own career growth,  
and not rely on a corporation  
for “planning” their careers

# Your Economic Security is based on your Skills and Reputation

We try hard to consistently provide  
opportunity to grow both by  
surrounding you with great talent

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We keep improving  
our culture as we grow

We try to get better  
at seeking excellence