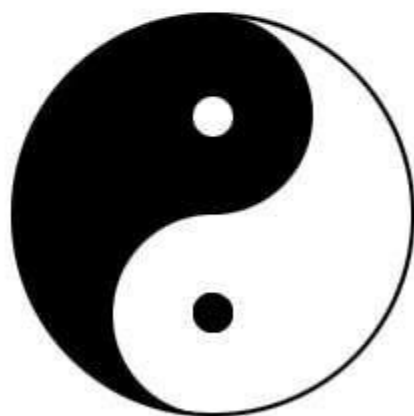


Netflix Culture: Freedom & Responsibility



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

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

Unlike many companies,
we practice:

*adequate performance gets a
generous severance package*

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?"

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

Why are we so insistent on high performance?

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

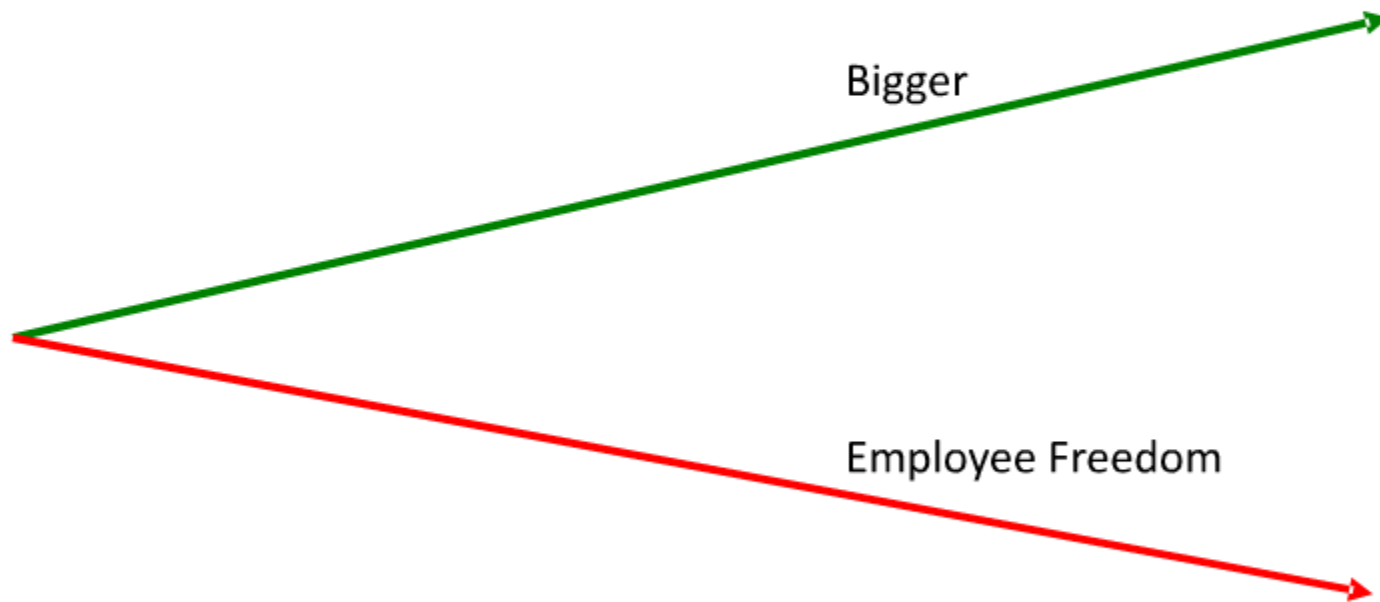
In creative/inventive work, the best are **10x** better than the average, so huge premium on creating effective teams of the best

Seven Aspects of our Culture

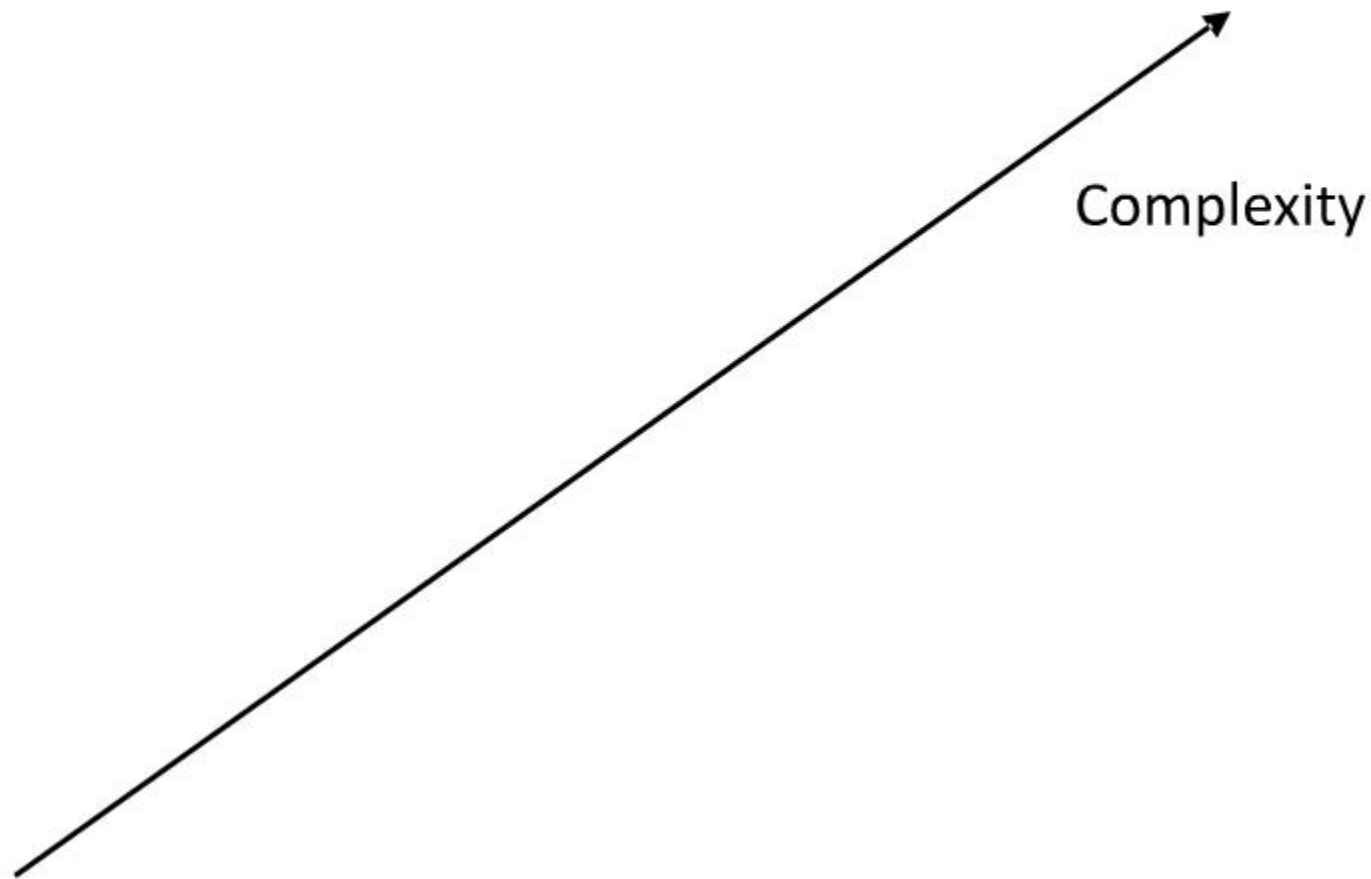
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Most Companies

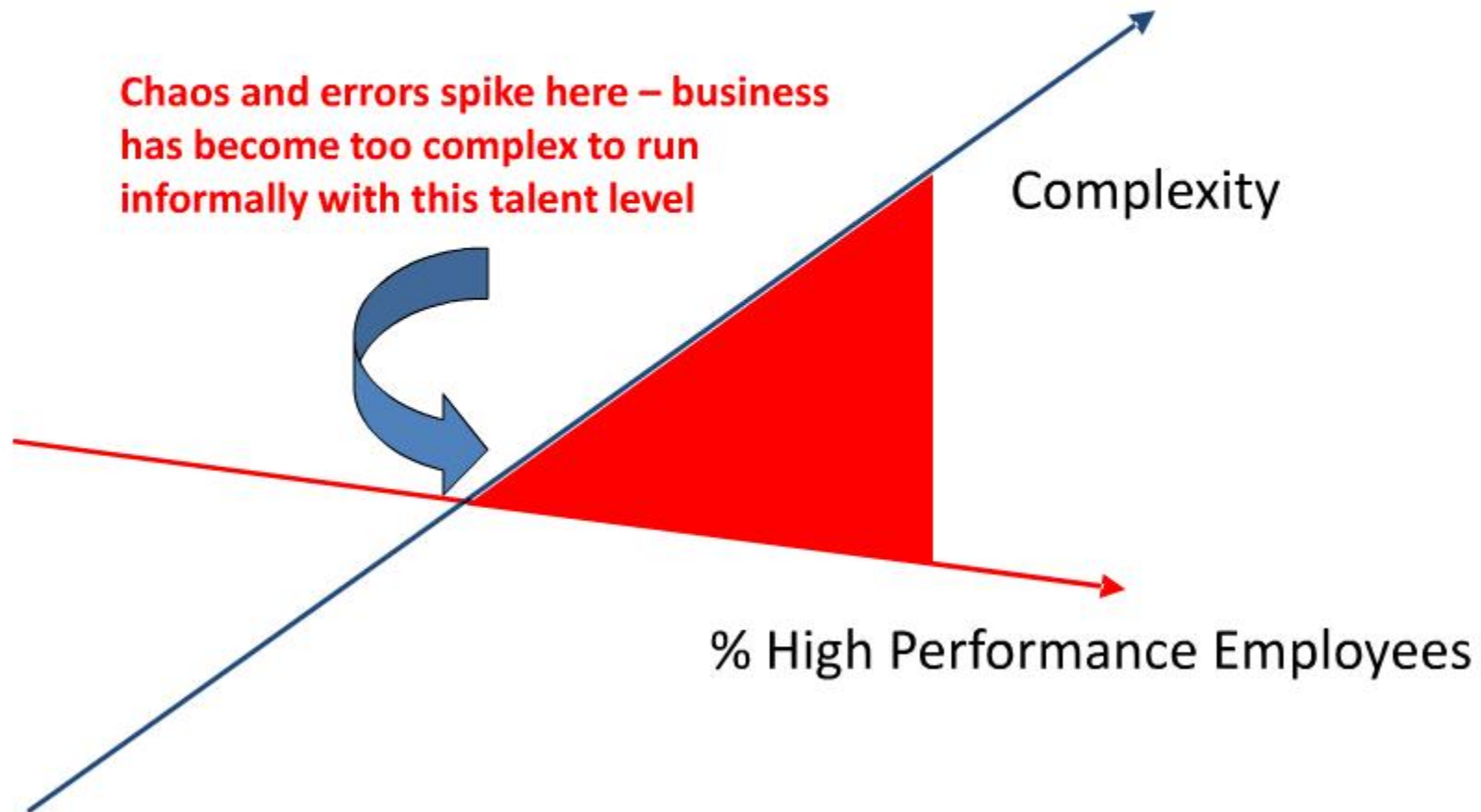
Curtail Freedom as they get Bigger



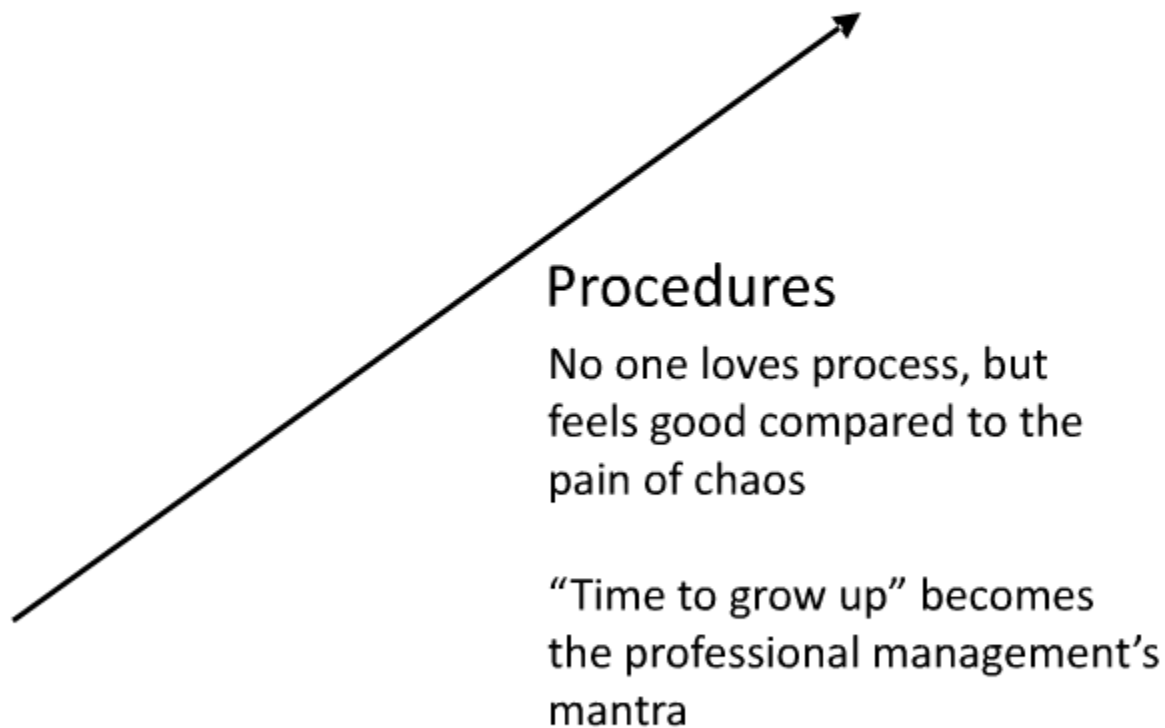
Growth Increases Complexity



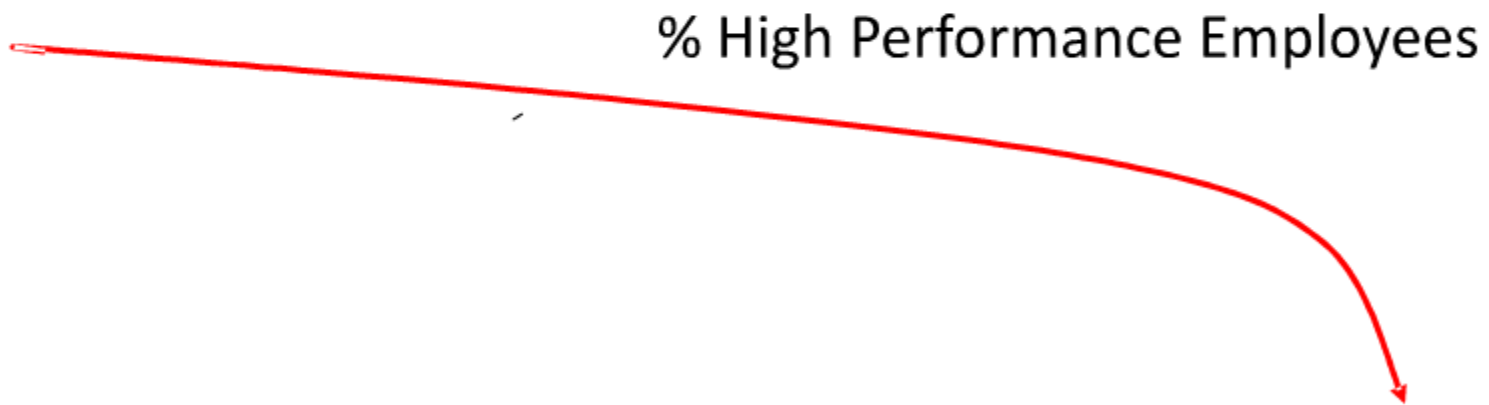
Chaos Emerges



Process Emerges to Stop the Chaos



Process-focus Drives More Talent Out



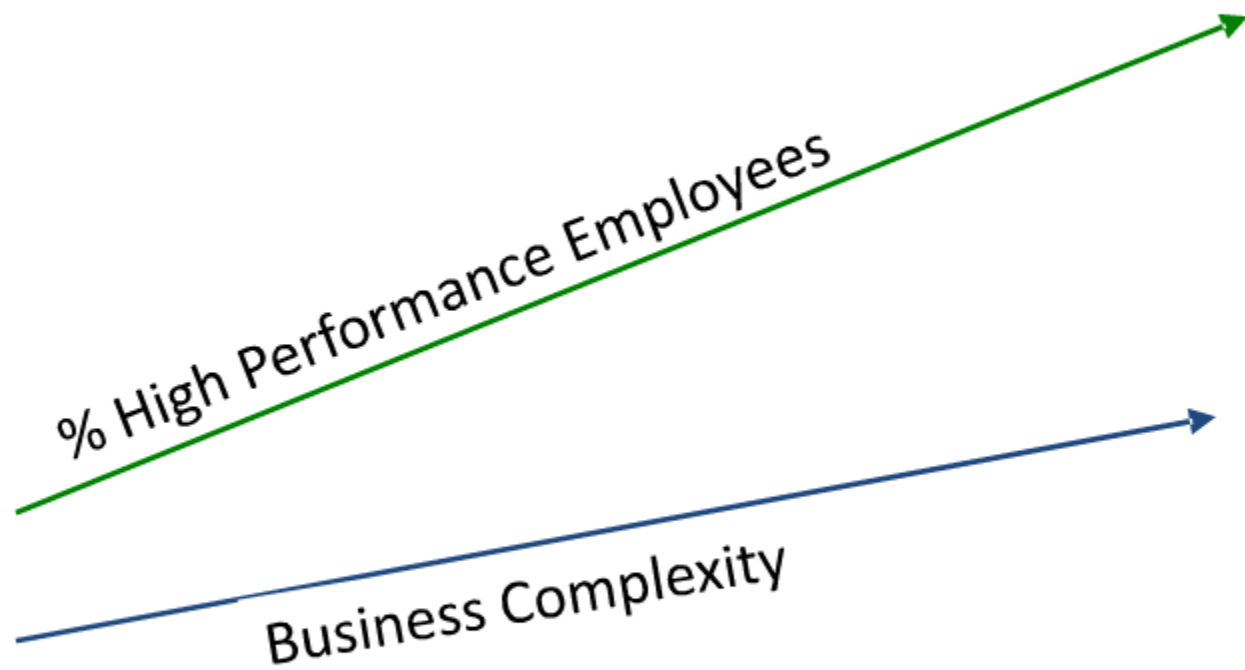
Process Brings Seductively Strong Near-Term Outcome

- 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...

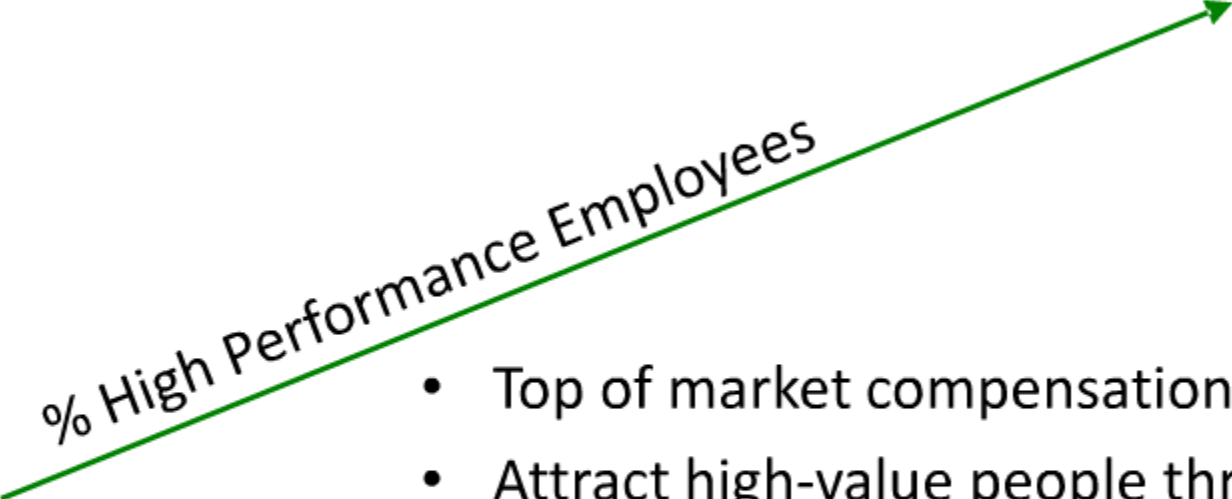
- Market shifts due to new technology or competitors or business models
- Company is unable to adapt quickly
 - because the employees are extremely good at following the existing processes, and process adherence is the value system
- Company generally grinds painfully into irrelevance

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

“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

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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

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

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

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

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

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