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.

One of the reasons this is so difficult in many companies is because business leaders are continually telling their employees, "We are a family." But a high-talent-density work environment is not a family.

A FAMILY IS ABOUT STAYING TOGETHER REGARDLESS OF "PERFORMANCE"

For many centuries, almost all businesses were run by families, so it's no surprise that today the most common metaphor CEOs use for their companies is the family. The family represents belonging, comfort, and commitment to helping one another over the long term. Who wouldn't want their employees to feel a deep fondness for and loyalty to the company they work for?

The people greeters at Walmart were encouraged for decades to think of themselves as part of the "Walmart family." When trained how to greet customers, they were told they should welcome everyone as if they were receiving a guest in their own home.

Former Netflix vice president of engineering, Daniel Jacobson, worked at National Public Radio (NPR) for a decade in Washington, DC, before working at Netflix for a decade. He explained the benefits of the family ethos at NPR like this:

> I began at NPR in late 1999 as the first full-time software engineer hired online. When I got there, I was super-pumped. People who want to work at NPR believe in the mission and love the organization's dedication to news and information. That shared purpose resulted in a culture that at times felt more like a family than a workplace. It was very appealing, and I developed a lot of close relationships at work.
>
> NPR had such a strong family culture that many people turned it into their real family. One of the "founding mothers" of NPR, Susan Stamberg, maintained a "Met and Married List" for NPR employees. NPR is a relatively small organization and the list of couples who had met there was pretty long.

Daniel also remembers some of his colleagues saying, "If you're at NPR for three years, you're at NPR for life."

Of course families aren't just about love and loyalty. In families we cut each other slack and put up with quirks and crankiness because we are committed to supporting one another for the long term. When people behave badly, don't pull their weight, or aren't able to fulfill their responsibilities, we find a way to make do. We don't have a choice. We are stuck together. That's what family is all about.

The second part of Daniel's NPR story illustrates the problem with treating a workforce like a family:

> The culture at NPR has a lot of advantages and works for them. But after a while, I started to see the problems of having a family ethos at work. There was a software engineer on my team, Patrick. Although he was an experienced engineer, he didn't have the skills to accomplish his job well. He would continually need extra time to complete his projects and would often have significant bugs or problems in his code. Sometimes other engineers needed to be included in his projects to ensure that we could get the work done effectively.
>
> Patrick had a great attitude, which added complexity. He was eager to do the right thing and wanted to prove that he could operate independently. We all yearned for him to succeed and we would seek out opportunities that would fit well with his limited skills. But his work quality didn't compare to that of his colleagues. Every day I needed to worry about him and I didn't need to worry about them. He was a lovely person, but the deliverables weren't there.
>
> Patrick took up so much of my time—and so much of the team's time correcting his mistakes—that it became a real problem. The best engineers on the team were often frustrated and looking for me to intervene. I worried that some of them were becoming so irritated they might look for jobs elsewhere.
>
> I could see that the team would have been considerably more effective without Patrick. Even if I couldn't replace him with someone else.
>
> I spoke to my boss, who encouraged me to seek out different kinds of work that would take advantage of Patrick's strengths while shielding others from his weaknesses. Firing him wasn't even part of the discussion. We didn't have cause. He hadn't done anything wrong. The organization was such a family the response was: "He's one of us. We're all in this together. We'll work around him."

FROM FAMILY TO TEAM

In the early Netflix days, our managers also worked to foster a family-like environment. But, after our 2001 layoffs, when we saw the performance

dramatically improve, we realized family is not a good metaphor for a high-talent-density workforce.

We wanted employees to feel committed, interconnected, and part of a greater whole. But we didn't want people to see their jobs as a lifetime arrangement. A job should be something you do for that magical period of time when you are the best person for that job and that job is the best position for you. Once you stop learning or stop excelling, that's the moment for you to pass that spot onto someone who is better fitted for it and to move on to a better role for you.

But if Netflix wasn't a family, what were we? A group of individuals looking out for ourselves? That definitely wasn't what we were going for. After a lot of discussion Patty suggested that we think of Netflix as a professional sports team.

Initially this didn't sound very profound. The metaphor of team for company is just about as tired as the metaphor of family. But as she kept talking, I started to see what she meant:

> I just watched *Bull Durham* with my kids. On a pro baseball team, the players have great relationships. These players are really close. They support one another. They celebrate together, console one another, and know each other's plays so well that they can move as one without speaking. But they are not a family. The coach swaps and trades players in and out throughout the year in order to make sure they always have the best player in every position.

Patty was right. At Netflix, I want each manager to run her department like the best professional teams, working to create strong feelings of commitment, cohesion, and camaraderie, while continually making tough decisions to ensure the best player is manning each post.

A professional sports team is a good metaphor for high talent density because athletes on professional teams:

- Demand excellence, counting on the manager to make sure every position is filled by the best person at any given time.
- Train to win, expecting to receive candid and continuous feedback about how to up their game from the coach and from one another.
- Know effort isn't enough, recognizing that, if they put in a B performance despite an A for effort, they will be thanked and respectfully swapped out for another player.

On a high-performing team, collaboration and trust work well because all the members are exceptionally skilled both at what they do and at working well with others. For an individual to be deemed excellent she can't just be amazing at the game; she has to be selfless and put the team before her own ego. She has to know when to pass the ball, how to help her teammates thrive, and recognize that the only way to win is for the team to win together. This is exactly the type of culture we were going for at Netflix.

This is when we started saying that at Netflix:

WE ARE A TEAM, NOT A FAMILY

If we are going to be a championship team, then we want the best performer possible in every position. The old notion is that an employee has to do something wrong, or be inadequate, to lose their job. But in a pro, or Olympic, sports team, the players understand the coach's role is to upgrade—if necessary—to move from good to great. Team members are playing to stay on the team with every game. For people who value job security over winning championships, Netflix is not the right choice, and we try to be clear and nonjudgmental about that. But for those who value being on winning teams, our culture provides a great opportunity. Like any team successfully competing at the highest level, we form deep relationships and care about each other.

THE KEEPER TEST

Of course, managers at Netflix, like good people anywhere, want to feel positive about their actions. To get them to feel good about cutting someone they like and respect requires them to desire to help the organization and to recognize that everyone at Netflix is happier and more successful when there is a star in every position. So we ask the manager: Would the company be better off if you let go of Samuel and looked for someone more effective? If they say "yes," that's a clear sign that it's time to look for another player.

We also encourage all managers to consider each of their employees regularly and make sure they've got the best person in every spot. To help managers on the judgment calls, we talk about the Keeper Test:

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.

We try to apply the Keeper Test to everyone, including ourselves. Would the company be better off with someone else in my role? The goal is to remove any shame for anyone let go from Netflix. Think of an Olympic team sport like hockey. To get cut from the team is very disappointing, but the person is admired for having had the guts and skill to make the squad in the first place. When someone is let go at Netflix, we hope for the same. We all stay friends and there is no shame.

Patty McCord herself is one example. After working together for over a decade, I started feeling that it would be best for us to have someone new in the role. I shared these thoughts with Patty, and we talked about what was leading me there. As it turned out, she wanted to work less, so she left Netflix and it was very amicable. Seven years later we remain close friends and informal advisers to one another.

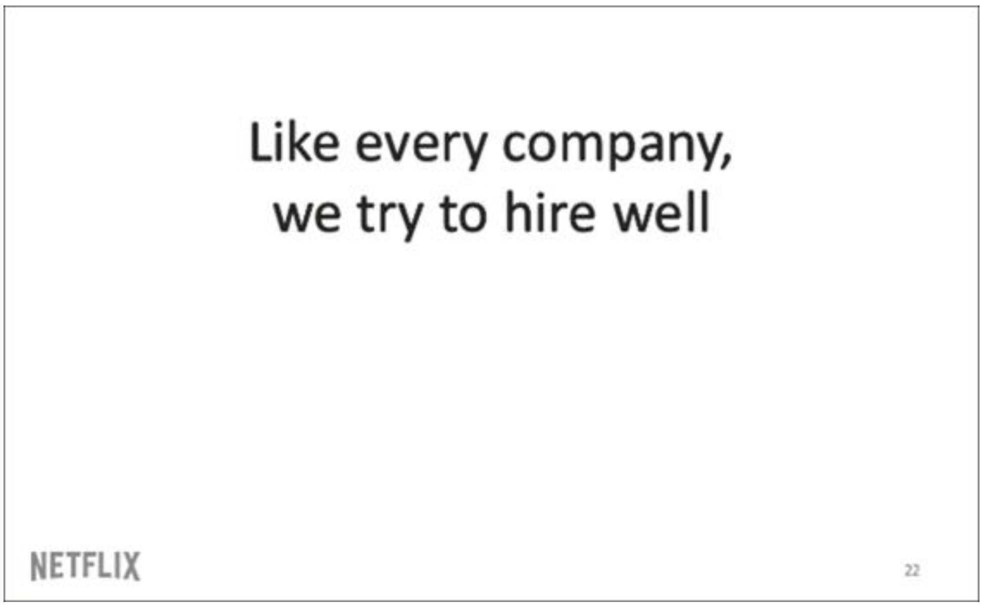
In another case, Leslie Kilgore was incredible for us as chief marketing officer, and she was instrumental in our culture, our battle with Blockbuster, and our growth overall. She was, and is, a great business thinker. But with *House of Cards* launching, and a future of marketing titles rather than making offers, I knew we needed someone with deep Hollywood studio experience, partially to make up for my own lack of showbiz knowledge. So I let go of Leslie, but she was willing to serve on our board, so she has become one of my bosses and has been a great company director for many years.

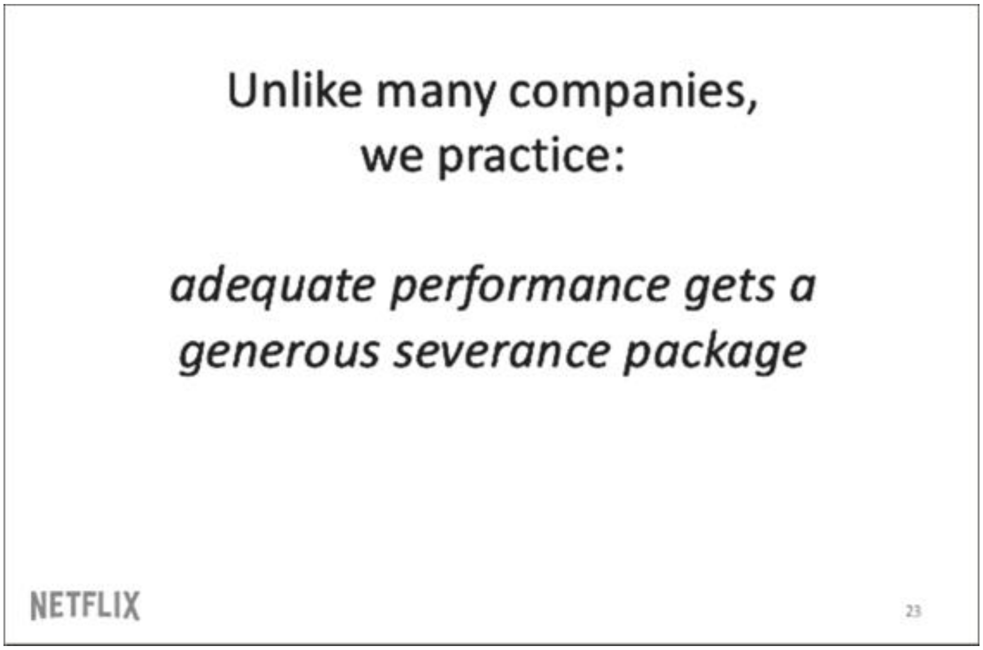
So the Keeper Test is real and all our managers at all levels in the company use it consistently. I tell my bosses, the board of directors, that I should be treated no differently. They shouldn't have to wait for me to fail to replace me. They should replace me once they have a potential CEO who is likely to be more effective. I find it motivating that I have to play for my position every quarter, and I try to keep improving myself to stay ahead.

• • •

At Netflix, you might be working your hardest to do your very best, giving your all to help the company succeed, managing to deliver pretty good results, and then you walk into work one day and boom . . . you’re unemployed. Not because there was some unavoidable financial crisis or big unforeseen layoffs, but because your deliverables are not as amazing as your boss had hoped they’d be. Your performance is merely adequate.

In the introduction we looked at some of the most controversial slides of the Netflix Culture Deck that explains Reed’s philosophy:





These slides pose tough questions. In order to make sure Reed answers those questions, we'll set the rest of this chapter up like a Q and A:

AN INTERVIEW WITH REED

Question 1

According to former chief product officer, Neil Hunt, "We are a team, not a family" has caused controversy at Netflix since the early days. He remembers:

> Back in 2002 Reed organized a leadership offsite meeting in Half Moon Bay, where he emphasized that we must continually go through the same rigorous exercise that he and Patty had gone through preparing for the layoffs. We must ask ourselves on an ongoing basis which employees were no longer the best choice for their positions and, if they were not able to become "best choice" after receiving feedback, we would need to have the courage to let them go.
>
> I was taken aback. I spoke to the group about the difference between penguins and elephants. Penguins abandon those in the group that are weak or struggling, while elephants rally around them and nurture them back to health. "Are you telling me we are going to choose to be penguins?" I asked.

Reed, are you not concerned about Netflix being the callous penguins in Neil's story? Losing your job is a big deal. That job loss will impact that person's financial situation, reputation, family dynamics, and career. Some people are on immigration status and, without a job, might be deported. You, of course, are very wealthy, so losing your salary would be no skin off your back. But that's not the case for most of your employees.

Is it even ethical to let go of people who are doing their best but failing to deliver amazing results?

Answer 1

We pay our employees top of their personal market, so they are all paid very well. Part of that agreement is that they will play on the team as long as they are the best player for the spot. They understand that the needs of our company change quickly and that we expect outstanding performance. So, each employee who chooses to join the Netflix team opts in to our high-talent-density approach. We are transparent about our tactics and many employees are delighted to be surrounded by such high-quality colleagues and happy to put up with some job risk in return. Other people may prefer long-term job security and they choose not to join Netflix. So yes, I believe our approach is ethical. It is also highly popular with most of our employees.

That said, since our performance bar is so high, it seems only fair that, if we take away people's jobs, we should give them enough money to get started on their next projects. We give everyone we dismiss a big severance—enough to take care of themselves and their families until they move on to another job. Each time we let go of someone, we offer several months' salary (from four months for an individual contributor to nine months for a vice president). That's why we say:

ADEQUATE PERFORMANCE GETS A GENEROUS SEVERANCE

To some people, this will sound prohibitively expensive. And it probably would be, if it weren't for our efforts to eliminate unnecessary control processes.

In many companies in the US, when a manager decides to let go of someone, he is required to put in place a process called a performance improvement plan (PIP). This means that the manager documents weekly discussions with the employee over a period of months, demonstrating in writing that the employee has not managed to succeed despite feedback. PIPs rarely help employees improve and they delay the firing by many weeks.

PIPs were invented for two reasons. The first is to protect employees from losing their job without getting constructive feedback and the opportunity to improve. But with our culture of candor at Netflix, people get loads of feedback every day. Before any employee is let go, he should have heard clearly and regularly what he needs to do in order to improve.

The second is to protect the company from a lawsuit. We ask exiting employees, in order to receive the generous severance we are offering, to sign an agreement that they won't sue us. Almost all accept the offer. They get a big chunk of money and can focus on the next step of their careers.

PIPs are of course expensive. If you put someone on a four-month PIP, that's four months you have to pay an underperformer and countless hours spent by the line manager and HR enforcing and documenting the process. Instead of pouring that capital into a prolonged PIP, give it to the employee in a nice, big, up-front severance package, tell him you're sorry it didn't work out, and wish him well in his next adventure.

Question 2

There is a scene in the movie *The Hunger Games* in which the teenage protagonist Katniss, played by Jennifer Lawrence, stands on a small platform dressed in camouflage gear and surveys her competition. Twenty-four young people between the ages of twelve and eighteen have been drafted for a televised event pitting youth against each other. Only one of the players will win and all the others will die. If you want to live, you have to kill the competition.

When I began interviews at Netflix I expected that it would feel a lot like *The Hunger Games* around the office. Every professional team-sports player knows that for someone to win others have to lose: you have to compete for your seat.

I'd also read about similar-sounding practices used in the past by companies like Microsoft that are now generally considered to have incited harmful internal competition. For example, until 2012, Microsoft managers were asked to rank their employees on a scale from top to bottom performers and encouraged to let go of those at the bottom.

In a *Vanity Fair* article titled, "Microsoft's Lost Decade," journalist Kurt Eichenwald quoted a former employee:

> 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.

One Microsoft engineer reportedly said:

> People will openly sabotage other people's efforts. One of the most valuable things I learned was to give the appearance of being courteous while withholding just enough information from colleagues to ensure they didn't get ahead of me in the rankings.

Why should the team-not-a-family at Netflix be any different? I expected to find Netflix employees scratching and backstabbing to keep their spots too. In truth, I didn't find this during my interviews.

Reed, given how tough it is to get and maintain a spot on the Netflix team, how do you manage to stave off internal competitiveness?

Answer 2

Accidentally inciting internal competition is a real concern for organizations like ours that seek to increase their talent density. Many have implemented processes and rules to encourage their managers to get rid of mediocre employees and have fallen into systems that accidentally stoke

internal competition. The worst is so-called stack ranking, also known as the "vitality curve" or, more colloquially, as "rank-and-yank."

The *Vanity Fair* article Erin quotes above outlines one version of stack ranking. GE and Goldman Sachs have also tried stack-ranking systems to increase talent density. Jack Welch, perhaps the first CEO to use the method, famously encouraged managers at GE to rank their employees every year and to let go of the bottom 10 percent in order to keep performance levels high.

In 2015, *The New York Times* reported that GE had, like Microsoft in 2012, dropped the evaluation method. As one might expect, stack ranking sabotages collaboration and destroys the joy of high-performing teamwork.

We encourage our managers to apply the Keeper Test regularly. But we are very careful to not have any firing quotas or ranking system. Rank-and-yank or "you must let go of X percent of your people" is just the type of rule-based process that we try to avoid. More important, these methods get managers to let go of mediocre employees, but they kill teamwork at the same time. I want our high-performing employees to compete against Netflix's competitors, not one another. With rank-and-yank what you gain in talent density you lose in reduced collaboration.

Fortunately, there is no reason to choose between high talent density and strong collaboration. With the Keeper Test we can achieve both. That's because there is one critical way we are not like a professional sports team. On the Netflix team there is no fixed number of slots. Our sport isn't being played to a rule book and we don't have limits on how many people we play with. One employee doesn't have to lose for the other to win. On the contrary, the more excellence we have on the team, the more we accomplish. The more we accomplish, the more we grow. The more we grow, the more positions we add to our roster. The more positions we add, the more space there is for high-performing talent.

Question 3

A November 2018 issue of *The Week* magazine ran an article titled, "Netflix's Culture of Fear." It quotes Rhett Jones of the tech website Gizmodo, who calls out Netflix for "brutal honesty, insider lingo, and constant fear." Less than a month earlier, Shalini Ramachandran and Joe Flint wrote in a *Wall Street Journal* article based on interviews with Netflix employees: "At a meeting in late spring of Netflix public-relations executives, one said every day he comes to work he fears he is going to get fired."

I too found in my interviews that some Netflix employees spoke openly of an ongoing fear that they will lose their jobs. One was Marta Munk de Alba, a recruiter in the Amsterdam office. She is a licensed psychologist who moved from Spain to the Netherlands in 2016 to join the Netflix Human Resources team. Here is her story:

My first months on the job, I was filled with terror that my colleagues would discover I was not worthy of their dream team and I would lose my job. I saw firsthand the quality of my colleagues. I would think, "Do I really belong here? How long will it take for them to figure out I'm a fake?" Every morning, I would get into the elevator at eight a.m., and as I hit the elevator button, it was like a trigger. The air would catch in my chest. I was sure that when the doors slid open my boss would be standing on the other side waiting to fire me.

I felt that if I lost my job, I would be losing the most important opportunity of my life. I worked like crazy—deep into the night—and pushed myself harder than I had ever done before. But the fear continued.

Derek, now a director at Netflix, provided another example:

During my first year at Netflix, I thought every day about whether I would be let go. For nine months I didn't unpack my boxes, because I was sure the day I unpacked would be the day I lost my job. It wasn't just me. My coworkers talked constantly about the Keeper Test. When we were in a cab or having lunch, the number one topic of conversation was always losing our jobs—those who had recently been let go, those who we thought would be let go, whether WE might be let go. It was only when my boss promoted me to director that I saw how misplaced my fears had been.

It's clear that the Keeper Test increases talent density, but it also creates worry. Employees report feelings ranging from "mildly concerned" to "occasionally terrified" that they will be cut from the team.

Reed, what are you doing to mitigate a culture of fear at Netflix?

Answer 3

In white-water kayaking they teach you to look at the clear, safe water next to the dangerous hole you want to avoid. Experts have found that if you stare at what you are desperate to avoid, you are actually more likely to paddle into it. Similarly, at Netflix, we tell all employees it is best to focus on learning, teamwork, and accomplishment. If a person gets obsessed by their risk of being let go (or an athlete becomes obsessed with the risk of being injured) they can't play light and confident, and this can bring about the very troubles they were trying to prevent.

THE KEEPER TEST PROMPT

There are two steps we take at Netflix to minimize fear around the office.

The first step is that any employee who is feeling the type of anxiety that Marta and Derek discussed is encouraged to use what we call the "Keeper Test Prompt" as soon as possible. That almost always improves the situation.

During your next one-to-one with your boss ask the following question:

"IF I WERE THINKING OF LEAVING, HOW HARD WOULD YOU WORK TO CHANGE MY MIND?"

When you get the answer, you'll know exactly where you stand. Chris Carey is a senior tools engineer at the Netflix Silicon Valley office and one of many who ask the question on a regular basis:

> When you ask your boss the Keeper Test Prompt question, there are three possible outcomes. One, your boss might say he would fight hard to keep you. In that case any fear you've had about your performance will immediately go away. That's good.
>
> Two, your boss might give you an uncertain response with clear feedback about how to improve. That's good too because you hear what you need to do to excel in your role.
>
> Three, if your boss feels he would not fight hard to keep you, you may have caused him to notice something negative about your performance that wasn't previously in the forefront of his mind. This makes asking the question a little scary. But it is still good because it sparks a clear discussion about whether this job is the right fit for your skill set and ensures you won't be blindsided to hear one morning that you've lost your job.

When Chris started at Netflix, he vowed to use the Keeper Test Prompt each year in November, so he'd never be taken by surprise.

> I'm a software coder. I'm happiest spending 95 percent of my time head down in code. A year into my tenure at Netflix, I was pleasantly coding my life away. I asked my boss: "Paul, would you fight to keep me if I told you I was leaving?" His answer was a loud yes. That felt great.
>
> Later I inherited a project that was also coding, but we had employees at Netflix who were using the tool I was developing. Paul suggested on several occasions that I set up focus group interviews with internal users. But I have some social anxiety, so instead of holding meetings, I chose to use my own intuition about how to improve the product.
>
> November rolled around. I asked Paul the Keeper Test Prompt question again. This time his answer was less positive: "At this moment, I don't know if I would fight to keep you. You can go

back to your previous job, where you were excelling. But this role requires that you interact more with our users. If you want to keep this job, you'll have to lead focus groups and give presentations. It will take you out of your comfort zone and I don't know if you will succeed."

I decided to take the risk. I worked hard. I took a presentation class online and practiced in front of my neighbors. The day of my first Netflix presentation I got up at six a.m., unicycled for four hours, took a shower, and walked directly into the meeting room for my eleven a.m. presentation. My goal was to work out all my anxiety and not give myself time to get too nervous. For the focus group meetings I tried other methods like pre-discussion videos to minimize the amount of time I'd have to speak in front of the group.

It was only May, but I put the Keeper Test on the agenda again. I needed to understand if I was at risk of losing my job. "Would you fight to keep me?" I asked Paul.

Paul looked right in my eyes and said: "You are outstanding at ninety percent of this job. You are innovative, meticulous, and hardworking. For the other ten percent you've been able to incorporate feedback and you are now doing fine. You can continue to push yourself to interact more with our internal users. But you are doing high-level work. If you told me you were leaving, I would fight really hard to keep you."

All three times Chris asked the question, he got important information. The first answer felt good, but it didn't add much value. The second was the most stressful but provided him with a straightforward plan of action. The third reassured Chris his efforts were paying off.

The second technique that we use to abate the fear of job loss is the "post-exit Q and A."

POST-EXIT Q & A

There is nothing more ominous than people on your team disappearing from the roster with no word about how the decision was made or how much warning that person received. The biggest worry people have when they learn a colleague has been let go is whether that person had feedback or whether the termination came out of the blue.

Yoka, a content specialist in our Tokyo office, tells this story. Her anecdote is particularly potent because Japanese companies traditionally offer employment for life. Even today, firing a worker is rare in Japan. Many of our employees there have no previous experience of a colleague losing his job:

My closest colleague, Aika, worked for a man named Haru, who was really not a good boss. Aika and her entire team were suffering under Haru's management. I was hoping something would happen, but when Haru lost his job my own reaction surprised me.

One morning I came to the office a little later than usual. It was January and there was snow on the road. Aika raced to my desk, her face flushed. "Did you hear what happened?" Haru's boss Jim had flown from California and met with Haru early in the morning, before anyone else arrived at work. By the time Aika arrived Haru had been let go and was already packing his boxes and preparing to say goodbye. Now Haru was gone and we wouldn't see him again. I burst into tears. I didn't feel close to him, but I couldn't help thinking, "What if I came into work and someone was waiting to fire me?" The one thing I needed to know was did Haru get feedback? If so, what had he been told? Did he see this might be coming?

The best response after something difficult happens is to shine a bright light on the situation so everyone can work through it in the open. When you choose to sunshine exactly what happened, your clarity and openness will wash away the fears of the group. Let's pick up Yoka's story again:

I learned that there would be a meeting at 10:00 a.m. for Haru's team and for anyone else who had worked with Haru or had questions. About twenty people came together around a big oval table. The group was really quiet. Jim detailed Haru's strengths and struggles and explained why he felt he was no longer the best choice for his position. We sat silently for a while. Jim asked if there were questions. I raised my hand and asked how much feedback Haru had received and whether he had been surprised. Jim outlined the discussions he and Haru had had in the previous weeks. He said Haru was very upset and, despite all the feedback, did seem a little surprised.

Having information helped me calm down and also think about how to manage my own emotions. I called my own boss in California and told her that, if it ever crosses her mind that she might need to let me go, I wanted her to tell me plainly. I made her promise that if she ever has to let me go, I won't be surprised at all.

Meetings like the one organized by Jim help those who worked directly with a parting employee to process what happened and get their questions answered.

THE FINAL COUNT

Most companies do what they can to minimize employee turnover. It costs money to find and train new people, so the traditional wisdom goes that it's

cheaper to hold on to your current team members than to find new ones. But Reed doesn't pay much attention to turnover rate, believing that replacement costs are not as important as ensuring the right person is in every position.

So, given all the focus on Keeper Tests, just how many employees DOES Netflix let go of annually?

According to the Society for Human Resource Management's "Human Capital Benchmarking Report," the average annual turnover rate for American companies the past few years has been around 12 percent voluntary turnover (people choosing to leave the company of their own accord) and 6 percent involuntary (people who were fired), which adds up to a total average annual turnover of 18 percent. For technology companies, the total average annual turnover is more like 13 percent, and in the media/entertainment business it's 11 percent.

Over the same period, voluntary turnover at Netflix has remained steady at 3–4 percent (considerably below the 12 percent average—meaning not many choose to leave) and 8 percent involuntary (meaning 2 percent more people get fired at Netflix than the 6 percent average), equaling a grand total of 11–12 percent annual turnover . . . or just around the average for the sector. It seems there aren't actually that many people Netflix managers wouldn't fight to keep.

THE SEVENTH DOT

The Keeper Test has helped to elevate the talent density at Netflix to a level rarely seen in other organizations. If each manager considers carefully, on a regular basis, whether every employee on the team is indeed the best choice for that position and replaces anyone who isn't, performance across the organization soars to new heights.

TAKEAWAYS FROM CHAPTER 7

- In order to encourage your managers to be tough on performance, teach them to use the Keeper Test: "Which of my people, if they told me they were leaving for a similar job at another company, would I fight hard to keep?”

- Avoid stack-ranking systems, as they create internal competition and discourage collaboration.
- For a high-performance culture, a professional sports team is a better metaphor than a family. Coach your managers to create strong feelings of commitment, cohesion, and camaraderie on the team, while continually making tough decisions to ensure the best player is manning each post.
- When you realize you need to let someone go, instead of putting him on some type of PIP, which is humiliating and organizationally costly, take all that money and give it to the employee in the form of a generous severance payment.
- The downside to a high-performance culture is the fear employees may feel that their jobs are on the line. To reduce fear, encourage employees to use the Keeper Test Prompt with their managers: “How hard would you work to change my mind if I were thinking of leaving?”
- When an employee is let go, speak openly about what happened with your staff and answer their questions candidly. This will diminish their fear of being next and increase their trust in the company and its managers.

Toward a Culture of Freedom and Responsibility

You’ve implemented the Keeper Test. Congratulations! You now have a full-fledged high-performing workforce, which is the envy of your competitors. With such high talent density, your company is bound to grow, and when new people join the team you’ll need to help them adjust to your way of working. As we’ve grown at Netflix, we’ve found it has been especially difficult to maintain the high level of candor that is one of the key foundations to our success. Candor is like going to the dentist: a lot of people will avoid it if they can. In the next chapter, we’ll look at a couple of simple tactics to help keep candor levels at your company continually high.

MAX UP CANDOR . . .

8
A CIRCLE OF FEEDBACK

There is one Netflix guideline that, if practiced religiously, would force everyone to be either radically candid or radically quiet: “Only say about someone what you will say to their face.” The less we talk about people behind their backs, the more we eliminate the gossip that creates inefficiency and bad feelings—and the more we can wash our hands of the unpleasantness generally referred to as “office politics.” While at Netflix, I tried to play within the rules of the culture. This particular rule was harder than it sounded.

I was conducting interviews in Silicon Valley. Briefed by PR manager Bart, most interviewees were bursting with stories and viewpoints. Heidi was the exception. She was standing in front of her desk talking to two colleagues when I arrived and looked away, as if she wasn’t expecting me, forcing me to try and get her attention. Her demeanor went beyond aloof, edging toward hostile. She answered my questions with one-syllable answers. I ended the interview early.

While waiting with Bart for the elevator, we debriefed. “That was useless. She clearly wasn’t prepared and didn’t want to talk to me,” I complained. Midsentence, I saw, in my peripheral vision, Heidi pass through an adjoining corridor not five feet from us. I don’t know if she heard what I’d said, but that didn’t stop the neon words that flashed across my brain: “ONLY SAY ABOUT SOMEONE WHAT YOU WILL SAY TO THEIR FACE.” This Netflix culture thing was proving complicated. Most people do spend large parts of their day talking behind someone else’s back. Myself included, apparently.

I asked Bart what the correct “Netflix” reaction would have been. I could hardly have ended the meeting by saying to Heidi, “Thank you for the eight minutes you gave me, but you clearly hadn't prepared and seemed as if you couldn't be bothered."

Bart looked at me like I was a goose pretending to be a duck: "You don't work for Netflix, plus you're conducting only one interview with Heidi, so your feedback wouldn't help the project. If you worked for Netflix and you were meeting with her again, you would aim to give her the input before the next interview, probably by putting a feedback meeting on her calendar." Then Bart showed who the real duck was: "I'll need her to interview with other writers in the future. I'll give her the feedback."

But not everyone at Netflix is as comfortable as Bart in initiating feedback.

GOING TO THE DENTIST

Saying that the company values candor is one thing. Maintaining it while the organization grows, new people join, and relationships become more numerous is more challenging. The problem became obvious to me during a one-on-one meeting with a director who had been at Netflix for almost a year. He said, "When I was hired, everyone said I would receive loads of feedback. But I've been at Netflix a while now, and I haven't received any."

I was worrying about that when I made a routine visit to my dentist. She poked me sharply on one of my molars. "You need to come in for more regular checkups, Reed. There are some spots in the back you're not getting when you brush."

Candor is like going to the dentist. Even if you encourage everyone to brush daily, some won't do it. Those who do may still miss the uncomfortable spots. I can't ensure the candor we encourage is happening every day. But I can ensure that we have regular mechanisms in place so that the most critical feedback gets out. In 2005, we became focused on finding tools that employees could rely on to get and receive candid feedback that didn't come out naturally in the course of day-to-day business.

The obvious choice would have been annual performance reviews. These days it's become trendy to ditch them, but in 2005 just about every company used performance reviews. With this system, the boss puts in writing the employee's strengths and weaknesses, along with an overall performance rating, and holds a one-on-one meeting to go over the assessment.

We've been against performance reviews from the beginning. The first problem is that the feedback goes only one way—downward. The second difficulty is that with a performance review you get feedback from only one person—your boss. This is in direct opposition to our "don't seek to please your boss" vibe. I want people to receive feedback not just from their direct managers but from anyone who has feedback to provide. The third issue is that companies usually base performance reviews on annual goals. But employees and their managers don't set annual goals or KPIs (Key Performance Indicators) at Netflix. Likewise, many companies use performance reviews to determine pay raises, but at Netflix we base salaries on the market, not performance.

We searched for a mechanism that would encourage everyone to give feedback to any colleague they wished, that reflected the level of candor and transparency we were trying to cultivate, and that was consistent with our Freedom and Responsibility culture. After a great deal of experimenting, we now have two processes we use regularly.

1: STATE YOUR NAME: A DIFFERENT KIND OF WRITTEN 360

When we first tested annual written 360s, we ran them like everyone else. Each employee selected a handful of people she wanted to receive feedback from, and those people filled out the report anonymously, rating the employee on a scale of 1 to 5 across a series of categories and leaving comments. We used a "Start, Stop, Continue" format for the comments to ensure that people didn't just pat each other on the back but gave concrete, actionable feedback.

Some on the management team felt that, given our culture of candor, we didn't need to offer anonymity, but I believed it was important. Amid all the candor in the office, if someone opted not to give a colleague open feedback during the year, there must be a reason. Perhaps people were concerned there would be retribution. Offering anonymity, I felt, would provide a safer format and make people more comfortable leaving comments.

But the first time we ran the 360s, something funny happened. Our culture took over. A bunch of people, including Leslie Kilgore, felt too uncomfortable to leave comments *without* putting their names. “It just seemed backward to tell our employees all year long to give feedback directly to one another and then at 360 time to pretend the comments were coming from a secret source,” Leslie explained. “Everything I was writing I had told them anyhow. I just did what felt natural given our climate. I put the feedback in writing and signed my name.”

When I logged on to leave my own feedback for others, I also felt uncomfortable, knowing that I could say whatever I wanted and no one would see that the feedback was coming from me. It all had an air of dishonesty and secretiveness that was contrary to the culture I was trying to cultivate.

After we received our completed 360 reports that year and I started reading the comments our employees had left for me, my discomfort with the anonymity magnified. 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. Some comments were so vague I barely understood them:

> “Stop: sending mixed messages on certain issues.”
>
> “Stop: coming across as insensitive when turning down an idea that doesn’t resonate.”

I had no idea what these people were referring to. The feedback certainly wasn’t actionable. How could this possibly help me? Since I didn’t know who the comments were from, I couldn’t follow up and ask for clarification. In addition, the anonymity encouraged a few people to vent in nasty and sarcastic ways that weren’t helpful for anyone. One manager showed me a comment she’d received: “You have less enthusiasm than Eeyore.” Eeyore is the ever-depressed donkey from the children’s book *The House at Pooh Corner*. How is that remark useful?

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Leslie’s approach caught on. The second time Netflix ran the 360, a majority of employees, on their own initiative, chose to add their names. This meant that the minority who elected to remain anonymous were easy to recognize. “If you asked seven people to give you feedback and five of them left their names, it was pretty easy to guess who from the remaining two had said what," Leslie recalled.

By the third round, everyone was choosing to leave their names. "It just felt better," Leslie claimed. "People would walk right over to the desk of the feedback provider and start a conversation. These discussions ended up being much more valuable than anything that was written on the actual 360 report."

Leslie, Reed, and the management team saw no apparent loss of frankness when feedback ceased to be anonymous. Leslie feels that's "because Netflix had already invested so much time in building a culture of candor." Many claim the quality of the feedback was higher, as people knew the comments would be recognized as their work.

Here is a 360 comment Reed received from a recent round. It's essentially the same complaint he received in 2005, but this time the person provides examples and leaves his name, which makes his observations concrete and actionable:

> You can be overly confident—even aggressive—in advocating for a position, and dismissive of differing perspectives. I felt this was the case when you were advocating for relocating to Japan our Singapore-based folks working on Korea. It is hugely valuable that you ask the question and are open to making radical shifts, but throughout the due diligence process, it seems you are predetermined to get to a certain outcome and dismissive of counterarguments.—Ove

• • •

I can remember exactly the conversations that Ove is referring to, which means I can adapt favorably in future situations. Most important, knowing who left the feedback, I was able to follow up with Ove and get further information.

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. The goal is to help everyone get better, not to categorize them into boxes. The other big improvement is that each person can now give feedback to as many colleagues as they choose at any level in the organization—not just direct reports, line managers, or a few teammates who have invited input. Most people at Netflix provide feedback for at least ten colleagues, but thirty or forty is common. I received comments from seventy-one people on my 2018 report.

Most important, the open 360 feedback instigates valuable discussion. I systematically share the comments I receive with my direct reports, and my reports share their feedback with their teams, all the way down the line. This not only strengthens the sense of transparency but also creates “reverse accountability” whereby the team feels encouraged to call the boss out for recurrent bad behavior.

Ted Sarandos likes to tell this story about bungee jumping to demonstrate the value:

> Back in 1997, when I worked in Phoenix before Netflix, I went to a work event, the kind where you have some meetings but there are also activities encouraging the group to bond and have fun. Behind the restaurant in the parking lot, there was a bungee jumping station. For fifteen bucks you could jump off of a crane in full sight of everyone. No one was doing it, but I decided to try. Afterward the guy running the station said to me, “Why not go again? I’ll give you a second jump for free?” That made me curious. “Why would you do that?” I asked. He responded, “Because I want all your colleagues gawking at you from the restaurant to see that you’re happy to do it again. If they see it’s not so scary, they’ll be ready to try it also.”

That’s exactly why you as the leader need to share your 360 evaluations with your teams, especially the really candid stuff about all the things you do poorly. It shows everyone that giving and receiving clear, actionable feedback isn’t so scary.

• • •

This is a regular practice for Netflix managers today. Larry Tanz, VP of content (he went to interview with Facebook after Ted told his team to take recruiters’ calls), has another story about a surprising meeting with Ted during his first few weeks at Netflix in 2014:

> For the past five years I’d been working for ex-Disney CEO Michael Eisner. Let’s just say those of us on Michael’s staff weren’t giving him a lot of direct negative feedback. Where I came from the boss might be candid with you but any feedback in the reverse direction was pretty much unheard of.
>
> In my second T-staff (Ted’s staff) meeting, Ted began by reminding the twelve of us that the written 360 was coming up in a few months, and that we all needed to be in the habit of giving

frank feedback to one another. “Even if you don’t work together,” he said, “you need to be close enough to give candid criticism on an ongoing basis. We just finished a round of 360s with R-staff (Reed’s staff). I’ll just read to you the feedback I received.”

I was confused. What was Ted doing? In my entire life I’d never had a boss tell me what his peers and superiors were saying about him. My immediate thought was that he would cherry-pick what he told us and we’d hear a sanitized version. Then he proceeded line by line to read through the feedback from Reed, David Wells, Neil Hunt, Jonathan Friedland, and all those folks. He didn’t read many positive comments, although there must have been some. Instead he detailed all of his developmental comments including the following:

- *When you don’t respond to emails from my team, it feels hierarchical and discouraging, even though I know this is neither how you work nor how you think. Perhaps it is because we need to establish more trust, but I need you to be more generous with your time and insights, so my team can serve your organization better.*

- *Your “old married couple” disagreements with Cindy are not the best role model of exec interchange. There should be more listening and understanding on both your parts.*

- *Stop avoiding overt conflict within the team; it simply festers elsewhere and comes back bigger. The seeds of Janet’s flaming out and the drama of Robert’s role were planted well over a year ago. It would have been better to address both directly and head-on a year ago rather than have everyone suffer, and morale drop.*

Ted read these items just like he was reading a list of food to buy at the supermarket. I thought, “Wow, could I be brave enough to share my feedback with my own staff?”

Apparently, Larry could: “Ever since that meeting I try hard to model what Ted did with us for my own team, not just at written 360 time but any time someone provides me with developmental feedback. And I’ve suggested that those leaders who work for me, do the same thing with their own teams.”

Although the 360 written exercise established regular candid feedback, and many chose to discuss the feedback after the reports came out, it didn’t ensure that those open discussions were actually happening. If Chris-Ann gives written 360 feedback to Jean-Paul that his whispering in client meetings is hurting his sales, but Jean-Paul never talks to Chris-Ann or anyone else about the comment, it turns into the stuff of secrets. Reed’s next process was put in place in order to address that problem.

2: LIVE 360S

By 2010, we had firmly instituted our version of the written 360 process with a lot of success. But, given the other steps we'd taken to increase transparency throughout the company, I felt that we could go further. So I began to run some experiments to see if increasing transparency in my own executive team would help it trickle down to the rest of the organization. The first thing I tried was an activity with my direct reports.

We met in the old Silicon Valley Netflix building at 100 Winchester in a little bird's nest perch of a room called The Towering Inferno. Leslie and Neil paired up and went to one corner of the room, Ted and Patty went to another, and so on. The exercise was a little like speed-dating except it was speed-feedback. Each pair had a few minutes to give one another feedback following the "Start, Stop, Continue" method and then we rotated, creating new pairs. Afterward, we came back into a circle as a group of eight and reported back what we'd learned. The pair exercise went fine, but the group discussion was by far the most important part of the session.

So the next time, we jumped right into the group discussion. I decided to do this second experiment over dinner with nothing else on the agenda, so we wouldn't feel rushed. We met at a restaurant called the Plumed Horse in Saratoga, a quaint little village just a short drive from the office. When we pulled up, the trees were lined with lights, like fireflies in a forest. We walked in and the seemingly small restaurant opened up into a big cavern, leading to a quiet, reserved room.

Ted volunteered to go first. We went around the circle and each person gave him feedback using Start, Stop, Continue. At that time Ted was one of just a few employees based in Los Angeles and he would commute up to Silicon Valley one day a week. Every Wednesday he'd race into the office and try to cram in three days' worth of discussions into six hours. David, Patty, and Leslie all gave Ted feedback about how hectic his one day in the office was for everybody else. "When you leave on Wednesday afternoon it feels like a jet boat came through and left a massive wake behind it," Patty explained. "It's stressful and disruptive for the entire office."

I'd been meaning to talk to Ted about this, but now I didn't have to. After that session he reorganized his schedule to come to Silicon Valley for longer trips and to handle more over the phone before his visits. Ted saw how his actions were disturbing everyone and talking about it openly made him find a better way.

The live 360s are so useful because individuals become accountable for their behavior and actions to the team. Given how much freedom we grant employees, along with the general “don’t seek to please your boss” climate, this co-responsibility provides a safety net. The boss doesn’t tell the employee what to do. But if the employee acts irresponsibly, he will get feedback from the group.

Next it was Patty’s turn. Neil told her, “During our meetings you speak so much, I can’t get a word in edgewise. Your passion sucks up all the air.” But, as we worked around the table, Leslie disagreed: “I’m surprised about Neil’s comments. I think you’re a great listener and you always make sure everyone has equal time to talk.”

At the end of the evening each person presented a short synthesis of their main takeaways. Patty said, “When I’m in meetings with people who are more reserved, like Neil, I compensate for that person’s quietness by talking more. When I’m with other talkative people, like Leslie, I don’t have that problem. On my own team I have many quieter people who don’t speak at all in our meetings. I’m going to start leaving the last ten minutes of every thirty-minute meeting for others to speak. If no one speaks we’ll sit in silence.”

As a talkative person myself, I wasn’t even aware that some experienced Patty as hogging the airspace. I wouldn’t have known to give her this feedback, because it doesn’t characterize the interactions I have with her. This demonstrated why it’s so important employees receive feedback, not just from their boss but also from teammates. The session helped me—and everyone in the group—to understand team tensions in new and unexpected ways. I saw that the dinner was a way for us all to better understand the interpersonal dynamics that shaped our collective effectiveness and to work together to improve our collaboration.

Soon after, many on my staff conducted the same exercise with their own teams, and eventually it became a common activity throughout the company. It’s not obligatory. You may meet a Netflix employee who has never gone through a live 360. But our managers have found such value in the method that today the vast majority of our teams conduct something similar at least once a year. By now, we understand the process pretty well, and it’s actually not that difficult to run, as long as you set the context and have a strong moderator. If you’d like to try the live 360 for yourself, here are a few tips:

Length and location: A live 360 will take several hours. Do it over dinner (or at least include a meal) and keep the group small. We sometimes have sessions with ten or twelve people, but eight or fewer is more manageable. For a group of eight you'll need about three hours. A group of twelve could run to five hours.

Method: All feedback should be provided and received as an actionable gift following the 4A feedback guidelines outlined in chapter 2. The leader will need to explain this in advance and monitor it during the session.

Positive actionable feedback (continue to . . .) is fine, but keep it in check. A good mix is 25 percent positive and 75 percent developmental (start doing . . . and stop doing . . .). Any nonactionable fluff ("I think you're a great colleague" or "I love working with you") should be discouraged and stamped out.

Getting started: The first few feedback interactions will set the tone for the evening. Choose a feedback receiver who will receive tough feedback with openness and appreciation. Choose a feedback provider who will give the tough feedback, while following the 4A guidelines. Often the boss chooses to be the first to receive.

Live 360s work because of our high talent density and "no brilliant jerks" policy. If your employees are immature, have bad attitudes, or lack the self-confidence to show public vulnerability, you might not be ready to run these events. And even if you're in a state of perfect readiness, you'll need a strong moderator who makes sure all feedback falls within the 4A framework and steps in if someone says anything out of line.

Scott Mirer, VP of device partner ecosystem, shared an incident when someone stepped out of line during his team's live 360, but he failed to address it in real time. This type of situation is rare, but dangerous when it happens, so the leader needs to be on the ball:

> I had my management team of nine people going through the Live 360 dinner. We have a very nice manager named Ian, and he was giving feedback to his colleague, a woman named Sabina. When it was Sabina's turn to receive feedback, Ian said, "The way you work reminds me of the movie, *Women on the Verge of a Nervous Breakdown*." He said it with a smile and Sabina nodded her head and took notes. For some reason at that moment it didn't hit me—or I guess any of the others on the team—as to how inappropriate that statement was, because we all let it slide. I learned a week later that Sabina had been upset for days after that event. "It is not selfless or helpful to use gender-charged comparisons when giving feedback," she confided with a colleague.

If someone moves out of the 4A feedback guidelines to speak in a way that is sarcastic, aggressive, or generally unhelpful during the live 360, the leader needs to step in and correct the comment in real time. This situation is particularly important because we've been working extensively with our leaders to make sure that everyone feels included and to understand how off-the-cuff comments can feed bias even unconsciously. Scott missed his opportunity. But, in this case the company's culture of candor saved the situation:

> I called Sabina and apologized for not catching the inappropriateness of Ian's comment. But Sabina told me she was no longer upset. She had already spoken to Ian, he had apologized, and they had met for over an hour to work through it. So although it was a car-crash 360 dinner moment, overall I believe it was good for their relationship. Since then I'm a lot more careful to jump any time a piece of feedback starts to step over the line.

Public humiliation? Group isolation? Communal shaming? If these words have been popping into your head as you read the last few pages, you're not alone.

A majority of Netflix employees do enter their first live 360 with trepidation. VP of content Larry Tanz (the guy who was shocked to hear Ted detail his 360 feedback to the team) explained the experience like this:

> Getting publicly ripped apart sounds like torture. Each time I go to a live 360 I'm nervous. But after you get started, you see it will be fine. Because everyone is watching, people are careful to be generous and supportive in the way they give the feedback—with the intention of helping you succeed. No one wants to embarrass or attack you. If anyone steps out of line, they will almost always get immediate feedback about their feedback: "Hey—that's not helpful!" If the live session goes well, everyone gets a lot of tough advice, so you're not singled out. When your turn finally comes around, it might be difficult to hear what people have to say, but this is one of the greatest developmental gifts of your life.

Just about every Netflix employee has a story about how a live 360 helped them. Some think the evenings are an enjoyable way to build bonds with their colleagues. Others like them just about as much as Reed enjoys those annual trips to the dentist. They know it's useful, but they dread it until it's over. Sophie, a French communications manager working out of the Amsterdam office, fell into the second category:

> Like most French people, I build an argument the way we are trained in school. I introduce the principle, build up the theory, address any challenges to the argument, then come to my conclusions. Introduction, thesis, antithesis, synthesis, that's how we French learn to analyze over many years in school.
>
> Americans often learn "get to the point and stick to the point." To the French person it's like, "How can you come to the point when you haven't explained your argument?!" Netflix is of course an American company by origin. I have an American boss, and most of my teammates are American. Unbeknownst to me, my communication approach wasn't working for them as intended.
>
> It was November 2016 and my boss led a live 360 event for the team. We were in a private room at the Waldorf Astoria hotel in Amsterdam for a four-course dinner. It was literally a "dark and stormy night," and we were in an ornate medieval style room where the only light was a big crystal chandelier hanging over a big wood rectangular table. I was nervous but had soothed myself by thinking about all I had accomplished in my short time at Netflix. I believed I was clearly a "stunning colleague."
>
> When it was my turn to receive feedback, my colleague Joelle began by telling me that I need to improve my communication skills. She said I lose the listener's attention and take too long to get to the point. I was like, "Me? A poor communicator? I am a communications specialist! My greatest skill is my ability to communicate!" That feedback made no sense to me, so I prepared to discard it.
>
> But then my other American colleagues, one after another, went around the room giving me feedback: a lot of nice things, but also "You're too theoretical," "Your messages aren't crisp enough," "Your writing loses the reader's attention." After the fifth person I was like, "Okay, I get it! No need to gang up on me." By the seventh person I started to feel defensive. I felt like saying, "Hey American dude, try working in a French company and see how they like your writing style!"

But even for Sophie receiving the feedback was worth the discomfort of the evening:

> That dinner happened two years ago and was the most important developmental moment for me in the past decade. I've made enormous strides with my adaptability. I've mastered moving back and forth between the American and French communication patterns, which is incredibly challenging, but my colleagues have congratulated me in more recent live 360 sessions. I hated that evening at the Waldorf, but without it eventually I would have failed the Keeper Test. I don't think I'd be at Netflix."

This is the classic type of answer you get when you ask Netflix people what it's like to have your "areas for improvement" dragged across the dinner table while everyone is listening. Sometimes it's embarrassing. Often it's uncomfortable. But ultimately it boosts your performance. And for Sophie, it may have saved her job.

THE EIGHTH DOT

If you're serious about candor at some point, you do need to implement mechanisms to assure candor happens. With just two institutional processes you can ensure that everyone gets candid developmental feedback at regular intervals.

TAKEAWAYS FROM CHAPTER 8

- Candor is like going to the dentist. Even if you encourage everyone to brush daily, some won't do it. Those who do may still miss the uncomfortable spots. A thorough session every six to twelve months ensures clean teeth and clear feedback.
- Performance reviews are not the best mechanism for a candid work environment, primarily because the feedback usually goes only one way (down) and comes from only one person (the boss).
- A 360 written report is a good mechanism for annual feedback. But avoid anonymity and numeric ratings, don't link results to raises or promotions, and open up comments to anyone who is ready to give them.
- Live 360 dinners are another effective process. Set aside several hours away from the office. Give clear instructions, follow the 4A feedback guidelines, and use the Start, Stop, Continue method with roughly 25 percent positive, 75 percent developmental—all actionable and no fluff.

Toward a Culture of Freedom and Responsibility

After implementing the Keeper Test system, you will have achieved a high level of talent density in your office. Now, with the implementation of the written and live 360 feedback processes, you don't just have a climate of candor around the office; you have institutionalized tools to ensure employees are talking openly and honestly to each other. With this much talent and candor, you can now focus your time on teaching your leaders to let go of whatever controls they are holding on to. We spoke about decision-making freedom in chapter 6, so conceptually your workforce is ready. But to develop a true environment of Freedom and Responsibility you'll need to teach all managers in your company to lead with context, not control. That's the topic of the next chapter.

AND ELIMINATE MOST CONTROLS . . . !

9

LEAD WITH CONTEXT, NOT CONTROL

Adam Del Deo, Netflix's director of original documentary programming, felt queasy as he hung up the phone. Standing in the lobby of the Washington School House Hotel in Park City, Utah, he leaned against the wall, took a deep breath, and closed his eyes. When he opened them, his colleague, senior counsel Rob Guillermo, was standing next to him. "Hey, Adam, is everything okay? Did you get news on the *Icarus* bid?"

Adam and Rob were attending the Sundance Film Festival in January 2017. The previous day, they'd watched a documentary, *Icarus*, about the Russian doping scandal. According to Adam, it was one of the greatest documentaries he'd ever seen:

> It follows this crazy story of a Colorado-based journalist, Bryan Fogel, who is also a cyclist and wants to run an experiment to see if he can dope himself, get away with it like Lance Armstrong did, and show the extreme progress the doping allows him to make in a bike race. Through a contact he reaches out to the head of Russia's anti-doping program, this guy Rodchenkov, who agrees to help. They become Skype friends. But partway through Bryan's experiment, Russia is accused of doping its Olympic athletes—and it's Rodchenkov who's been running that doping program (alongside his anti-doping program!). Rodchenkov flees Russia and hides out in Fogel's house, afraid Putin is going to have him killed.
>
> You just can't make up a story like that. The movie is completely gripping.

Adam wanted desperately for Netflix to get that movie. News on the street was that Amazon, Hulu, and HBO all wanted it too. He'd bid $2.5 million for it that morning—a huge amount for a documentary—but had just learned the bid was too low. Should he bid $3.5 million? $4 million? No documentary had ever gone for that much. He and Rob were discussing the bid when Ted Sarandos entered the lobby from the adjoining breakfast room.

They told him about the *Icarus* situation, and he asked what they were going to do. Adam remembers the conversation like this:

> "Maybe we'll go up to $3.75 or $4 million, but that's a huge amount to offer for a doc. It would completely reset the market," I said, watching for Ted's reaction.
>
> Ted looked me square in the eye and said, "Well, is it 'THE ONE?'" He made quote marks with his fingers, like it meant something important. That made me nervous. It was my ONE. But was it his ONE? I asked him, "What do you think, Ted?"
>
> Ted started moving toward the door. Clearly, he was not going to answer that question. "Listen," he said. "It doesn't matter what I think. You're the doc guy, not me. We pay YOU to make these decisions. But ask yourself if it's THE ONE. Is this going to be a massive hit? Is it going to be an Oscar nominee like *Super Size Me* or *An Inconvenient Truth*? If it's not, that's too much to pay. But if it's THE ONE you should pay whatever it's going to take: $4.5 million, $5 million. If it's THE ONE, get the movie."

Ten years before, in 2007, Leslie Kilgore had coined a phrase, which is now used across Netflix to describe exactly what Ted was doing as he walked out through the lobby of the hotel: "Lead with context, not control." At just about any other company, with this much money on the table, the senior guy would get involved and control the negotiations. But that's not what leadership looks like at Netflix. As Adam explained: "Ted wasn't about to make that decision for me, but he set broad context to help align my thinking with the company's strategy. That context he set laid the foundation for my decision."

CONTROL VERSUS CONTEXT

Leadership with control is familiar to most. The boss approves and directs the initiatives, actions, and decisions of the team. Sometimes she may control employees' decisions through direct oversight—telling them what to do, checking in frequently, and correcting any work that isn't done as she desires. Other times she may seek to empower her employees more, avoiding direct oversight but putting control processes in place instead.

Many leaders frequently use control processes to give the employee some freedom to approach a task as he chooses, while still allowing the boss an opportunity to control what gets done and when. For example, the boss might put in place a process like Management by Objectives, when she works with the employee to set Key Performance Indicators (KPIs); then she monitors the progress at regular intervals, judging the individual's final performance based on whether he achieves the predetermined goals on time and within budget. She might also seek to control the quality of her employees' work by putting in place error-reduction processes, such as checking work before it goes to the client or approving purchases before orders are placed. These are all processes that allow a manager to give some freedom while still exerting a good deal of control.

Leading with context, on the other hand, is more difficult, but gives considerably more freedom to employees. You provide all of the information you can so that your team members make great decisions and accomplish their work without oversight or process controlling their actions. The benefit is that the person builds the decision-making muscle to make better independent decisions in the future.

Leading with context won't work unless you have the right conditions in place. And the first prerequisite is high talent density. If you've ever managed anyone, even your own children or a contractor in your house, you'll understand why.

Imagine, for instance, that you're the parent of a sixteen-year-old boy. He loves to draw Japanese-style anime, solve complex sudoku problems, and play the saxophone. Lately he's also started going to parties with older friends on Saturday nights. You've already told him you don't want him to drink alcohol and drive, or get in the car with a driver who has been drinking, but every time he goes out you worry. There are two different ways you might approach this problem:

1. You decide which parties your son can go to (and not go to) and monitor his actions while at the party. If he wants to go out on Saturday night, there is a process. First he has to explain to you who will be there and what they will be doing. Then you need to speak to the parent who owns the house where the party will be held. During that conversation you verify if there will be an adult chaperone and if alcohol will be available. From this information you decide whether or not your son can go. When you give approval, you still put a tracker on your son's phone to assure that this is indeed the only party he goes to. This would be leading with control.

2. The second would be to set context so that you and your son are aligned. You talk to your son about why teenagers drink and the dangers associated with drinking and driving. In the safety of your kitchen, you pour different types of alcohol into glasses and discuss how much of each you'd need to become tipsy, drunk, or blacked out and how that impacts your driving effectiveness (and overall health). You show him an educational film on YouTube about drinking and driving and all the ramifications. Once you see he clearly understands the severity of the dangers that come with drinking and driving, you let him go to whatever parties he likes without any process or oversight restricting his actions. This would be leading with context.

The choice you make will most likely depend on your son. If he's shown poor judgment in the past and you don't trust him, you might choose to parent with control. But if you know him to be sensible and dependable, you can set the context and count on him to behave safely. In doing so, you prepare him to make not just good decisions on Saturday nights but also responsible decisions in the myriad of seductive or peer-influenced situations he will face in the coming years.

If you have a responsible child, option 2 may sound like the obvious answer. Who wants to be an overbearing parent and why would you not want a teenager to assume responsibility for his own safety? But in many situations the choice is not so clear-cut. Consider this scenario:

You are the matriarch of a modern-day Downton Abbey (aristocratic family with snooty accents, loads of drama, and lots of money). Your adult children are coming to your house for a month of holidays and you have hired someone to cook dinner. Your family is complicated when it comes to food. One person is diabetic, another is a vegetarian, and a third is on a low-carbohydrate diet. You know how and what to cook for this crowd but how is this chef you've hired, who doesn't know your family, going to manage? Once again, you have two choices:

1. You provide her with a cooking schedule and a set of recipes, specifying exactly what to cook each night. You outline how much to make of each dish and note when one ingredient should be replaced by another. You ask to taste each menu item before it is served to ensure she has the seasonings correct and that the dish is cooked to perfection. All she needs to do is follow your instructions. Of course, she is welcome to suggest her own recipe ideas too. She just needs to

get your okay before cooking them. This would be leading with control.

2. You talk with her in detail about the various dietary requirements in your family. You explain the principles of a low-carb diet, and what a diabetic can and can't eat. You show her recipes you've used successfully in the past, those that have flopped, and common substitutes you've tried. You explain that each meal should include some protein for everyone, a salad, and at least one vegetable. The two of you become highly aligned on what will make each meal a success. Then you ask her to find recipes and choose what to cook herself. This would be leading with context.

With option 1, you know what you're going to be served and you're pretty sure your family will like it. You've squashed out most of the possibility for your cook to fail or really make any mistake at all. So if you have a cook with little experience, who seems uncomfortable taking initiative, doesn't seem to be enterprising enough to find good recipes, and there aren't any certifiably more talented people available, then option 1 will be the right choice for you. Option 2 is just too risky.

Option 2, however, becomes interesting if you trust the judgment and skill of the person you've hired. A high-performing chef will thrive on the freedom to select and try out recipes on her own. She'll be able to offer more innovative meal choices than you could. If she does make mistakes, she'll learn from them and at the end of the holiday your family will remember the fabulous banquets she provided.

Therefore, the first question you need to answer when choosing whether to lead with context or control is, “What is the level of talent density of my staff?” If your employees are struggling, you'll need to monitor and check their work to ensure they are making the right decisions. If you've got a group of high performers, they'll most likely crave freedom and thrive if you lead with context.

But deciding whether to lead with context or control isn't just about talent density. You also have to consider your industry, and what you are trying to achieve.

SAFETY FIRST?

Take a look at these clippings about two companies that have had success in recent years. Consider which organization would be more likely to profit from leadership by control (with oversight and/or error-reduction processes) and—assuming high talent density—which would benefit from leadership through context.

Let's begin with ExxonMobil. Here is a short extract from their website:

> **ExxonMobil**
>
> Since 2000, we have reduced our workforce lost-time incident rate by more than 80%. While this number is declining, safety incidents do occur. We deeply regret that two contract workers were fatally injured in separate incidents related to ExxonMobil operations in 2017. One incident occurred at an onshore drilling site and the other happened at a refinery during construction activities. We thoroughly investigated the causes and contributing factors associated with the incidents to prevent similar events in the future and to globally disseminate findings. We have also joined cross-industry working groups with representatives from the oil and gas and other industries, such as the Campbell Institute at the National Safety Council, to better understand the precursors to serious injuries and fatalities. We will continue to promote a safety-first mentality for ExxonMobil employees and contractors until we reach our goal of a workplace where *Nobody Gets Hurt*.

The second example is the American retail giant Target. In 2019, *Fast Company* ranked it the eleventh most innovative company in the world. The following excerpt is from the article:

> **Target**
>
> The retail apocalypse hit many big box retailers hard: J.C. Penney, Sears, and Kmart have all faltered as e-commerce has grown, driving down foot traffic to brick-and-mortar stores. But in the face of these challenges, Target has nimbly adapted to the preferences of the modern consumer. The company has a network of more than 1,800 stores across the United States that come in different

> formats, from the extra-large SuperTarget to the smaller flexible format stores in urban centers, that cater to the specific needs of those shoppers. The brand has also invested in its online presence, with a robust website, same-day and two-day shipping that allows it to compete with Amazon, and the option to order items online that you can pick up in a day.

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. ExxonMobil is in a safety-critical market. Its sites need hundreds of safety procedures to minimize the risk of people getting hurt. Control mechanisms are a necessity when you're trying to run a dangerous operation profitably with as few accidents as possible.

Likewise, if you are running a hospital emergency room and give junior nurses the context to make decisions themselves with no oversight, people might die. If you are manufacturing airplanes and don't have plenty of control processes ensuring every part is assembled perfectly, the possibility of deadly accidents increases. If you are washing windows on skyscrapers, you need regular safety inspections and daily checklists. Leading with control is great for error prevention.

But if, like Target, 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. Although many brick-and-mortar retailers have gone out of business as increasing numbers of people shop online, Target has made a priority of imagining fresh ways to get customers into the stores.

There are many businesses that share Target's priorities. Whether you're in the business of inventing toys for children, selling cupcakes, designing sportswear, or running a restaurant with fusion cuisine, innovation is one of your primary goals. If you've got high-performing employees, leading with context is best. To encourage original thinking, don't tell your employees what to do and make them check boxes. Give them the context to dream big, the inspiration to think differently, and the space to make mistakes along the way. In other words, lead with context.

Or as Antoine de Saint-Exupéry, the author of *The Little Prince*, put it rather more poetically:

> *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.

As much as I love this passage—we cite it at the end of our culture memo—I also realize that for some readers it may feel entirely impractical. And that brings me to the 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."

LOOSELY OR TIGHTLY COUPLED?

I'm a software engineer and software engineers speak about "tight coupling" and "loose coupling" to explain two different types of system design.

A tightly coupled system is one in which the various components are intricately intertwined. If you want to make a change to one area of the system, you have to go back and rework the foundation, which impacts not just the section you need to change, but the entire system.

By contrast, a loosely coupled design system has few interdependencies between the component parts. They are designed so that each can be adapted without going back and changing the foundation. That's why software engineers like loose coupling; they can make a change to part of the system with no repercussions for the rest of it. The entire system is more flexible.

Organizations are constructed a bit like computer programs. When a company is tightly coupled, big decisions get made by the big boss and pushed down to the departments, often creating interdependencies between the various areas of the business. If a problem occurs at the departmental level, it has to go back to the boss who oversees all of the departments. Meanwhile, in a loosely coupled company, an individual manager or employee is free to make decisions or solve problems, safe in the knowledge that the consequences will not ricochet through other departments.

If the leaders up and down your company have traditionally led with control, a tightly coupled system may have come about naturally. If you are managing a department (or a team within a department) in a tightly coupled system and you decide you'd like to begin to lead your people with context, you may find that the tight coupling gets in your way. Since all the important decisions get made at the top, you might wish to give your employees decision-making power, but you can't, because anything important has to be approved not just by you but by your boss and by her boss.

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.

It should be pretty clear by now that at Netflix, with our Informed Captain model, we have a loosely coupled system. Decision making is highly dispersed, and we have few centralized control processes, rules, or policies. This provides a high degree of freedom to individuals, gives each department greater flexibility, and speeds up decision making throughout the company.

If you're starting up your own company and your goal is innovation and flexibility, try to keep decision-making decentralized, with few interdependencies between functions, in order to nurture loose coupling from the outset. It will be a whole lot trickier to introduce once your organization has settled into a tightly coupled structure.

All this said, 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? If the head of the department has a fantastic vision for contributing to the new strategy, but each team member decides for himself what projects to take on, everyone may run off in his own direction. Good luck making that departmental vision a reality anytime soon.

This brings us to the fourth and final precondition for leading with context.

IS YOUR ORGANIZATION HIGHLY ALIGNED?

If loose coupling is to work effectively, with big decisions made at the individual level, then the boss and the employees must be in lockstep agreement on their destination. Loose coupling works only if there is a clear, shared context between the boss and the team. That alignment of context drives employees to make decisions that support the mission and strategy of the overall organization. This is why the mantra at Netflix is

HIGHLY ALIGNED, LOOSELY COUPLED

To understand what this involves, let's return to Downton Abbey, where your family members are waiting for their dinner. If you have spent enough time ensuring you and your cook are aligned on exactly what types of foods will make the family happy, who eats what and why, the portions she should make, and which types of foods should be cooked rare, medium, or well, your high-performing chef will be ready to select and cook her meals without oversight.

However, if you hire a high-performing chef and give her free range to cook what she wants, but you haven't shared that your family hates salt and that any salad dressing with sugar will be rejected by all, it's likely your household of fusspots won't like the meal delivered to their plates. In this case, it's not your chef's fault. It's yours. You hired the right person, but you didn't provide enough context. You gave your cook freedom, but you and your chef were not aligned.

Of course in a company, it's not about one chef cooking for one family. Instead there are layers of leadership, which makes creating alignment more complex.

In the following pages we will look at how context gets set effectively across the organization when all leaders are focused on building alignment. The CEO provides the first level of context, building an initial foundation of alignment across the company, so we'll start there with Reed.

ALIGNING ON A NORTH STAR

I use a handful of methods for setting context across the company, but my primary platforms are our E-staff (Executive Staff) and our Quarterly Business Review (QBR) meetings. A few times a year we bring together all the leaders (top 10 to 15 percent of people) of the company from around the world. It starts with a long meeting or dinner with my half dozen direct reports—people like Ted and Greg Peters and our head of HR Jessica Neal. Then I spend a day with E-Staff (all VPs and above) and then we have two days of presentations, sharing, and debates at QBR (all directors and above—about 10 percent of the entire workforce).

The number one goal for these meetings is to make sure that all leaders across the company are highly aligned on what I call our North Star: the general direction we are running in. We don't need to be aligned on how each department is going to get where they are going—that we leave to the individual areas—but we do need to make sure we are all moving in the same direction.

Before and after QBR, we make available many dozens of pages of Google Docs memos to every employee, explaining all the context and content we shared at QBR. This information is read not just by QBR participants but also by people at all levels of the company, including administrative assistants, marketing coordinators, you name it.

Between QBRs, I hold ongoing one-on-one meetings to get a feel for how aligned we actually are and where context is lacking. I have one thirty-minute meeting with each director once a year. That makes about 250 hours of meetings with people who are three to five levels below me in the org chart. In addition, I meet with each vice president (two to three levels below me) for one hour every quarter. This results in another 500 hours of meetings annually. When Netflix was smaller, I met with each person more frequently, but I still spend about 25 percent of my annual time on all these meetings.

These one-on-one meetings help me to better understand the context in which our employees are working, and alert me to areas where our leadership is not aligned so that I can revisit key points at the next round of QBR meetings.

Here's an example from March 2018, when I visited our Singapore office. During a thirty-minute one-on-one with a director in the product development department, he casually mentioned that his team was developing, per request, a five-year head count plan. I was surprised. A five-year plan may sound like a natural endeavor for a company to be working on, but in our dynamic industry it's absurd. It's impossible to know where a business like ours will be five years from now. Trying to guess and plan around those guesses is sure to tie the company down and keep us from adapting quickly.

I looked into the issue and discovered that one of our facilities executives was asking people in several of our offices to submit predicted head count numbers for 2023. When I spoke with him he explained that, in some of our locations around the world, we'd grown out of our office space far faster than expected and that had meant financial waste. "If I had a five-year hiring plan, I could get the best space for the cheapest price and not make the same mistake we made last time. That's why I asked each of the various departments to develop one," he explained.

I felt like saying, "You bozo! Don't prioritize error prevention over flexibility! That is a total waste of time. There is no way we can have any accuracy with a plan like that. Call off this project right away." But that would be leading with control.

Instead I reminded myself of what I often tell leaders throughout Netflix:

WHEN ONE OF YOUR PEOPLE DOES SOMETHING DUMB DON'T BLAME THEM. INSTEAD ASK YOURSELF WHAT CONTEXT YOU FAILED TO SET. ARE YOU ARTICULATE AND INSPIRING ENOUGH IN EXPRESSING YOUR GOALS AND STRATEGY? HAVE YOU CLEARLY EXPLAINED ALL THE ASSUMPTIONS AND RISKS THAT WILL HELP YOUR TEAM TO MAKE GOOD DECISIONS? ARE YOU AND YOUR EMPLOYEES HIGHLY ALIGNED ON VISION AND OBJECTIVES?

In the case of the facilities executive, I said very little in the moment. This guy is the informed captain when it comes to selecting office space, not me.

But the conversation notified me that I needed to set better context across our organization. If one person is misaligned with our strategy, there must be fifty others who are in the same boat. I added this topic to an upcoming QBR meeting. There I spoke with all of our leaders about why at Netflix we almost always prefer to pay more for the option that gives us greater flexibility, knowing that we can't—and shouldn't—try to foresee what our business will look like down the road.

Of course, each situation is different and in every business we need to think somewhat ahead. During that QBR we discussed to what lengths we should go to in order to remain flexible. I provided some pre-reading that showed how bad we had been at predicting our growth in the past and how the best opportunities often can't be predicted. We had breakout discussions looking at past cases where we could have paid more for an option that increased future choice or less for an option that reduced flexibility. We debated just how much flexibility we needed in our business and how much we should be ready to pay for it.

Those conversations didn't lead to a clear conclusion or rule, but through the debates all our leaders became clearly aligned on the idea that preventing errors or saving money with long-term plans is not our primary objective. Our North Star is building a company that is able to adapt quickly as unforeseen opportunities arise and business conditions change.

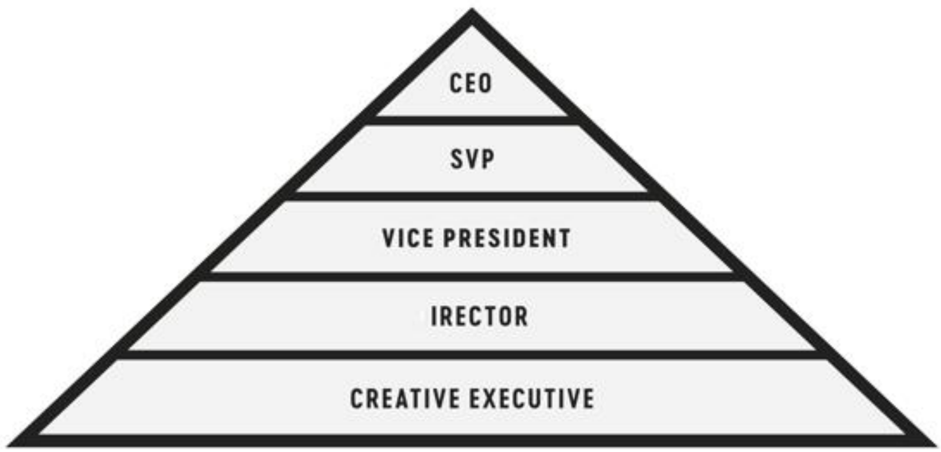
Of course, the CEO in any organization only provides the first layer of context setting. At Netflix just about every manager, at every level, has to learn how to lead with context on entering the company. Melissa Cobb, on Ted's team, provided an example that demonstrates how context setting works across the entire organization.

ALIGNMENT IS A TREE, NOT A PYRAMID

Melissa Cobb, vice president of original animation, worked for Fox, Disney, VH1, and DreamWorks before she joined Netflix in September 2017. At DreamWorks she was the producer of the Oscar-nominated *Kung Fu Panda* trilogy. After twenty-four years in leadership positions, she uses two metaphors—the pyramid and the tree—to help the managers who join her team to understand the difference between a traditional leadership role and leading with context at Netflix. She explains it like this:

> Decision making at every organization I'd worked at before Netflix was structured like a pyramid. Since I worked for networks I've been in the business of making movies and television shows. At the bottom of our pyramids we had a bunch—maybe forty-five or fifty—of what we

call creative executives. Each of these executives would have one or more shows they were responsible for. For example, while I was at Disney, we produced *Man of the House* starring Chevy Chase and the creative executive responsible for that show was on the set each day, approving the pages, the costumes, and all the little details. Many little details of each show would be taken care of at the bottom of the pyramid.



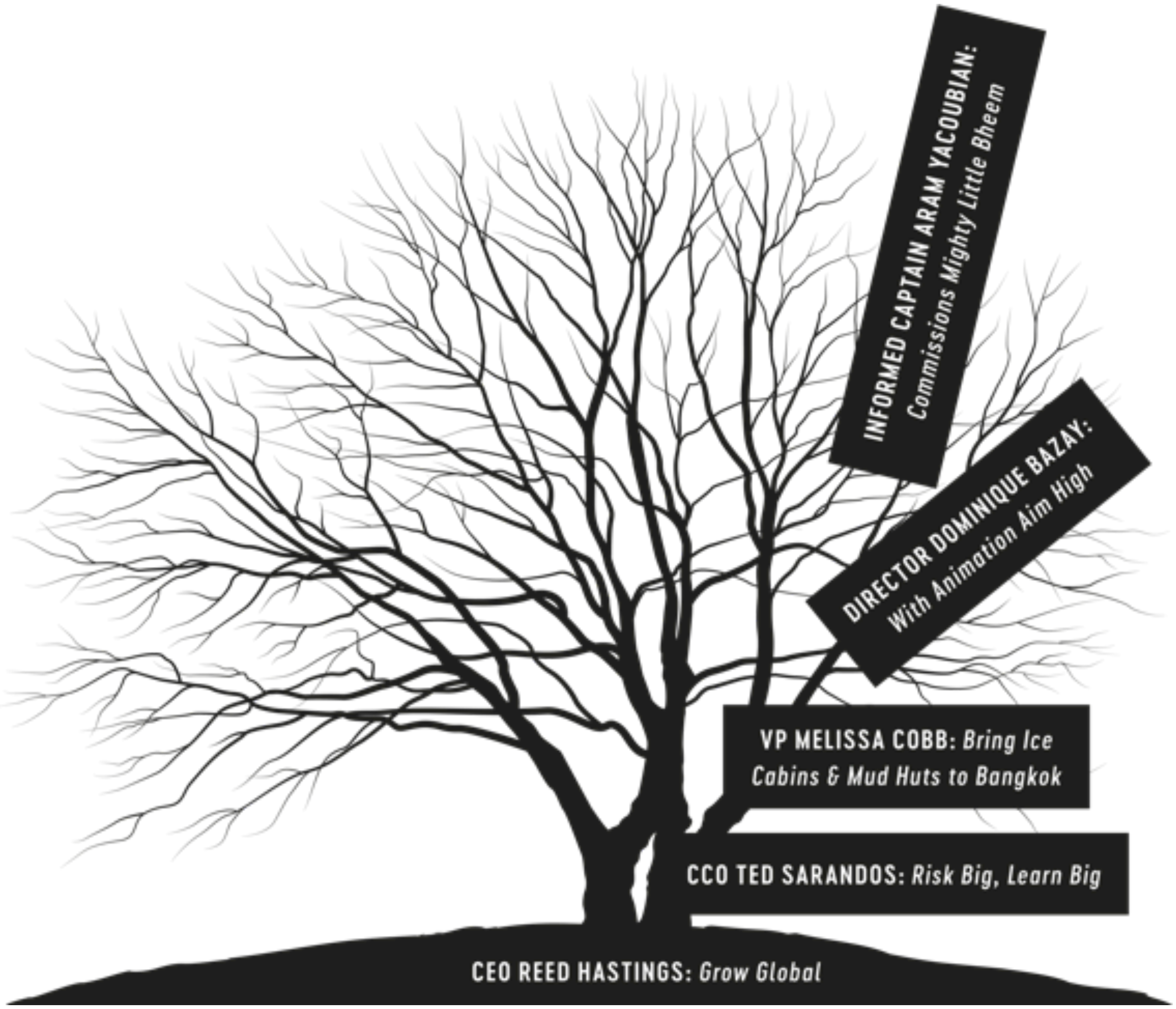
But if something important came up, like maybe someone wanted to change a sensitive piece of dialogue at the introduction of the show, that would need to be addressed at a higher level in the pyramid. The creative exec would say, "Oh, I'm not sure what my boss will think—let me give her a call."

The exec would call her manager, one of about fifteen directors at the next pyramid level. "What do you think boss? Can we make this dialogue change?" For most issues the director would endorse the change or sometimes refuse it.

But if the change was something bigger than just swapping a little dialogue, like maybe someone wanted to cut out an entire scene, then the director might say, "Well, I'm not sure what MY boss will say. I need to check with him." The issue would then be pushed up to the next level in the pyramid where we'd have half a dozen vice presidents. The director would call up his manager and say, "What do you think, boss? Can we cut out this scene?" That VP would then approve or decline the change.

Now if something even bigger happened—like one of the actors dropped out or the whole script had to be rewritten—that would need to go up to one of the few senior vice presidents at the next level. And for something really big—like the writer gets sick and a new writer needs to be approved posthaste—that might go all the way up to the CEO sitting in the tiny triangle at the top of the pyramid.

The pyramid decision-making structure Melissa experienced at her previous company is easily recognizable in the majority of organizations, regardless of industry or location. Either the boss makes the decision and pushes it down the pyramid for implementation, or those at lower levels make the smaller decisions but refer the bigger issues to the higher-ups.



But at Netflix, as we've discussed, the informed captain is the decision maker, not the boss. The boss's job is to set the context that leads the team to make the best decisions for the organization. If we follow this leadership system from the CEO all the way to the informed captain, we see that it works not so much like a pyramid but more like a tree, with the CEO sitting all the way down at the roots and the informed captain up at the top branches making decisions.

Melissa provided an in-depth example of how context setting works from the roots of the tree all the way out to the highest branches. In her tree exhibit on the previous page, you can see the various levels of context being set from Reed, through Ted Sarandos, Melissa herself, Dominque Bazay (a director working for Melissa), and how all this context finally impacts the decision made by informed captain Aram Yacoubian. Let's look now at how the context setting at each point created alignment up and down the organization.

REED AT THE ROOTS—GROW GLOBAL

In October 2017 Melissa attended her first QBR, where Reed presented information about the future global expansion of Netflix. She remembers it like this:

> I had been at Netflix for under a month. The second week of October we had my first QBR at the Langham Huntington Hotel in Pasadena. I had been trying to get a handle on how Netflix worked and everyone kept telling me that at QBR the pieces would come together. So I was listening carefully when Reed took the stage.
>
> During his fifteen-minute talk Reed explained, "In the past quarter, eighty percent of our growth came from outside of the US, and that is exactly where we should be focusing our energy. Over half our customers are now coming from other countries, and every year this number will increase. This is where the big growth lies. International growth is our priority."

Reed went on to detail which countries Netflix leaders should be focusing the most heavily on (including India, Brazil, Korea, Japan) and why (reasons to follow below). That message anchored much of Melissa's thinking on how to develop the strategy for her own department. Reed is not Melissa's direct boss, though. She works for Ted Sarandos. Shortly after the QBR, she had a one-on-one with Ted, where he added his own context to Reed's message.

TED SARANDOS AT THE TRUNK—RISK BIG, LEARN BIG

Before their one-on-one, Ted had already spoken with Melissa about some of the major international growth opportunities. India is a huge Netflix growth market. Japan and Korea have ecosystems that are particularly rich for content development. Brazil has only a very small Netflix office but over ten million viewers. But when Ted and Melissa sat down in late October 2017, Ted spoke not about what people at Netflix knew but about all the things they didn't know yet:

> Look, Melissa, we are at a turning point for Netflix. We have forty-four million members in the US. The big growth will be international and we have a lot to learn. We don't know if Saudi Arabians watch more or less TV during Ramadan. We don't know if Italians prefer documentaries or comedies. We don't know if Indonesians are more likely to watch movies alone in their bedrooms or around their family televisions. If we are going to succeed, we need to become an international learning machine.

Melissa was already familiar with the language of bet-taking used at Netflix and the implication that some bets will succeed and others will fail. What the gambling analogy didn't capture was the critical aspect of learning from all that failing. This brings us to the context set by Ted:

> As your team purchases and creates content around the world, we need to be laser-focused on learning. We should be ready to take bigger risks in high-growth-potential countries like India or Brazil so that we learn more about those markets. Let's have some wins. But let's also have some big messy losses where we learn how to succeed better the next time. We should always be asking, "If we purchase this show and it bombs, what will we learn from that?" If there is something big to learn, let's go ahead and take the bet.

Reed and Ted's context collectively helped Melissa to develop the context she set with her own Kids and Family content team at their next weekly meeting.

MELISSA COBB ON A BIG BRANCH—BRING ICE CABINS AND MUD HUTS TO BANGKOK

Melissa's past employers like Disney and DreamWorks are known globally, and they deliver content watched everywhere on the planet. Yet Melissa believed that Netflix had a chance to differentiate itself, not just as a global brand, but as a truly global platform:

> Around the world most kids watch either content from their own country or shows and movies that originated in the US. But I felt that to be as international as Reed had outlined at QBR we could do better.
>
> I wanted the kids' slate of shows on Netflix to be like a global village. When ten-year-old Kulap, who lives in a Bangkok high-rise, wakes up on Saturday morning and turns on Netflix, I wanted her to see not just characters from Thailand (those are already on her local television channels) or from the US (those are on the Disney cable station) but a variety of TV and movie friends from around the world. She should be able to choose from shows based in ice-covered cabins in Sweden and others set in rural Kenya. The stories shouldn't just be *about* children from a wide array of countries. Disney can do that. They should have the look and feel that you only get when these shows actually *come from* around the world.
>
> We had a lot of debates on my team about whether this strategy would work. Would children want to watch characters that were so dramatically different than they were? We didn't know.
>
> That's where the context Ted set came in. As he had stressed, these were the questions we would seek to answer and we should be prepared for our bets to fail, provided they resulted in clear learning. We all came to an agreement. We would give it a try and learn along the way.

During this meeting Melissa found alignment with her six direct reports. Dominique Bazay, the director whose team acquires preschool content, was one of them.

DOMINIQUE BAZAY ON A MIDDLE-SIZE BRANCH—WITH ANIMATION AIM HIGH

After that meeting with Melissa, Dominique thought a lot about how to make Melissa's "global village" dream come true. To encourage Kulap to watch TV created in Sweden and Kenya, what types of shows should Netflix be offering? Dominique felt that animation was the best answer to this question. That led to the context she set with her own team:

> Cartoon Peppa Pig speaks Spanish like a Spaniard, Turkish like a Turk, and absolutely perfect Japanese. Animation provides an opportunity for international programming that live-action can't. When actress Bella Ramsey's *Worst Witch* is shown in a new country, the viewer has to

watch it dubbed or subtitled. Kids hate subtitles and Bella looks funny speaking Portuguese or German. The voices don't match the image and that impacts the quality of the viewing experience. But cartoon Peppa, like all animated characters, always speaks the language of the viewers. The Korean child and the Dutch child feel equally connected to Peppa.

If Netflix kids' programming was going to be the diverse platform Melissa spoke of, I believed that we needed to aim high. I discussed with my own team that for all animated shows we purchased, no matter what country they came from, the animation quality should be high enough to be considered top-notch by the most discerning nations in the world. If, for example, an animated show comes out of Chile, it shouldn't just be high enough quality for the most discerning Chilean viewer. It should be high quality enough to be a hit in anime-obsessed Japan.

It was with all of this context—from Reed, Ted, Melissa, and Dominique—that then manager of content acquisition, Aram Yacoubian, sitting in a small conference room in downtown Mumbai, considered the show he was being pitched: *Mighty Little Bheem*.

ARAM YACOUBIAN ON A SMALL BRANCH—MIGHTY LEARNINGS FROM LITTLE BHEEM

When Aram saw the original version of the adorable Indian animation series *Mighty Little Bheem*, he thought it would be a big hit in India:

The main character is this little child in a small Indian village, whose boundless curiosity and extraordinary strength leads to all sorts of adventures. He's like a baby Indian Popeye. His character is based on Bheem, a mythical character in the Sanskrit epic Mahabharata, known across India. It seemed obvious to me, Indians would love this show.

But Aram had serious doubts about whether it was a good bet for Netflix. The first concern he had was with the animation quality.

Indian shows tend to be low budget. The quality of the animation was good enough to be popular on Indian TV. But I thought about what Dominique and I had agreed on. We wanted to make sure the quality was high enough to be successful not just in the country of origin but around the world. I knew that if we were going to purchase this show, we would have to invest two or three times what is normally spent on an Indian animation to get the quality we were looking for.

This led to Aram's second concern:

> That was a lot of money to invest in an Indian show. To recoup the investment we'd have to get a lot of children all around the world to watch it. But very few Indian programs had ever been hugely popular outside of India—in all the history of television and streaming. This was due to low budgets but also to a belief that the storytelling was too locally specific for global audiences. There was a widely held belief that Indian series didn't travel well.

Aram's third concern was the lack of historical data on preschool shows—even within India:

> *Mighty Little Bheem* is for young children and until now there had been practically no preschool shows made in India either for streaming or television. That's because Indian rating agencies don't measure preschool shows, so they can't be monetized. Was there even an audience in India for programming aimed at such young kids? History couldn't provide an answer.

On the face of it, all this made things look pretty bad for *Mighty Little Bheem*. "All of history and all these business reasons were telling me not to make this show," says Aram. But he also reflected on the context the Netflix leaders had set for him:

> Reed made it clear that international expansion is our future and India is a key growth market. *Mighty Little Bheem* is a great show from a key Netflix growth market.
>
> Ted made it clear that when it comes to countries like India, we have so much to learn that we should take big risks, as long as the learning potential is evident. With *Mighty Little Bheem* what we would learn from the bet was very clear. The context Ted had set was enough for me to say, "Okay, even if this show crashes and burns, I'm trying three different things, all of which are going to provide Netflix with really good information."
>
> Melissa made it clear that we wanted children's shows from around the world that were deeply local in topic and texture to make up our programming slate. *Mighty Little Bheem* was deeply Indian and had the elements to appeal to children anywhere.
>
> Dominique and I had agreed that we should prioritize animation for our big international bets and that this animation should be of high quality. *Mighty Little Bheem* was an animated show that could achieve the high quality we needed with a financial investment.

With this context in mind Aram made his decision. He purchased *Mighty Little Bheem* and gave money to the local creators to upgrade the animation. The show launched mid-April 2019 and within three weeks became one of

Netflix’s most watched animated series from anywhere in the world. It has now been watched by more than twenty-seven million viewers.

When I interviewed him, Aram clarified the great advantage of dispersed decision-making when managers lead with context.

> I’m one of the best people at Netflix to decide what children’s content to purchase in India, as I know the Indian animation market and Indian family-viewing patterns like the back of my hand. But it’s only with organizational transparency, a ton of context, and high alignment between me and the leadership that I can make the best decisions to benefit our organization and Netflix viewers around the world.

Aram’s decision to purchase *Mighty Little Bheem* provides a clear example of how leading with context works at Netflix. Each leader from myself at the roots of the tree up through Dominique at the middle-branch level sets context informing Aram’s decision. But Aram himself, as the informed captain, decides what shows to buy.

This case, you’ll have noticed, is by no means unique. Throughout this book we’ve told stories about lower-level employees making multimillion-dollar financial decisions without getting approval from the boss. Outsiders are often puzzled about how this can work in a financially responsible organization. The answer is simple: it’s because of the alignment.

Although Netflix gives employees a lot of financial freedom, the investment of money follows the same context tree that Melissa described. Ted and I are aligned on how much the content area will invest on purchasing films and shows over a specific quarter. Ted then cascades that down, providing context to Melissa on what amount her group should invest in kids and family programming. She then aligns with each of her directors about how much they should invest in each specific category. When Aram made the decision to bid for *Mighty Little Bheem* and also put a bunch of money into upgrading the animation, he wasn’t spending money randomly. He was applying the financial context that Melissa and Dominique had set for him.

ICARUS—THE FINAL SCENE

When we left Adam Del Deo, he was standing in the Washington School House Hotel trying to decide whether to bet big on a movie named after a man who flew so close to the sun that his wax wings melted.

Ted had set a clear context. If *Icarus* wasn't going to be a massive hit, Adam shouldn't bet massive money on it. He'd already bid $2.5 million and all the usual suspects, from Amazon to Hulu, were also sniffing around. If $2.5 million wasn't enough and this movie wasn't "the one," he should let it go. But if Adam believed *Icarus* was going to be a huge hit, then he should swing big—bet whatever it would take to get that movie on Netflix.

Adam did believe *Icarus* was going to be a massive hit, so he took the bet. Netflix paid a historic $4.6 million to get it. In August 2017, *Icarus* was released on Netflix.

In the first few months *Icarus* struggled to get off the ground. No one was watching. Adam was crushed:

> Ten days after the *Icarus* release, we had a team meeting where we went through the viewing data for new content and I was devastated by the poor numbers. My colleagues trust me to be able to predict the viewing of a movie, the public discussion that will result, and the yield at Oscars time. My reputation is built on that trust. I felt I had made a huge mistake that couldn't help but damage my colleagues' faith in me.

Then one event changed everything. In December 2017, the International Olympic Committee issued a report that Russia had been banned from the games. In that IOC report, *Icarus* was cited as the key piece of evidence. Rodchenkov went on *60 Minutes*, where he stated his belief that at least twenty countries were doping in the same way. Then Lance Armstrong came out publicly voicing his appreciation of *Icarus*. Suddenly everyone was talking about this movie and viewing figures skyrocketed.

In March 2018 *Icarus* was nominated for best documentary at the Oscars. Adam remembers the ceremony like this:

> I was sure we wouldn't win. When actress Laura Dern was about to announce the winner, I whispered to my boss Lisa Nishamura, "We won't get it. *Faces Places* will get it." But then, like in slow motion, I heard actress Laura Dern say, "The winner is . . . *Icarus*!" Bryan Fogel was racing to the stage. Someone screamed out in delight from the balcony. I felt so overwhelmed that if I hadn't been sitting I would have fallen over.

On the way to the after-party Adam bumped into Ted, who congratulated him:

> I asked, "Do you remember that conversation we had at Sundance, Ted?" He gave me a big grin and said, "Yep . . . it was 'THE ONE.'"

THE NINTH DOT

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.

TAKEAWAYS FROM CHAPTER 9

- 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.
- Once these elements are in place, instead of telling people what to do, get in lockstep alignment by providing and debating all the context that will allow them to make good decisions.

- When one of your people does something dumb, don't blame that person. Instead, ask yourself what context you failed to set. Are you articulate and inspiring enough in expressing your goals and strategy? Have you clearly explained all the assumptions and risks that will help your team to make good decisions? Are you and your employees highly aligned on vision and objectives?
- A loosely coupled organization should resemble a tree rather than a pyramid. The boss is at the roots, holding up the trunk of senior managers who support the outer branches where decisions are made.
- You know you're successfully leading with context when your people are moving the team in the desired direction by using the information they've received from you and those around you to make great decisions themselves.

This Is Freedom and Responsibility

We've now explored how to build up the foundational elements of talent density and candor, and then to begin removing policies and procedures to offer employees more freedom, while also creating an environment that's increasingly fast and flexible. We've looked at over a dozen policies and processes that most companies have but that we don't have at Netflix. These include:

Vacation Policies
Decision-Making Approvals
Expense Policies
Performance Improvement Plans
Approval Processes
Raise Pools
Key Performance Indicators
Management by Objective
Travel Policies
Decision Making by Committee
Contract Sign-Offs
Salary Bands
Pay Grades

Pay-Per-Performance Bonuses

These are all ways of controlling people rather than inspiring them. It's not easy to avoid chaos and anarchy as you remove these controls, but if you develop every employee's sense of self-discipline and responsibility, help them develop enough knowledge to make good decisions, and develop a feedback culture to stimulate learning, you'll be amazed at how effective your organization can be.

This alone is enough reason to develop a culture of F&R. But these are not the only benefits. Beyond that:

- Some of the items on the list above squash innovation. Vacation policies, travel policies, and expense policies can lead to the type of high-rule environment that discourages creative thinking and scare off the most innovative employees.
- Other items on this list slow the business down. Approval policies, decision making by committee, and contract sign-offs all put hurdles in front of your employees so that they can't move quickly.
- Many of these items keep the organization from changing quickly when the environment shifts. Pay-per-performance bonuses, Management by Objective, and Key Performance Indicators motivate employees to stay on a preset path, making it difficult to quickly dump one project and pick up another. Whereas Performance Improvement Plans (along with any hiring and firing processes) make it difficult to swap out and in employees quickly as business needs change.

If your goal is to build a more inventive, fast, and flexible organization, develop a culture of freedom and responsibility by establishing the necessary conditions so you can remove these rules and processes too.

We began this book with a couple of questions: Why do so many companies such as Blockbuster, AOL, Kodak, and my own first company, Pure Software, fail to adapt and innovate quickly as the environment morphs around them? How can organizations become more inventive and nimble in order to reach their goals?

In 2001 we began our journey at Netflix to what by the end of 2015 had become a highly tuned F&R culture. We had successfully transitioned Netflix from a DVD-by-mail enterprise to a streaming company that created award-winning television shows like *House of Cards* and *Orange Is the New Black*. Our stock price had risen from approximately $8 in 2010 to $123 by the end of 2015, and our user base had grown from 20 million to 78 million in the same time period.

After this remarkable success in the US, we then began our next cultural challenge: international expansion. Between 2011 and 2015 we began moving into a few countries one at a time. In 2016, we took the big leap, moving into

130 countries all in one day. Our culture had led us to achieve great things. But now we wondered: Would our corporate culture work around the world? That’s what chapter 10 is about.

SECTION FOUR

GOING GLOBAL

10

BRING IT ALL TO THE WORLD!

When I moved to rural Swaziland in 1983 as a Peace Corps volunteer, it was not my first international experience, but it was the one that taught me the most. It took only a few weeks for me to recognize that I understood and approached life very differently from the people around me.

One example came in my first month of teaching math to sixteen-year-old high school students. The kids in my class had been selected because of their strong mathematical abilities and I was preparing them for upcoming public exams. On a weekly quiz I provided a problem that, from my understanding of their skill set, they should have been able to answer:

A room measures 2 meters by 3 meters. How many 50-centimeter tiles does it take to cover the floor?

Not one of my students gave the accurate response and most of them left the question blank.

The next day in class I put the question on the blackboard and asked for a volunteer to solve it. Students shuffled their feet and looked out the window. I felt my face becoming flushed with frustration. “No one? No one is able to answer?” I asked incredulously. Feeling deflated, I sat down at my desk and waited for a response. That’s when Thabo, a tall, earnest student raised his hand from the back of the class. “Yes, Thabo, please tell us how to solve this problem,” I said, jumping up hopefully. But instead of answering the question Thabo asked, “Mr. Hastings, sir, please, what is a tile?”

My students lived mostly in traditional round huts, and their floors were either made of mud or concrete. They couldn’t answer the question because they didn’t know what a tile was. They just couldn’t fathom what they were being asked to assess.

From this early experience—and many others that followed—I learned that I couldn't directly transfer my own way of life to the culture of another place. In order to be effective, I had to think about what adaptations I would need to make in order to get the results I was hoping for.

So in 2010, when Netflix began expanding internationally, I thought a lot about whether the organizational culture would also need to adapt to be successful around the world. By that time our management methods had developed so fully and were producing such good results that I was reluctant to make a significant change. But I felt uncertain if our candid feedback, low-rule ethos, and Keeper Test techniques would be effective in other countries.

I considered another company, which was already international and had taken a clear approach. Like us, Google was proud of having a strong corporate culture, but instead of adapting its culture to the countries it moved into, it focused on hiring for fit. It sought to hire employees throughout the world who were "Googlers": people with a personality that matched the corporate culture no matter what country they lived in or came from.

I also reflected on a situation I'd had in 1988, when I'd spent a year working for Schlumberger in Palo Alto. Schlumberger is a big French multinational, yet the corporate culture in the Silicon Valley office had clearly been imported from France. All the department leaders were French expats and, if you wanted to succeed, you needed to learn to navigate the decision-making systems and hierarchical patterns that originated from the headquarters in Paris. There were training programs for new employees on how to debate effectively and how to analyze situations using a principles-first approach—so typical of French culture.

Both Google and Schlumberger seemed to have had success keeping a uniform corporate culture around the world. So, with only a bit of trepidation, I felt we could do the same. Like Google, we would seek to hire for fit, selecting individuals in each country who were attracted to and comfortable with the corporate culture we had spent so long cultivating. And like Schlumberger, we would train our new employees in other countries to understand and work in the Netflix way.

At the same time, we would seek to be humble and flexible, tweaking our culture as we went and learning from each country we moved into.

In 2010, we began the internationalization process, first opening in neighboring Canada, and a year later in Latin America. Between 2012 and 2015, we made bigger moves into Europe and Asia Pacific. During this period, we opened our four regional offices in Tokyo, Singapore, Amsterdam, and São Paulo. Then, in 2016, we took a big international leap and made our platform available in a total of 130 new countries all in one day. The expansion was overwhelmingly successful and over the course of just three years we saw our non-US subscriber base skyrocket from forty to eighty-eight million.

During this same three years we doubled the number of Netflix employees overall, most of them still located in the United States, but of increasingly diverse backgrounds. We added inclusion as one of our cultural values, recognizing that our success would depend on how much our employees reflected the audiences we were trying to reach, and the ability of people to see their lives and passions reflected through the stories we told. In 2018, we added our first head of inclusion strategy, Vernā Myers, in order to help us identify and learn from our increasingly diverse employees.

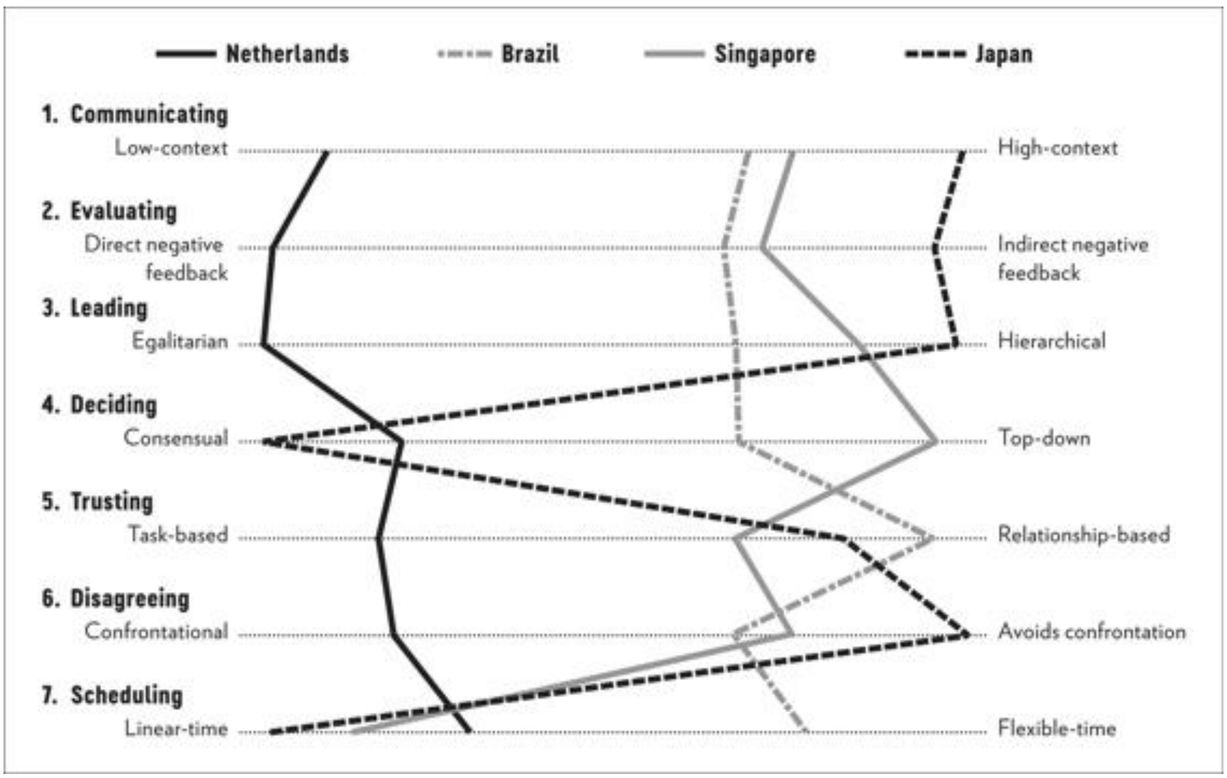
As we grew our operations in other countries, and our employees became increasingly diverse, it didn't take long to recognize that some parts of our corporate culture would work well around the world. To my great relief, the freedom our employees thrive on in the US showed early signs that it would, without question, be successful everywhere. Some cultures had a little more difficulty getting in the swing of making decisions without checking a rule book or asking for approval, but once they get the hang of it, they love the autonomy and lack of rules as much as Californians do. It's not only Americans who love to be in control of their own lives and work. Nothing cultural about that.

Some of the other parts of our culture quickly proved less easy to export. One early example was the Keeper Test. We soon learned that, although we can follow our mantra "Adequate Performance Gets a Generous Severance" in every country, what is considered generous in the US is often seen as stingy—if not illegal—in some European countries. In the Netherlands, for example, the amount of severance required by law depends on how long the employee has been with the company. So we had to adapt. Now in the Netherlands, if firing someone who's been with us for a while, Adequate Performance Gets an *Even More* Generous Severance. The Keeper Test and all the elements that go with it can work internationally but require adaptation to the local employment practices and laws.

Beyond these quickly apparent elements, given how fast we were expanding around the globe and how important our corporate culture is to our success, I wanted to do all we could to understand the cultures of the countries we were moving into, and to find the similarities and potential challenges between the local culture and Netflix culture. I believed just being aware of that would prompt important discussions and ultimately improve our effectiveness.

ENTER THE CULTURE MAP

At about that time, a manager in our HR department lent me Erin's book, *The Culture Map*. The book outlines a system for comparing one national culture to another on a set of behavioral scales. It looks at issues like how much employees defer to the boss in different countries, how decisions are made in different parts of the world, how we build trust differently in different cultures, and most important for us at Netflix, how candid versus diplomatic people tend to be with critical feedback around the globe.



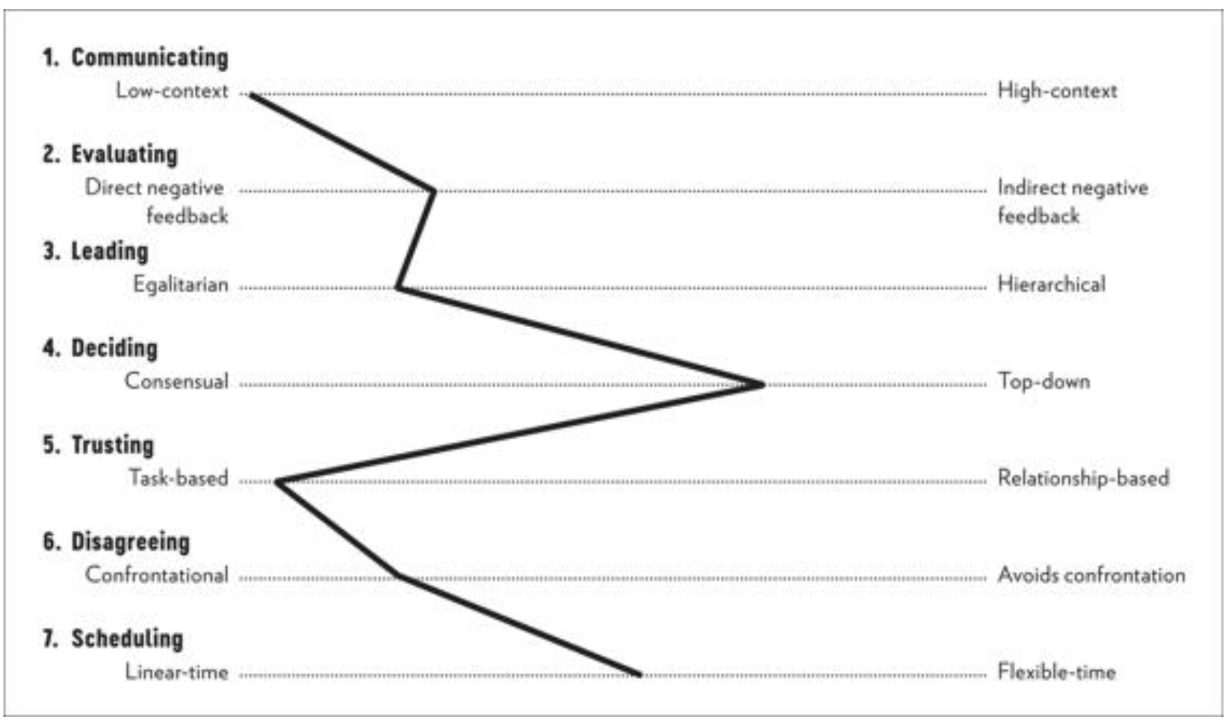
I did a bit of reading around the scales. The framework was based on an enormous amount of research and struck me as simultaneously robust and simple. I shared the book with our executive team and someone suggested that we look at the cultural "maps" for the various countries of our regional offices, compare them with one another, as per the chart above, and discuss what we felt the maps revealed.

The exercise was a revelation to many of us. The framework offered a convincing explanation for a number of things we had already encountered, such as why our experience with feedback in the Netherlands had been almost diametrically opposed to our experience in Japan (dimension 2 on the graph). We decided to get our executive team together to map out our corporate culture on the same scales. Once we'd done that, we could compare the corporate culture to the national cultures we were working in.

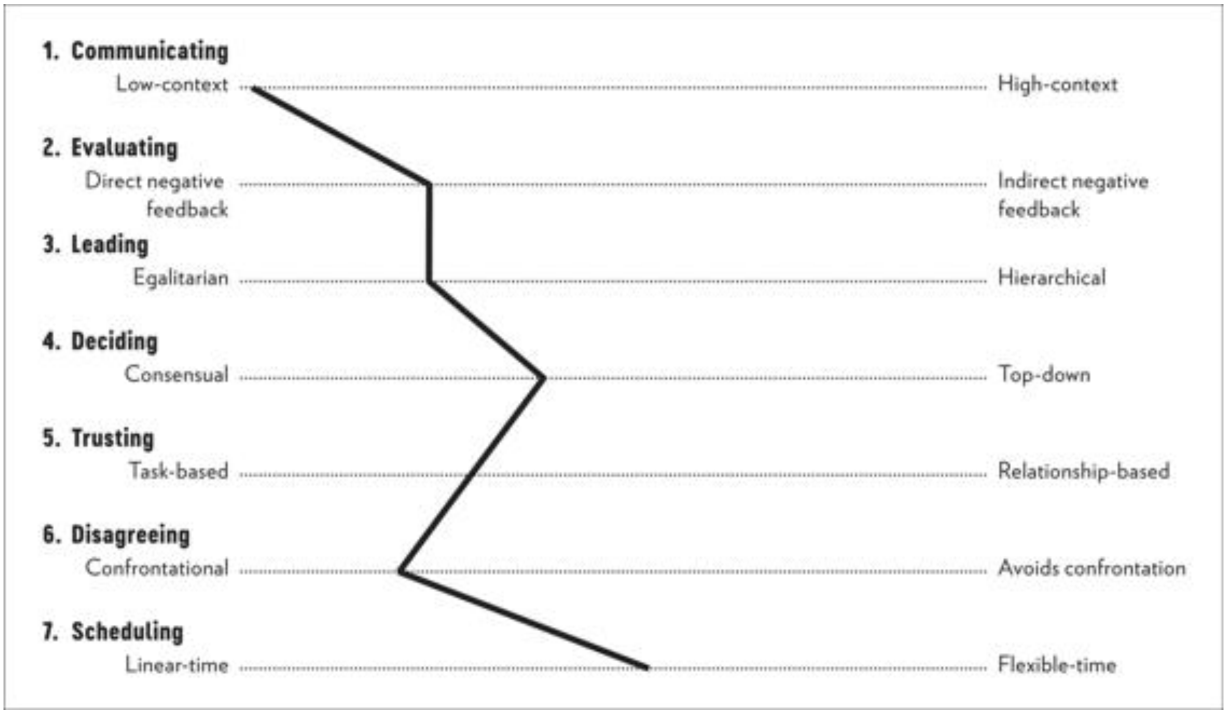
As I mentioned, before the Quarterly Business Review meeting, we run our "Estaff" meeting for all of our vice presidents and above. In the November 2015 Estaff, we divided the sixty participants into ten groups of six. We led a two-hour session where we worked at round tables to map out our corporate culture on *The Culture Map* scales.

Each group mapped the corporate culture a little differently, but some clear patterns emerged, as you'll see from the three examples below.

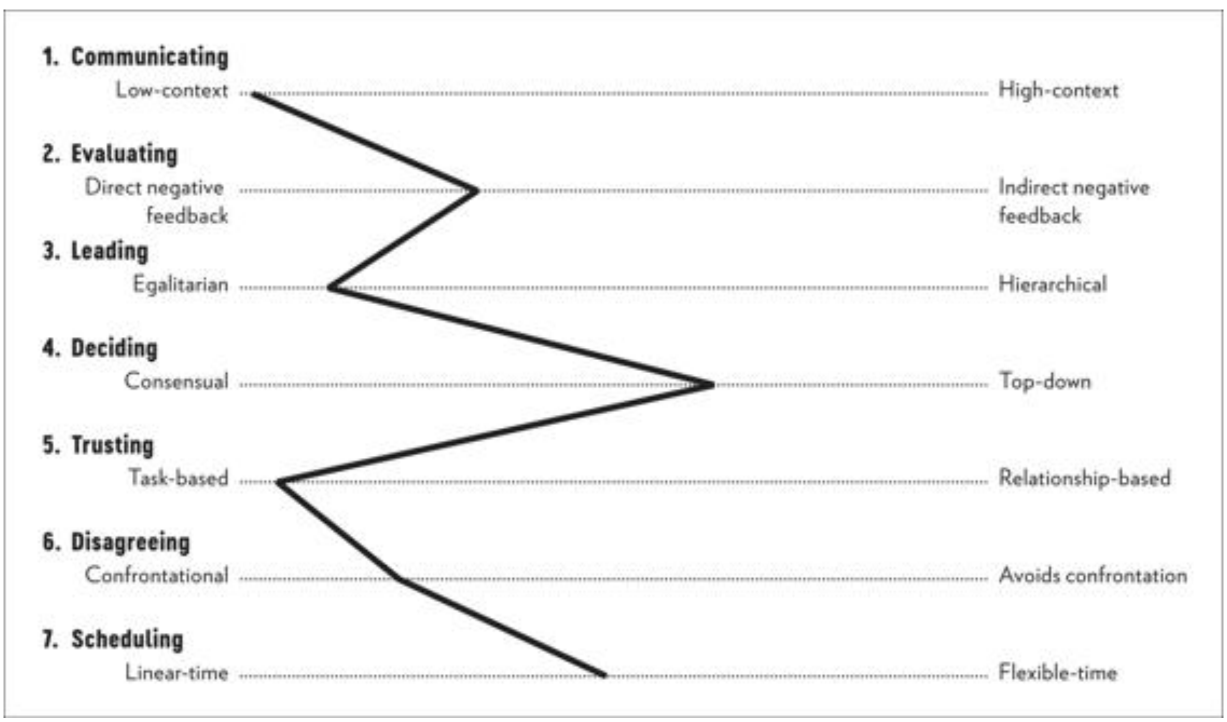
Group 1:



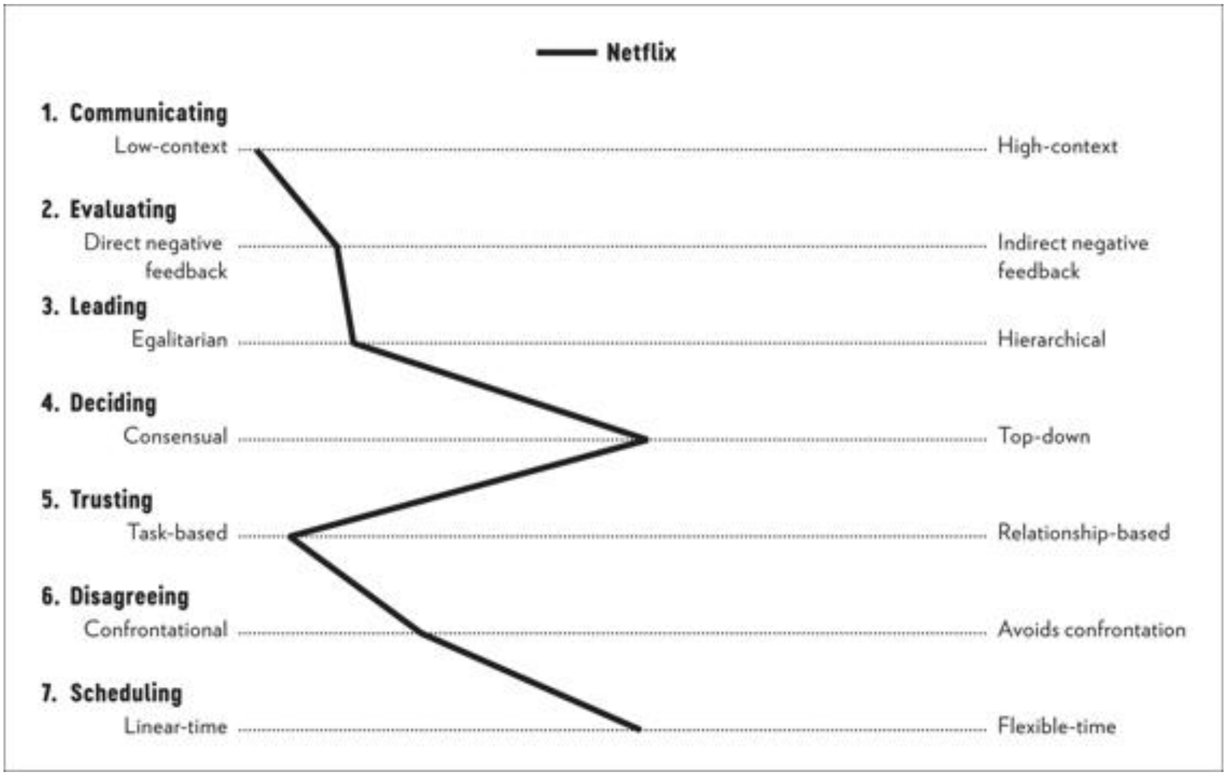
Group 2:



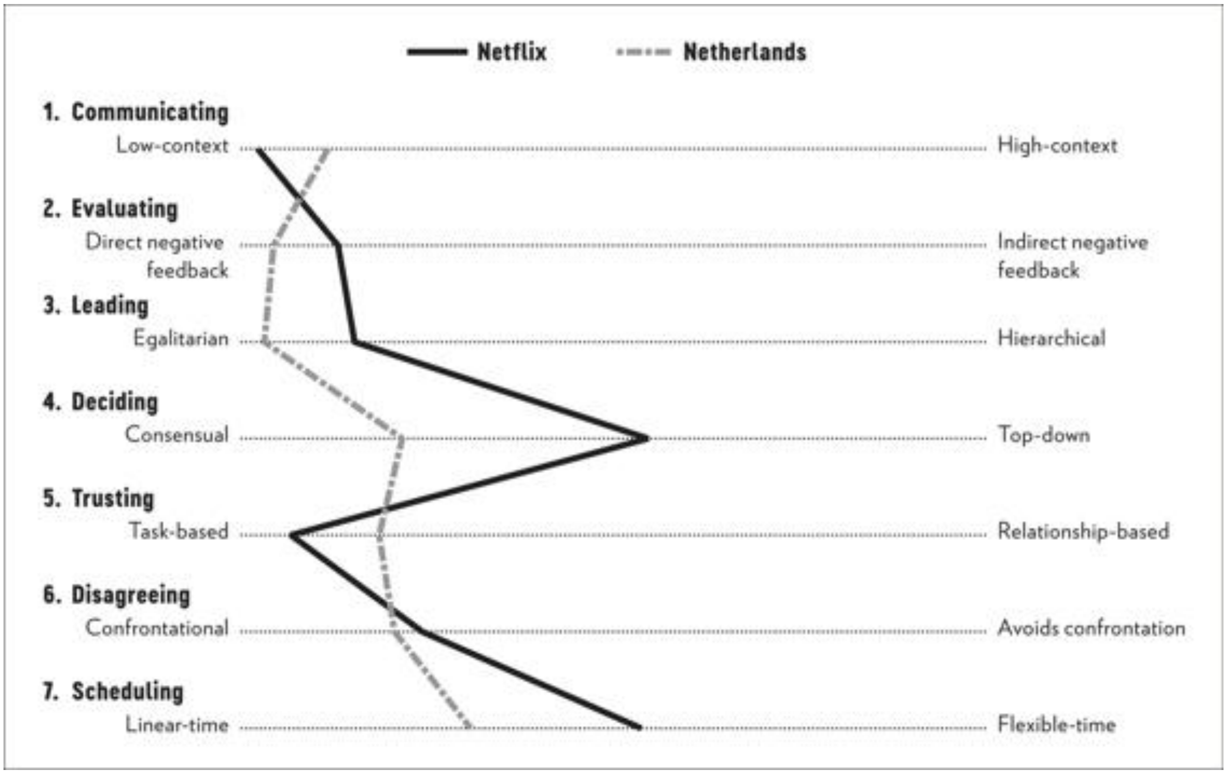
Group 3:

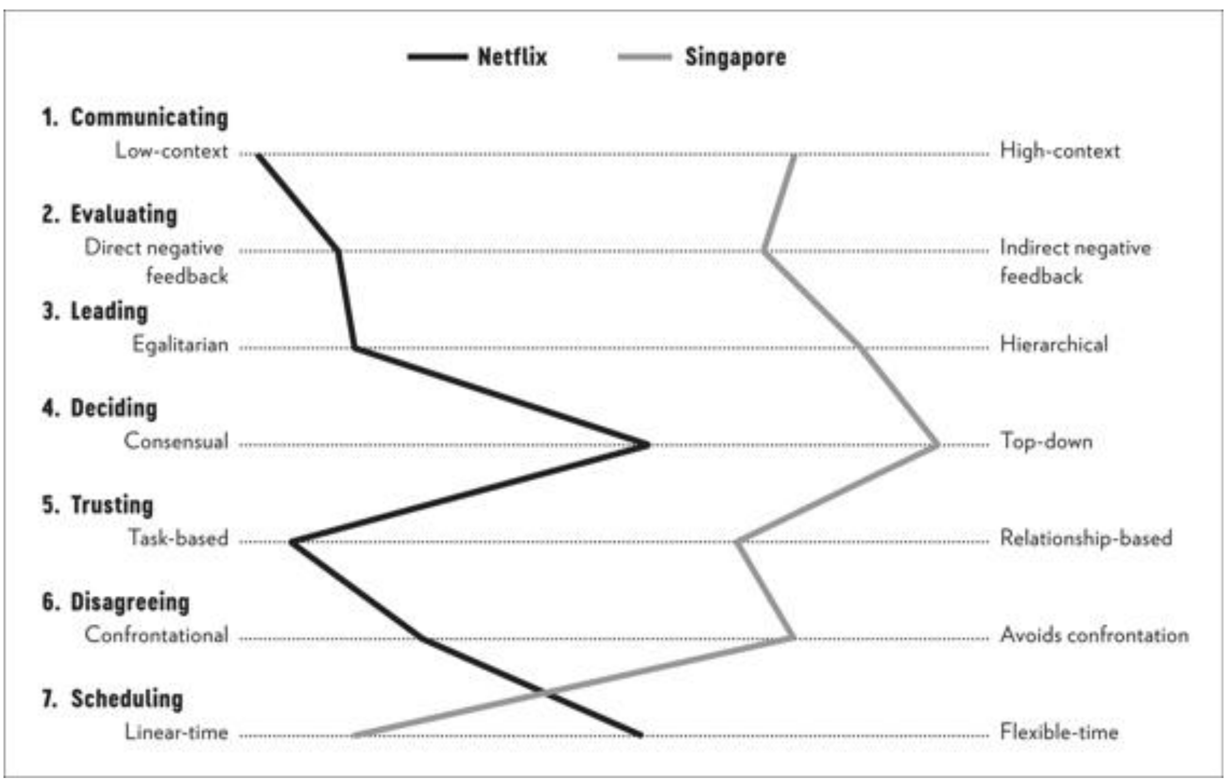


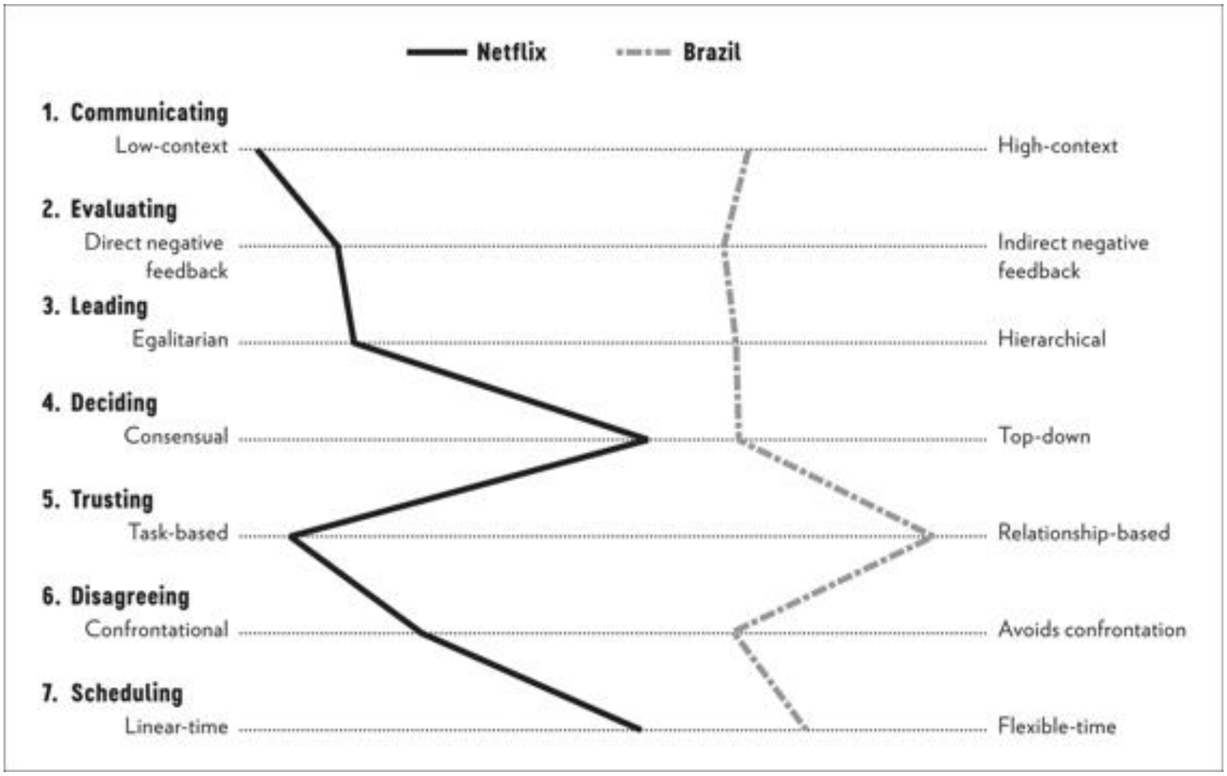
We then collected and studied the maps from the ten groups and aggregated them into a single Netflix corporate culture map, which looked like this:

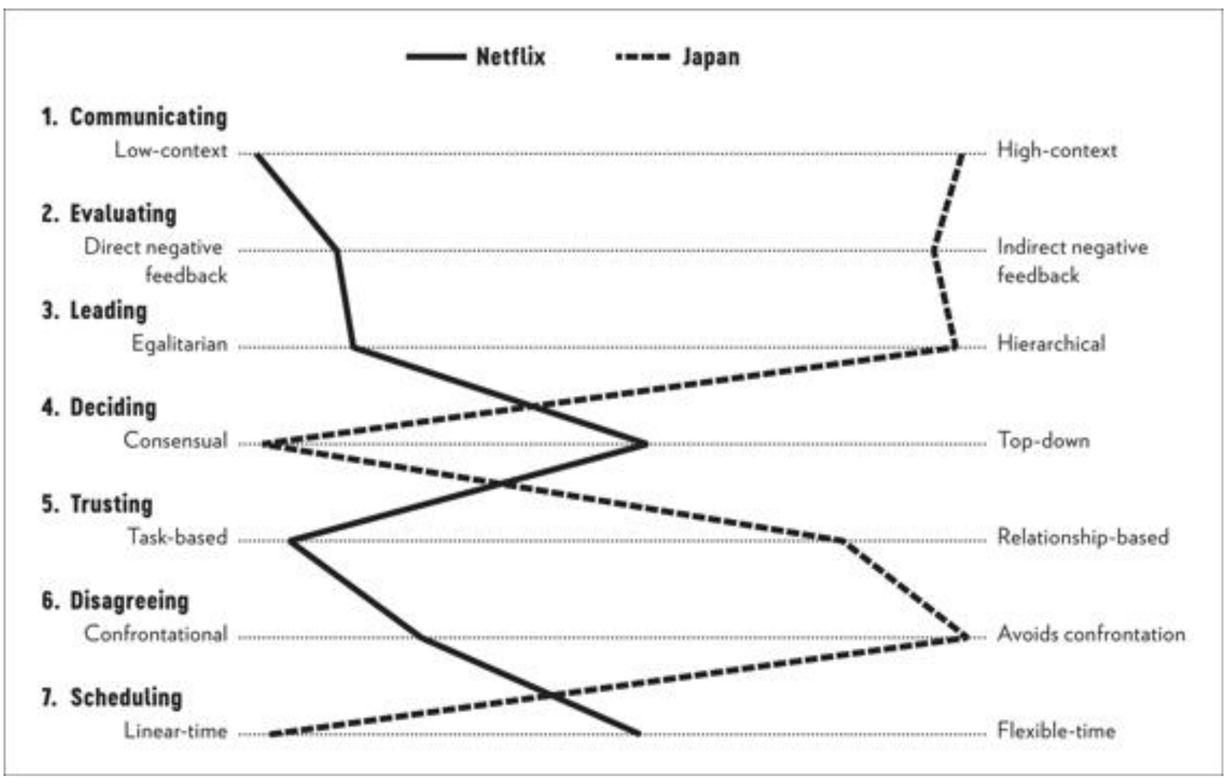


Next, using Erin's Country Mapping tool we compared our Netflix culture map to that of each of the countries where our regional hubs were located.


Netflix
Netherlands
1. Communicating
Low-context
High-context
2. Evaluating
Direct negative feedback
Indirect negative feedback
3. Leading
Egalitarian
Hierarchical
4. Deciding
Consensual
Top-down
5. Trusting
Task-based
Relationship-based
6. Disagreeing
Confrontational
Avoids confrontation
7. Scheduling
Linear-time
Flexible-time

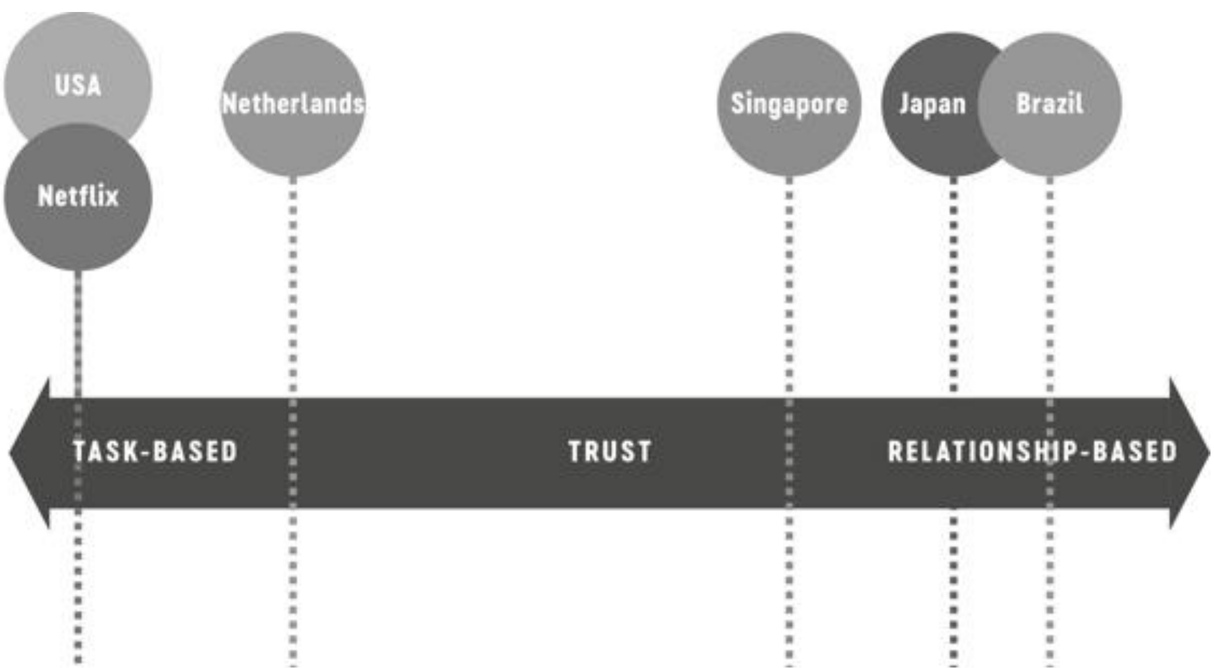

Netflix
Singapore
1. Communicating
Low-context
High-context
2. Evaluating
Direct negative feedback
Indirect negative feedback
3. Leading
Egalitarian
Hierarchical
4. Deciding
Consensual
Top-down
5. Trusting
Task-based
Relationship-based
6. Disagreeing
Confrontational
Avoids confrontation
7. Scheduling
Linear-time
Flexible-time





As we studied the maps, we realized that some of the issues we were having in our regional offices were due to cultural differences. For example, in comparison to Netflix culture, both the Netherlands and Japan fall to the consensual side of the decision-making scale (dimension 4) . That explained why many employees in our Amsterdam and Tokyo offices had been struggling with the Netflix Informed Captain model, where there is always one individual responsible for a decision (see chapter 6). As we looked at dimension 4, which measures how much a culture defers to authority, we saw Netflix falling to the right of the Netherlands (we learned that the Netherlands is one of the more egalitarian cultures in the world) and to the left of Singapore (more hierarchical). That helped us understand why our Dutch employees had no problem overruling their bosses' suggestions, while our Singaporean employees required more encouragement to make a decision if the boss didn't agree.

We were also struck by the trust dimension (dimension 5) where the Netflix culture was so clearly more task-oriented than almost every local culture we were moving into. The graph below zooms in on that specific dimension, so you can see the problem. We've added the US position for interest.



At Netflix, our emphasis had always been on watching the clock. The vast majority of meetings are thirty minutes long and we generally believe that most topics, even important ones, can be settled in a half-hour time frame. We try to be friendly and helpful, but until this culture mapping exercise, we avoided spending much time on nonwork discussions. Our goal was efficiency and speed, not on spending time chatting over a cup of coffee. But as we increasingly hired employees around the world, we found that our obsession with investing every minute in the task was hurting us in myriad ways. Here is one pertinent example recounted by one of our very first employees in Brazil. Leonardo Sampaio, business development director for Latin America, joined Netflix in October 2015:

> After dozens of phone and video interviews, I came to Silicon Valley for a full day of face-to-face interviews. The recruiter set me up in a conference room and between nine and noon I had six thirty-minute interviews with all sorts of interesting people, who would later become my colleagues. My agenda included just a half-hour lunch break.
>
> In Brazil, lunch is a time to build friendships with your colleagues. It is a period to set the work aside each day and get to know one another beyond the tasks we have to complete. The trust we build during this time is critical to collaboration. It's also these relationships that, for a Brazilian, make coming to work enjoyable. I was surprised that lunch was scheduled for only thirty minutes and I wondered who would be coming to share this time with me.
>
> A woman I didn't know came into the conference room where I was sitting. I stood up to greet her. Perhaps this was my lunch partner. She said in a friendly way, "Sarah asked me to bring you some lunch, I hope you like it." There was a nice meal in a bag including a couple of salads, a sandwich, and some fruit. She asked me if I needed anything else to feel comfortable. When I said no, she left, and I sat all alone eating my lunch. I understand now that to Americans, eating lunch during the work day is just a task to complete. But to a Brazilian, to be left alone eating lunch was shocking. I thought, "Isn't the guy who will be my boss at the very least going to come in and chat with me—ask how I'm feeling and ask about my life back in Brazil? I guess this is what Netflix means when they say, 'We are a team, not a family.'"
>
> Of course, I wasn't alone for long because thirty minutes passes fast, and my next interviewer arrived.

When I heard this story, I was uncomfortable. "We are a team, not a family" is about insisting on high performance; it's not about investing every minute in the work, avoiding getting to know one another deeply, or not caring about the people you work with. Most Americans sitting for a full day of interviews would welcome thirty minutes alone over lunch to review their notes, but I understand now that to our Brazilian interviewees, leaving them alone over a meal just feels like bad manners. Now when our Brazilian colleagues come to visit, we remember the importance of investing more time in getting to know them at a personal level and we also know to ask our Brazilian colleagues to help us to adapt our own relationship-building approach when negotiating with providers in Brazil.

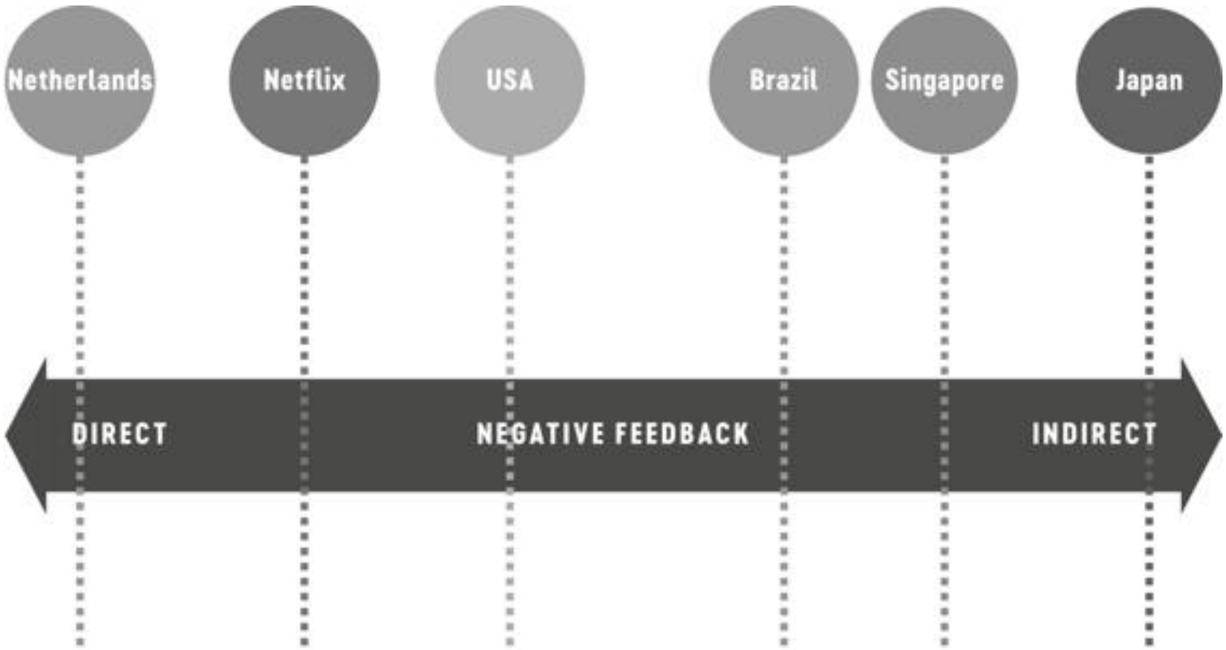
Having the Culture Map in front of us helped us to be more prepared and more effective, not just in this situation, but at many other important moments. Much of the awareness we developed from the culture mapping exercise led to critical discussions resulting in not-so-difficult solutions.

But not all of the elements highlighted on the culture maps were easy to address. The dimension linked to candor, what is referred to as the Evaluating scale on The Culture Map, has led to ongoing challenges big and small. It built our awareness of the differences, but what to do about those differences was anything but obvious.

IDEAS ABOUT CANDOR DIFFER GREATLY AROUND THE WORLD

As anyone who has worked internationally will tell you, feedback that's effective in one country doesn't necessarily work in another. For instance, the direct corrective feedback given by a German boss might seem unnecessarily harsh in the US, while an American's tendency to give copious positive feedback might come off as excessive and insincere in Germany.

That's because employees in different parts of the world are conditioned to give feedback in dramatically different ways. The Thai manager learns never to criticize a colleague openly or in front of others, while the Israeli manager learns always to be honest and give the message straight. Colombians are trained to soften negative messages with positive words, while the French are trained to criticize passionately and provide positive feedback sparingly. Positions of the Netflix corporate culture and the local cultures where their primary offices are located looks something like this:



When it comes to delivering criticism, the Netherlands is one of the more direct cultures in the world. Japan is highly indirect. Singapore is one of the most direct of the East Asian countries, but still to the indirect side of a world scale. The US average falls a little left of center. Brazil (with strong regional differences) is just a bit more direct than Singapore. The Netflix positions come from the culture-mapping exercise Reed led in 2015.

One of the reasons for the country placements on this scale has to do with the language people use when they provide criticism. More direct cultures tend to use what linguists call *upgraders,* words preceding or following negative feedback that make it feel stronger, such as “absolutely,” “totally,” or “strongly”: “This is absolutely inappropriate” or “This is totally unprofessional.” In contrast, more indirect cultures use more *downgraders,* when giving negative feedback. These are words that soften the criticism, such as “kind of,” “sort of,” “a little,” “a bit,” “maybe,” and “slightly”. Another type of downgrader is a deliberate understatement, such as, “We are not quite there yet,” when you really mean, “We are nowhere near our goal.”

The Japanese, as the most indirect of the cultures where Netflix has an office, tend to use plenty of downgraders when giving negative feedback. But this isn’t the only technique they use to make the criticism feel softer. Often feedback is passed implicitly and barely spoken at all. When Netflix opened in Japan in 2015, it didn’t take long to see that the explicit, frequent, and often upward feedback expected by Netflix management was neither natural nor comfortable for the newly-hired local employees. Vice president of business and legal affairs Josephine Choy (an American) remembers one experience:

> I was one of the early employees in Tokyo and, as the then-General Counsel for Japan, my first duty was to hire a team of legal professionals. I sought Japanese people who were bilingual (Japanese/English) and seemed to embody—or at least be attracted to—the Netflix culture.

The hiring was successful, but challenges popped up early. One of the first was during those difficult moments when discussing a problem or a mistake, Josephine's staff appeared to discuss the situation openly, while simultaneously finessing the most important pieces of information between the lines. Josephine explains:

> In English we usually state the subject followed by a verb and an object. We rarely drop the subject, or the sentence doesn't make sense. In Japanese, however, the syntax is flexible. The subject, verb, and object are all optional. It is possible to have a sentence in Japanese with only a noun. Often the sentence might start with the main topic, followed by some content, and the verb at the end. Sometimes the speaker assumes everyone knows what the subject is, so he drops it. And this aspect of Japanese language lends itself nicely to a conflict-avoidant culture. At these moments, you have to consider what is being said in context in order to know who did what.

For example, on Josephine's team, when someone made a mistake or a deadline was missed, they would use Japanese-style linguistic techniques to avoid pointing fingers even while speaking English.

> In a meeting, when discussing something that had gone wrong, my team would often use the passive voice. They might say, "The assets didn't get created and therefore the commercial couldn't air," or "Approval wasn't given so there was surprise and the bill didn't get paid." In this way they avoided embarrassing someone in the room or placing explicit blame, while having a completely open discussion amongst themselves.
>
> It also meant that I—as the only non-Japanese—frequently would have to stop them in order to figure out what was going on. "Wait, who didn't create the assets? We didn't, or the agency didn't?" Sometimes a passive construction seemed to allude to something I had failed to do but no one dared mention. "Wait, was I supposed to give the approval? Was it my fault and how can I help?"

This tendency to speak and read between the lines is most common when giving corrective feedback, expressing disagreement, or communicating negative impressions. Conveying an unpleasant message indirectly allows the feedback giver to preserve a harmonious relationship with the feedback receiver. In Japanese culture, explicit constructive feedback is rarely voiced—and certainly not to someone further up the hierarchy. Josephine remembers the difficulties that arose the first time she solicited feedback from one of her Japanese employees:

> One of my first hires in Tokyo was a director-level attorney named Miho. Once we got through our initial onboarding, I set up a weekly one-on-one meeting. For the first meeting I sent out an agenda and the last item was feedback. The one-on-one went very well until we got to that last item. I said, "As you know Netflix has a culture of feedback and candor. I would like to begin by asking for your feedback. How has the onboarding process been and are there any changes I can make in my approach to be a more effective manager to you?"

Having used this same method with dozens of employees in the US, Josephine didn't expect what happened next:

> Miho looked at me and tears started running down her face. Not out of fear or anger. It was just like, "Oh my goodness, my boss is asking me to give her feedback. This is happening!" She said, "Oh. . . . I'm sorry. I'm crying. I really want to do this. I just don't know how. We don't give feedback to the boss like this in Japan."
>
> I decided to start the process gently. "I'll go first this time. My feedback to you is that when I send out meeting agendas in the future, you can add anything you like to the list of topics to discuss." She dried her eyes and said, "Okay, that is helpful feedback. Let me think about it and I'll get back to you with my feedback at the next meeting."

For Josephine it was an eye-opener.

> Obviously, I know the Japanese are less direct than Americans and giving feedback to a superior might have added complications, but I wasn't prepared for that response. After some practice, Miho began giving me clear and actionable feedback in our one-on-ones, so that was a clear success.

But getting the Japanese employees to give one another ad hoc feedback in a meeting or during a presentation was proving more challenging. After trial and error, Netflix leaders learned a few key lessons for how to successfully implement a culture of candor, not just in Japan, but in many other less direct cultures around the world. The first lesson was to increase formal feedback moments when dealing with less direct cultures.

WITH LESS DIRECT CULTURES, INCREASE FORMAL FEEDBACK MOMENTS

Given the feedback challenge in the Tokyo office, a group of US-based managers tried an experiment in their attempts to get their Japanese employees to give 4A-type feedback. They travelled from California to Japan to run a feedback clinic. Japanese content manager Yuka, who attended the clinic, remembers it like this:

> Four American Netflix leaders came to Tokyo to lead a session on how to give and receive feedback. They stood on stage and gave corrective feedback to one another and responded to the feedback they were receiving. They told stories about times they had received tough feedback from other American colleagues, how it had felt, and the positive impact it had made.
>
> Afterward we all clapped politely. But we agreed that this helped us not at all. One American giving feedback to another American in English isn't the challenge. This we've seen dozens of times. What we needed to see was one Japanese giving feedback to another Japanese (ideally in Japanese) in a way that is appropriate, respectful, and doesn't harm the relationship. That's the link we were missing.

It was chief product officer Greg Peters who identified a better approach. Greg is married to a Japanese woman and is a fluent Japanese speaker, which is part of the reason I asked him to move to Tokyo and open the regional office in 2015. He recalls:

> I'd been in Japan for about six months and despite a lot of encouragement, there was very little impromptu feedback in the office. When the 360 process came around, I had low expectations.
>
> We did the written 360s. Then we did a live 360 session, which is one of the most un-Japanese activities imaginable: giving frank feedback to a colleague and superior in front of a group. But I knew there were parts of the culture that might make this group feedback possible. Most Japanese are meticulous and dedicated preparers. If you set clear expectations, they will do

everything they can to meet them. If you say, “Please prepare for this and these are the instructions we are going to follow,” they almost always excel.

The results were remarkable. During the 360 process the Japanese on my team provided higher-quality feedback than my teams in the US had in previous years. The comments were frank and well-constructed. Their recommendations were actionable, and they didn’t pull punches. They received the feedback with grace and appreciation.

Afterward, when I debriefed with several of them, they said, “You told us it was part of our job. You told us what to do and how to do it. We prepared and some of us even rehearsed. We wanted to make sure we met your and Netflix’s expectations.”

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.

Josephine took this away from both her Netflix experience in Japan and later leading teams in Brazil and Singapore:

Now I tell my Netflix colleagues who are managing employees in any office where the culture is less direct than in the US: “Practice feedback early and often. Put feedback on the agenda in as many meetings as possible to take the stigma out of it. The first few times you provide feedback, gently mention small things that are easily actionable. Instead of decreasing the amount of formal feedback moments, increase them while also investing time in relationship-building. Informal spontaneous feedback is unlikely to happen much, but you can get many benefits from selfless candor by putting feedback on the agenda and allowing people the space to prepare for it.”

Creating copious formal feedback moments is the first lesson Netflix managers learned for implementing a culture of candor around the world. The second lesson is . . .

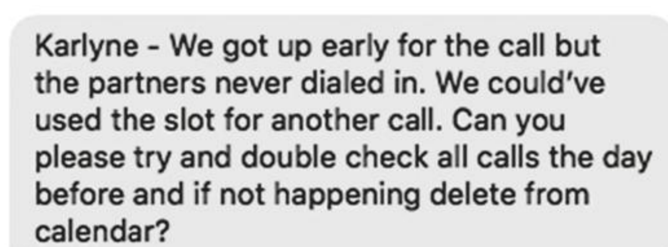
LEARN TO ADJUST YOUR STYLE AND TALK, TALK, TALK

When Netflix moved to Japan, Josephine, Greg, and the rest of the management team were on high alert for the cultural differences that might impact their effectiveness; they knew going in that the Japanese culture would be different. But when Netflix moved to Singapore, the cultural differences were less apparent and therefore the leaders were less careful. Many found their Singaporean colleagues, with their perfect English and experience of working with Westerners, so familiar in their approach that they didn't give culture much thought at all. But then the differences started creeping in.

Marketing coordinator Karlyne Wang, who joined Netflix from HBO Asia in October 2017, provided a specific example:

> Our administrative assistant left, and I am temporarily filling in. Last week there was a call with an external partner scheduled on two of my senior American colleagues' calendars. The call was scheduled by my predecessor, not me. The Americans got up early, but the partner never dialed in.
>
> The two Americans then pinged me separately. Their text messages made me so angry that I ghosted them. I didn't respond. I had to take a walk, during which I told myself: try to be as open as possible. Calm down, that's just how they write. Maybe they don't realize that their messages feel rude. Maybe they don't know how their words impact people. These are good people. I know they are good people.

As Karlyne told this story I became increasingly curious to see just how obnoxious these Americans had been. Perhaps this wasn't a cultural misunderstanding but simply bad behavior. Karlyne dug up one of the offensive text messages:



Karlyne - We got up early for the call but the partners never dialed in. We could've used the slot for another call. Can you please try and double check all calls the day before and if not happening delete from calendar?

To my American eyes, this text message struck me as neither rude nor inappropriate. Seeking to assist the business, the sender laid out a problem and an actionable solution. She didn't berate Karlyne. She explained what behavior change she was hoping for, and said "please." I wondered if Karlyne's reaction was cultural or simply oversensitivity on her part.

So I showed a screenshot of the text to several other Netflix Singaporean employees to get their input. Seven out of eight echoed Karlyne's reaction: the message is rude. One of them was Programmatic Manager Christopher Low.

> **CHRISTOPHER:** To a Singaporean person this text message is aggressive. It's very directive. Here's the situation. Do A. Do B. If I received this message I would feel this person was shouting at me. The worst part is where she writes, "We could have used the slot for another call." There is no need for that sentence. The first sentence already implies this to be true. Stating it openly feels unnecessarily harsh. I would think, "What could I have done to trigger such a nasty reaction?"
>
> **ERIN:** Do you feel the sender is being selflessly candid?
>
> **CHRISTOPHER:** I think the Westerner feels like, "I just need to do this quickly and make sure I am clear. I don't want to waste unnecessary minutes." But to a Singaporean it feels like a kick. It doesn't feel selfless. It's shocking.
>
> **ERIN:** What could the sender have done to communicate the same message without coming off as rude or insulting?
>
> **CHRISTOPHER:** She could have been more personal, maybe saying, "Hey, I know this was the middle of the night Singaporean time. Sorry to start your day with bad news." Or she could have removed the blame saying, "It's not your fault. You weren't the one to schedule the meeting." She could have framed it less like an order. "I know you're super busy. I wonder if you'd be able to help us out with this in the future?" It would have

helped to add a relationship-oriented touch—like maybe a friendly emoji.

Christopher emphasized that it's not just the Americans who need to adapt:

> Don't get me wrong! As employees who work for a company headquartered in the US, we also need to make an effort to adapt ourselves. The Singaporean's immediate reaction might be to feel paralyzed or angry. But to succeed at Netflix we need to adjust our reaction. We need to remind ourselves that in some other countries this behavior is appropriate and then start a dialogue. Karlyne should pick up the phone and talk openly with the woman who sent the message. She should say, "I get that this happened, and it was frustrating for you. But your message upset me." She could also explain the cultural differences: "Maybe this is cultural. I know in Singapore we are often less direct when giving feedback and more sensitive when receiving it." With open dialogue and transparent discussions, we can live the Netflix culture while becoming increasingly competent at giving and receiving feedback to our colleagues around the world.

Chris's instructions encapsulate the second lesson we learned. Given the importance of candor for Netflix, employees in indirect cultures need to get used to both giving and receiving feedback with a frankness they may not be accustomed to. This requires emphasizing and re-emphasizing the 4A feedback model outlined in chapter 2. It requires talking openly about the cultural differences and coaching and supporting our global teams to take direct feedback not as a slap, but as a way to get better. For example, in our São Paulo office, there is a weekly meeting to discuss the corporate culture for all employees who'd like to attend. Giving and receiving feedback is one of the most frequent topics on the agenda.

But learning to foster candor around the world is not a one-way street. When collaborating with less direct cultures, we've learned at headquarters to be more vigilant and to try to calibrate our communication so that it feels helpful to the receiver and is not rejected simply because of form. Chris's advice was simple and anyone who needs to give feedback to a colleague in a less direct culture should take heed. Be friendlier. Work harder to remove the blame. Be careful to frame the feedback as a suggestion, not an order. Add a relationship-based touch like a smiling emoji. These are all things we can do to make our messages feel more appropriate in the context within which we are working.

The overarching lesson we've learned is that—no matter where you come from—when it comes to working across cultural differences, talk, talk, talk.

One of the best ways to get better at providing feedback to an international counterpart is to ask questions and show curiosity about the other person's culture. If you need to give feedback to a counterpart in another country, ask another trusted colleague from that country first, "Does my message sound aggressive?" "What's the best approach in your culture?" The more questions we ask and the more curiosity we show, the better we all become at giving and receiving feedback around the world.

In order to ask the right questions and understand the answers we get from around the world, it's important to remember a final cross-cultural lesson. . . .

EVERYTHING IS RELATIVE

As with all the dimensions of culture, when it comes to giving feedback internationally everything is relative. The Japanese find the Singaporeans unnecessarily direct. The Americans find the Singaporeans opaque and lacking transparency. The Singaporeans who join Netflix are shocked at their American colleagues' bluntness. To many a Dutch person, the Americans at Netflix don't feel particularly direct at all.

Netflix, despite its multinational desires, continues to have a largely American-centric culture. And when it comes to giving negative feedback, Americans are more direct than many cultures but considerably less direct than the Dutch culture. Dutch director of public policy Ise, who joined Netflix Amsterdam in 2014, explains the difference like this:

> The Netflix culture has succeeded in creating an environment where feedback is frequent and actionable. Yet when an American gives feedback, even at Netflix, they almost always start by telling you what's good about your work before telling you what they really want to say. Americans learn things like, "Always give three positives with every negative" and "Catch employees doing things right." This is confusing for a Dutch person, who will give you positive feedback or negative feedback but is unlikely to do both in the same conversation.

At Netflix, Ise quickly learned that the manner of giving feedback that would be natural and comfortable in her own Dutch culture was too blunt for her American collaborators:

> Donald, my American colleague who had recently moved to the Netherlands, was hosting a meeting in Amsterdam. Seven non-Netflix partners had taken planes and trains from around Europe for the discussions. The meeting went very well. Donald was articulate, detailed, and persuasive. His preparation was evident. But several times I could tell other participants wanted to share their own perspective but didn't have the opportunity, because Donald talked so much.
>
> After the meeting Donald said to me, "I thought that went great. What did you think?" This seemed to me like a perfect time to give that candid feedback Netflix leaders are always preaching about so I jumped in: "Stinne came all the way from Norway to attend the meeting but you spoke so much she couldn't get a word in edgewise. We asked these people to take planes and trains, and then they didn't get time to speak. We didn't hear all of the opinions that could have helped us. You talked for 80 percent of the meeting, making it difficult for anyone else to say anything at all."

She was about to move on to the part of the feedback where she gives actionable suggestions for future improvement when Donald did something that Ise feels is typical of Americans:

> Before I'd even finished, he groaned and looked crestfallen. He took my feedback way too harshly, as Americans often do. He said, "Oh my gosh, I'm so sorry for having messed this all up." But he hadn't "messed it all up." That's not what I said. The meeting was a success and he showed he knew that by saying, "That went great." There was just this one aspect that was not good, and I felt understanding that could help him improve.
>
> That's what frustrates me about my American colleagues. As often as they give feedback and as eager as they are to hear it, if you don't start by saying something positive they think the entire thing was a disaster. As soon as a Dutch person jumps in with the negative first, the American kills the critique by thinking the whole thing has gone to hell.

In her past five years at Netflix, Ise has learned a lot about giving feedback to international colleagues, especially Americans:

> Now that I better understand these cultural tendencies, I give the feedback just as frequently, but I think carefully about the person receiving the message and how to adapt to get the results I'm hoping for. With more indirect cultures I start by sprinkling the ground with a few light positive comments and words of appreciation. If the work has been overall good I state that enthusiastically up front. Then I ease into the feedback with "a few suggestions." Then I wrap up by stating, "This is just my opinion, for whatever it is worth," and "You can take it or leave it." The elaborate dance is quite humorous from a Dutch person's point of view . . . but it certainly gets the desired results!

Ise's words sum up the strategies Netflix learned for promoting candor as they opened offices around the world. When you are leading a global team, as you Skype with your employees in different cultures, your words will be magnified or minimized based on your listener's cultural context. So you have to be aware. You have to be strategic. You have to be flexible. With a little information and a little finesse, you can modify the feedback to the person your speaking with in order to get the results that you need.

• • •

Personally, I loved the frank approach Ise used when delivering her feedback to Donald. She aimed to help. She was clear about what behavior diminished the success of the meeting. The feedback was actionable.

What her approach was lacking was global sensitivity. Despite her candor, her feedback technique led to misunderstanding. Her intended message was that the meeting was great and Donald should shut up more to make the next meeting even better. The way she delivered the message led Donald to think the meeting had been a disaster. And if Donald had been Brazilian or Singaporean, he'd probably have left the meeting expecting to lose his job the next week.

This brings us to . . .

THE LAST DOT . . . FOR NOW

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.

We still have a lot to learn about integrating our corporate culture into our growing number of offices around the world. At most QBRs, we have at least one discussion about corporate culture. As the majority of our future growth is outside the US, we increasingly focus these discussions on how to make our values work in a global context. What we've learned is that in order to integrate your corporate culture around the world, above all you have to be humble, you have to be curious, and you have to remember to listen before you speak and to learn before you teach. With this approach, you can't help but become more effective every day in this ever-fascinating multicultural world.

TAKEAWAYS FROM CHAPTER 10

- Map out your corporate culture and compare it to the cultures of the countries you are expanding into. For a culture of F&R, candor will need extra attention.
- In less direct countries, implement more formal feedback mechanisms and put feedback on the agenda more frequently, because informal exchanges will happen less often.
- With more direct cultures, talk about the cultural differences openly so the feedback is understood as intended.
- Make ADAPTABILITY the fifth A of your candor model. Discuss openly what candor means in different parts of the world. Work together to discover how both sides can adapt to bring this value to life.

CONCLUSION

Near my childhood home in Minneapolis is a three-mile-round lake called Bde Maka Ska. On hot summer Saturdays, hordes of city-dwellers flock to the lake's running paths, docks, and beaches. Despite the mobs, it feels surprisingly peaceful because there are plenty of rules guiding everyone's actions. Walkers are not allowed on the bike paths. Bikes move only clockwise. No smoking anywhere. No swimming beyond the marked buoys. Rollerblades and scooters go on the bike path, not the walking path. Joggers use the walking path only. These regulations are widely known and rigorously followed, creating a haven of organization and calm.

If Netflix has a culture of freedom and responsibility, Bde Maka Ska has a culture of rules and process.

Peaceful as this rules-and-process culture may be, there are also some disadvantages. If you need to bike somewhere a short counterclockwise ride away, you can't. You have to go clockwise all the way around the lake. If you want to swim across the lake, you'll be stopped by a lifeguard in a boat and brought back to shore. It doesn't matter how well you swim; it's not allowed. The culture was developed to deliver peace and safety to the greater group, not freedom to the individual.

"Rules and process" is so familiar a paradigm for coordinating group behavior, it hardly needs any explanation at all. Starting in kindergarten when Mrs. Sanders sat all the other five-year-olds on the green rug and explained in detail what you were and weren't allowed to do, you were already learning rules and process. Later, when you took that first job bussing dishes at that noodle place by the mall and you learned what color socks you could and couldn't wear under your uniform and how much would be subtracted from your paycheck if you ate a biscuit during your shift, your apprenticeship in rules and process was progressing.

The rules-and-process approach has been the primary way of coordinating group behavior for centuries. But it isn't the only way, and it isn’t only Netflix using a different method. For the past nineteen years, I’ve lived a nine-minute drive from the Arc de Triomphe in Paris. A short trip to the top of the monument provides spectacular views of the famed Avenue des Champs-Elysées, the Eiffel Tower and the Sacré-Cœur Basilica, but most impressive is the massive traffic circle in orbit around the Arc, known as “l’Etoile,” or “the Star.” Reed sometimes refers to Freedom and Responsibility as operating on the edge of chaos. For that, there’s no clearer image than the traffic at l’Etoile.

Every minute, hundreds of cars spill from the twelve multilane boulevards that all converge on the unmarked ten-lane roundabout. Motorcycles whip between double-decker buses. Taxis merge aggressively to drop off tourists at the center. Cars plunge, often without turn signals, toward their boulevard of choice. Despite the masses of vehicles and people, there is one basic principle guiding all the traffic: once you are on the roundabout, you give right of way to those entering from any of the twelve incoming streets. Beyond that, know where you want to go, focus on your goal, and use your best judgment. You’ll probably get there quickly and unharmed.

The first time you go to the top of the Arc de Triomphe and witness the turmoil below, the advantages to operating with so few rules seems unclear. Why not put a dozen traffic lights around the circle to make cars wait their turn? Why not mark the lanes and provide rigorous restrictions about who can move where at what moment?

According to my French husband, Eric, who has been driving around the Arc de Triomphe almost daily for decades, that would also slow everything down. “L’Etoile is incredibly efficient. There is no faster way for a skilled driver to get from point A to point B,” he claims. “Plus the system provides extreme flexibility. You might get onto the roundabout planning to exit at the Champs Elysées only to see a tourist bus blocking the street. No need to panic. You can change your route on the fly. You can exit on Avenue de Friedland or Avenue Hoche, or you can circle around Etoile a few more times until the bus has moved on. Almost no other traffic method allows you to change course mid-route so quickly.”

Now that you’ve read this book you’ve seen that when you lead a team or manage a company, you have a clear choice. You can go the way of Bde Maka Ska, working to control the movements of your employees with rules and process. Or you can implement a culture of freedom and responsibility, choosing speed and flexibility, and offering more freedom to your employees. Each approach has its advantages. When you started this book you already knew how to coordinate a group of people through rules and process. Now you know how to do it through freedom and responsibility too.

WHEN TO CHOOSE RULES AND PROCESS?

The Industrial Revolution has powered most of the world's successful economies for the past three hundred years. So it's only natural that the management paradigms from high-volume, low-error manufacturing have come to dominate business organizational practices. In a manufacturing environment, you are trying to eliminate variation, and most management approaches have been designed with this in mind. It really is a sign of excellence when a company manages to produce a million doses of penicillin or ten thousand identical automobiles with no errors.

Perhaps that's why, during the industrial era, many of the best companies operated like symphonic orchestras, with synchronicity, precision, and perfect coordination as the goal. Instead of a musical score and a conductor, it was processes and policies that guided their work. Even today, if you are running a factory, managing a safety-critical environment, or you want the same thing produced identically with great reliability, a rules-and-process symphony is the way to go.

Even at Netflix we have pockets of the company where safety and error prevention are our primary goals and there we fence off an area to build a little symphony orchestra that plays pitch-perfect rules-and-process.

Take, for example, employee safety and sexual harassment. When it comes to protecting our employees from injury or harassment, we invest in error prevention (training) and hotlines; we have strong processes to make sure all claims are properly investigated; and we use process-improvement principles to drive the incident rates down to zero.

Likewise, at other moments when making a mistake would lead to disaster, we choose rules and process. One example is the financial information we release to Wall Street every quarter. Imagine that we published our financials and then had to go back and say, "Wait, we were wrong. It's less revenue than we said." That would be a disaster. Another example is the privacy of our viewer data. What if someone hacked into our system, stole information about what our individual members were watching, and published it on the internet? That would be a catastrophe.

In select instances like these, where error prevention is clearly more important than innovation, we have loads of checks, processes, and procedures to ensure we don't screw anything up. In these moments, we want Netflix to be like a hospital where there are five people verifying the surgeon is operating on the correct knee. When a mistake would lead to a disaster, rules and process isn't just nice to have, it's a necessity.

With this in mind, you can consider your objective carefully before deciding when to opt for freedom and responsibility and when rules with process would be a better choice. Here are a set of questions you can ask in order to select the right approach:

- Are you working in an industry where your employees' or customers' health or safety depends on everything going just right? If so, choose rules and process.
- If you make a mistake, will it end in disaster? Choose rules and process.
- Are you running a manufacturing environment where you need to produce a consistently identical product? Choose rules and process.

If you're leading an emergency room, testing airplanes, managing a coal mine, or delivering just-in-time medication to senior citizens, rules with process is the way to go. This has been the go-to coordination model for the majority of organizations for centuries and, for some, will continue to be the best choice in coming years.

But for those of you who are operating in the creative economy, where innovation, speed, and flexibility are the keys to success, consider throwing out the orchestra and focusing instead on making a different kind of music.

IT'S JAZZ, NOT A SYMPHONY

Even during the industrial era there were pockets of the economy, such as advertising agencies, where creative thinking drove success, and they managed on the edge of chaos. Such organizations accounted for just a small percent of the economy. But now, with the growth in importance of intellectual property and creative services, the percentage of the economy that is dependent on nurturing inventiveness and innovation is much higher and continually increasing. Yet most companies are still following the paradigms of the Industrial Revolution that have dominated wealth creation for the last three hundred years.

In today's information age, in many companies and on many teams, the objective is no longer error prevention and replicability. On the contrary, it's creativity, speed, and agility. In the industrial era, the goal was to minimize variation. But in creative companies today, maximizing variation is more essential. In these situations, the biggest risk isn't making a mistake or losing consistency; it's failing to attract top talent, to invent new products, or to change direction quickly when the environment shifts. Consistency and repeatability are more likely to squash fresh thinking than to bring your company profit. A lot of little mistakes, while sometimes painful, help the organization learn quickly and are a critical part of the innovation cycle. In these situations, rules and process are no longer the best answer. A symphony isn't what you're going for. Leave the conductor and the sheet music behind. Build a jazz band instead.

Jazz emphasizes individual spontaneity. The musicians know the overall structure of the song but have the freedom to improvise, riffing off one another other, creating incredible music.

Of course, you can't just remove the rules and processes, tell your team to be a jazz band, and expect it to be so. Without the right conditions, chaos will ensue. But now, after reading this book, you have a map. Once you begin to hear the music, keep focused. Culture isn't something you can build up and then ignore. At Netflix, we are constantly debating our culture and expecting it will continually evolve. To build a team that is innovative, fast, and flexible, keep things a little bit loose. Welcome constant change. Operate a little closer toward the edge of chaos. Don't provide a musical score and build a symphonic orchestra. Work on creating those jazz conditions and hire the type of employees who long to be part of an improvisational band. When it all comes together, the music is beautiful.

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