No Rules Rules - Netflix and the culture of re-invention

Author	Goodreads Link	Rating
Reed Hastings, Erin Meyer	https://www.goodreads.com/book/show/49099937-no-rules-rules?ac=1&from_search=true&qid=6IwQcpYCUu&rank=1	*

Favorite Quotes

> The rule at Netflix when recruiters call is: "Before you say, 'No thanks!' ask, 'How much?'"

> For each important decision there is always a clear informed captain present

> If your goal is innovation, making a mistake is not the primary risk. The big risk is becoming irrelevant because your employees aren't coming up with great ideas to reinvent the business.

Overview

Netflix cofounder Reed Hastings reveals for the first time the unorthodox culture behind one of the world's most innovative, imaginative, and successful companies

There has never before been a company like Netflix. It has led nothing short of a revolution in the entertainment industries, generating billions of dollars in annual revenue while capturing the imaginations of hundreds of millions of people in over 190 countries. But to reach these great heights, Netflix, which launched in 1998 as an online DVD rental service, has had to reinvent itself over and over again. This type of unprecedented flexibility would have been impossible without the counterintuitive and radical

management principles that cofounder Reed Hastings established from the very beginning. Hastings rejected the conventional wisdom under which other companies operate and defied tradition to instead build a culture focused on freedom and responsibility, one that has allowed Netflix to adapt and innovate as the needs of its members and the world have simultaneously transformed.

Hastings set new standards, valuing people over process, emphasizing innovation over efficiency, and giving employees context, not controls. At Netflix, there are no vacation or expense policies. At Netflix, adequate performance gets a generous severance, and hard work is irrel-evant. At Netflix, you don't try to please your boss, you give candid feedback instead. At Netflix, employees don't need approval, and the company pays top of market. When Hastings and his team first devised these unorthodox principles, the implications were unknown and untested. But in just a short period, their methods led to unparalleled speed and boldness, as Netflix quickly became one of the most loved brands in the world.

Here for the first time, Hastings and Erin Meyer, bestselling author of *The Culture Map* and one of the world's most influential business thinkers, dive deep into the controversial ideologies at the heart of the Netflix psyche, which have generated results that are the envy of the business world. Drawing on hundreds of interviews with current and past Netflix employees from around the globe and never-before-told stories of trial and error from Hastings's own career, *No Rules Rules* is the fascinating and untold account of the philosophy behind one of the world's most innovative, imaginative, and successful companies

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Notes

1. 3 levels to Netflix culture

- First
  - Build up talent density: by creating a workforce of high performers
  - Introduce candor - by encouraging loads of feedback

- Remove controls - such as vacation, travel and expense policies
- Second
  - Strengthen talent density - by paying at the top end of the market.
  - Increase candor- by emphasizing organizational transparency
  - Release more controls - such as decision making approvals
- Third
  - Max-up talent density - by implementing the keeper test
  - Max-up candor - by creating circles of Feedback
  - Eliminate most controls - by leading with context not control

2. Say What You Really Think (with Positive Intent)

4A feedback rule

- AIM TO ASSIST: Feedback must be given with positive intent.
- ACTIONABLE: Your feedback must focus on what the recipient can do differently.
- APPRECIATE: Natural human inclination is to provide a defense or excuse when receiving criticism; we all reflexively seek to protect our egos and reputation.
- ACCEPT OR DISCARD: You will receive lots of feedback from lots of people while at Netflix. You are required to listen and consider all feedback provided. You are not required to follow it.

The only remaining question is when and where to give feedback—and the answer is anywhere and anytime.

If you follow the 4A model, feedback can and should be given exactly when and where it will help the most.

If you are promoting a culture of candor on your team, you have to get rid of the jerks. Many may think, "This guy is so brilliant, we can't afford to lose him." But it doesn't matter how brilliant your jerk is, if you keep him on the team you can't benefit from candor.

If you have a group of people who are highly talented, thoughtful, and well-meaning, you can ask them to do something that is not at all natural but

nonetheless incredibly helpful to a company's speed and effectiveness. You can ask them to give each other loads of candid feedback and challenge authority.

3A. Remove Vacation Policy

If you want to remove the vacation policy in your organization, lead by example. Even at Netflix where I model taking off six weeks a year and encourage my leadership team to do the same,

In the absence of written policy, every manager must spend time speaking to the team about what behaviors fall within the realm of the acceptable and appropriate.

Giving employees more freedom led them to take more ownership and behave more responsibly. That's when Patty and I coined the term "Freedom and Responsibility." It's not just that you need to have them both; it's that one leads to the other. It began to dawn on me. Freedom is not the opposite of accountability, as I'd previously considered. Instead, it is a path toward it.

3B. Remove Travel and Expense Approvals

Before you spend any money imagine that you will be asked to stand up in front of me and your own boss and explain why you chose to purchase that specific flight, hotel, or telephone. If you can explain comfortably why that purchase is in the company's best interest, then no need to ask, go ahead and buy it. But if you'd feel a little uncomfortable explaining your choice, skip the purchase, check in with your boss, or buy something cheaper.

4. Pay Top of Personal Market

By keeping our organization small and our teams lean, each manager has fewer people to manage and can therefore do a better job at it. When those lean teams are exclusively made up of exceptional-performing employees, the managers do better, the employees do better, and the entire team works better—and faster.

Creative work requires that your mind feel a level of freedom. If part of what you focus on is whether or not your performance will get you that big check, you are not in that open cognitive space where the best ideas and most innovative possibilities reside. You do worse.

Reed's theory is that the raise pools and salary bands used at most companies worked well when employment was often for life and an individual's market value wasn't likely to skyrocket in a matter of months.

Read Rites of Passage at $100,000 to $1 Million+, which back in the eighties and nineties was the handbook for executive recruiters. It tells you how to know your market value and how to talk to recruiters to get that data.

Then we told all our employees they should start taking those calls from recruiters and tell us what they learned. Patty developed a database where everyone could input the salary data points they received from calls and interviews.

The rule at Netflix when recruiters call is: "Before you say, 'No thanks!' ask, 'How much?'"

Hire this amazing person at the top of whatever range they are worth on the market. Adjust their salary at least annually in order to continue to offer them more than competitors would. If you can't afford to pay your best employees top of market, then let go of some of the less fabulous people in order to do so. That way, the talent will become even denser.

5. Open the Books

It's up to the leader to live the message of transparency by sharing as much as possible with everybody. Big things, small things, whether good or bad—if your first instinct is to put most information out there, others will do the same. At Netflix, we call this "sunshining," and we make an effort to do a lot of it.

In most businesses, without even realizing it, senior managers stunt the abilities and intelligence of their own workforce by keeping financial and

strategic information hidden.

Spinning the truth is one of the most common ways leaders erode trust. I can't say this clearly enough: don't do this. Your people are not stupid. When you try to spin them, they see it, and it makes you look like a fraud. Speak plainly, without trying to make bad situations seem good, and your employees will learn you tell the truth.

Answer from Reed: whisper wins and shout mistakes

If you have the best employees on the market and you've instituted a culture of open feedback, opening up company secrets increases feelings of ownership and commitment among staff. If you trust your people to handle appropriately sensitive information, the trust you demonstrate will instigate feelings of responsibility and your employees will show you just how trustworthy they are.

6. No Decision-Making Approvals Needed

DON'T SEEK TO PLEASE YOUR BOSS. SEEK TO DO WHAT IS BEST FOR THE COMPANY.

you don't lose your job because you make a bet that doesn't work out. Instead you lose your job for not using your chips to make big things happen or for showing consistently poor judgment over time.

"Farm for dissent," or "socialize" the idea. For a big idea, test it out. As the informed captain, make your bet. If it succeeds, celebrate. If it fails, sunshine it.

We now say that it is disloyal to Netflix when you disagree with an idea and do not express that disagreement. By withholding your opinion, you are implicitly choosing to not help the company.

After two years we'd tripled our kids' slate, and in 2018 we were nominated for three Emmys for our original kids shows Alexa and Katie, Fuller House, and A Series of Unfortunate Events. To date, we've won over a dozen Daytime Emmys for children's programs like The Mr. Peabody and Sherman Show and Trollhunters: Tales of Arcadia.

For each important decision there is always a clear informed captain present

Leslie was right, and we follow her example across Netflix today. At Netflix you don't need management to sign off for anything. If you're the informed captain, take ownership—sign the document yourself.

If you have high talent density and organizational transparency firmly in place, a faster, more innovative decision-making process is possible. Your employees can dream big, test their ideas, and implement bets they believe in, even when in opposition to those hierarchically above them.

7. The Keeper Test

To achieve the highest level of talent density you have to be prepared to make tough calls. If you're serious about talent density, you have to get in the habit of doing something a lot harder: firing a good employee when you think you can get a great one.

WE ARE A TEAM, NOT A FAMILY

IF A PERSON ON YOUR TEAM WERE TO QUIT TOMORROW, WOULD YOU TRY TO CHANGE THEIR MIND? OR WOULD YOU ACCEPT THEIR RESIGNATION, PERHAPS WITH A LITTLE RELIEF? IF THE LATTER, YOU SHOULD GIVE THEM A SEVERANCE PACKAGE NOW, AND LOOK FOR A STAR, SOMEONE YOU WOULD FIGHT TO KEEP.

If you were on a team of ten people, you walked in the first day knowing that, no matter how good everyone was, two people were going to get a great review, seven were going to get mediocre reviews, and one was going to get a terrible review. It leads to employees focusing on competing with each other rather than competing with other companies.

8. A Circle of Feedback

People were perhaps worried that if they left feedback that was too specific or concrete I would recognize the author, so they masked their observations in obliqueness.

We now do the 360 written feedback every year, asking each person to sign their comments. We no longer have employees rate each other on a scale of 1 to 5, since we don't link the process to raises, promotions, or firings.

9. Lead with Context, Not Control

When considering whether to lead with context or control, the second key question to ask is whether your goal is error prevention or innovation. If your focus is on eliminating mistakes, then control is best.

If your goal is innovation, making a mistake is not the primary risk. The big risk is becoming irrelevant because your employees aren't coming up with great ideas to reinvent the business.

If you've got high-performing employees, leading with context is best.

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.

third necessary condition you need to have in place in order for leading with context to work. In addition to high talent density (that's the first condition) and a goal of innovation rather than error prevention (that's the second), you also need to work (here comes the third) in a system that is "loosely coupled."

If you are already part of a tightly coupled system, you may have to work with the top leaders in the company in order to change the entire organizational approach before trying to lead with context at a lower level. Even with high talent density, and innovation as your goal, if you don't sort this out, leading with context may be impossible.

This is the scenario currently in Deloitte. We are trying to change the culture at lower level to lead with context. However, at the top the culture is to still lead with control

tight coupling does have at least one important organizational benefit. In a tightly coupled system, strategic change is easily aligned throughout the

organization. If the CEO wants all departments throughout the company to focus on sustainability and ethical sourcing, then she can control that through her centralized decision-making.

With loose coupling, on the other hand, the risk of misalignment is high. Who's to say one department won't put low cost ahead of protecting the environment or workers in sweatshops and pull the entire organization off course?

In a loosely coupled organization, where talent density is high and innovation is the primary goal, a traditional, control-oriented approach is not the most effective choice. Instead of seeking to minimize error through oversight or process, focus on setting clear context, building alignment of the North Star between boss and team, and giving the informed captain the freedom to decide.

In order to lead with context, you need to have high talent density, your goal needs to be innovation (not error prevention), and you need to be operating in a loosely coupled system.

When one of your people does something dumb, don't blame that person. Instead, ask yourself what context you failed to set.

10. Bring It All to the World!

What we learned from this experience, and later found to be true not just in Japan but in most cultures where direct negative feedback is less comfortable and less common, was that asking employees to give ad hoc feedback to peers and superiors at informal moments doesn't usually work well. But if you run more formal events, putting feedback on the agenda, providing preparation instructions, and giving a clear structure to follow, you can get all the useful feedback out there just as effectively.

When giving feedback with those from your own culture, use the 4A approach outlined in chapter 2. But when giving feedback around the world, add a 5th A: The 4As are as follows: Aim to assist Actionable Appreciate Accept or decline Plus one makes 5: Adapt—your delivery and

your reaction to the culture you're working with to get the results that you need.

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