CHAPTER ONE

The Greatest Motivation Is Contributing to Success

| Treat People Like Adults |

Great teams are made when every single member knows where they're going and will do anything to get there. Great teams are not created with incentives, procedures, and perks. They are created by hiring talented people who are adults and want nothing more than to tackle a challenge, and then communicating to them, clearly and continuously, about what the challenge is.

The prevailing philosophy of management today is that if you want great productivity from people, you must first motivate them with incentives and then make sure they know you're looking over their shoulders to keep them accountable. So many companies have department objectives and team objectives and individual objectives and a formal annual review process for measuring performance against them. That structure, that waterfall, is very logical, very reasonable. But it's no longer remotely adequate. Saying to employees, "If you do X, you'll be rewarded with Y," assumes a static system. Yet no business today is static. More fundamentally, while rewards are great, there is no better reward than making a significant contribution to meeting a challenge.

I'm a big fan of goals. Couldn't be a bigger fan. It's the usual management approach to achieving them that is so wrong. Typically, the time frames we set and the complexity of the structure created for leading teams and monitoring results make achieving goals harder than it needs to be.

Great Teams Relish a Challenge

When I consult to start-ups, I'm most excited about working with those who've found that their venture money is starting to dry up and they're facing really tough challenges; it's tackling those that makes truly great teams. Great teams are made when things are hard. Great teams are made when you have to dig deep. When I'm hiring, I look for someone who gets really excited about the problems we have to solve. You want them to wake up in the morning thinking, *God, this is hard. I want to do this!* Being given a great problem to tackle and the right colleagues to tackle it with is the best incentive of all. One of my mantras is "Problem finders, they're cheap!" Most people think that's a really important role in the company: *I'm the one who found that problem!* Okay, good for you, but did you solve it? You want people who absolutely love problem solving.

Neil Blumenthal and Dave Gilboa, cofounders of Warby Parker, told me that it's especially fun building the company now because it's getting really complicated as they launch brick-and-mortar stores. They've got to integrate the experience of the stores with the experience of the online service, and that's a real challenge. No wonder the brand is so successful. Some leaders might opt to coast on the growth already achieved, but they're thrilled to be facing even harder problems.

Ask any very successful person what their fondest memories of their career are, and they will inevitably tell you about an early period of struggle or some remarkably difficult challenge they had to overcome. I had a great conversation about this with Tom Willerer, the former VP of product innovation at Netflix. He's moved over to Coursera, the innovative online education provider, as chief product officer. When I asked him what he's loved about helping build the company, he lit up, launching into a story about a seemingly impossible feat his team pulled off. At the start of the fiscal year, the executive team had determined that the company had to double its revenue by the end of the year. He and the product team decided they'd meet the goal by launching fifty new courses by that September, which he described as a Hail Mary pass. Two weeks before the launch date for the new courses, they still weren't sure they could pull it off. They did, and the strategy worked beautifully. They saw an immediate hockey-stick uptick in earnings. Tom told me he joined a company that he wasn't sure would even exist in five years because of the "hunger to climb a mountain." He said, "I feel sometimes like I'm going to lose a limb doing this, but it will be worth it because I'm doing something important and adding something to the world, and that is what drives people." I could not agree with him more. I believe that is the way that most people fervently want to feel about their work.

The prospect of helping to create a company that would provide employees that opportunity was the reason I joined Netflix, despite thinking I wouldn't go to another start-up.

When I got a call at two in the morning back in 1997, I figured it must be Reed Hastings. Nobody else ever called me at two in the morning.

He said, "Were you sleeping?" And I said, "Yeah, of course I was. I'm normal! What's up?"

Reed was not one to let a little sleep get in the way of a good idea, and he had shared many of them with me late at night when I worked with him at his start-up Pure Software. After he sold Pure, he'd gone back to school and I had started consulting. We both lived in the same town and we'd kept in close touch.

He said that he was going to join Netflix, and I told him, "Sounds like a good career move. Why are you telling me this at two in the morning?"

Then he asked me if I wanted to join him and I answered, "No way." I'd had a great time at Pure, but I was done with the crazy highs and lows and insane hours. I also didn't see how a tiny little company renting DVDs through the mail was going to succeed. I mean, really, Netflix was going to put Blockbuster out of business?!

But then Reed said, "Wouldn't it be great if we created a company that we really both wanted to work at?" Now I was intrigued. At Pure I'd come in after the model had been fashioned. The opportunity to join in the invention this time was tantalizing.

"If we did that," I asked him, "how would you know it was great?"

He said, "Oh, I'd want to come to work every day and solve *these* problems with *these* people."

I loved the spirit of that. I think Reed expressed in that statement exactly what people most want from work: to be able to come in and work with the right team of people— colleagues they trust and admire —and to focus like crazy on doing a great job together.

Policies and Structure Can’t Anticipate Needs and Opportunities

If you look at the most successful companies of the last decade or so, many of them are Internet firms with teams that work very collaboratively and organically. What do I mean by organically? I mean their goals and the ways they allocate time and resources, as well as the problems they’re focusing on and approaches to solving them, are constantly adapting to the demands of the business and customer. They are growing, changing organisms. They aren’t rigid structures bound by predetermined mandates about objectives, staff, or budget.

Before Netflix, I worked for Reed at Pure Software, which was my first start-up job, and I felt like I’d died and gone to heaven. I loved the high energy and the intense focus on innovation. As the head of HR, I still introduced policies and procedures, but I began doubting the conventional wisdom. Because the company was so much smaller than others I’d worked at, I began to learn more about the nitty-gritty of the business, and I could get to know more employees. As I became familiar with software engineers, in particular, and observed how they work, I realized that it’s a misconception that more people make better stuff. With our teams at Pure, and all around Silicon Valley, I could see the power of small, unencumbered teams.

The typical approach to growth in business is to add more people and structure and to impose more fixed budgetary goals and restraints. But my experiences at fast-growth companies that successfully scaled showed me that the leanest processes possible and a strong culture of discipline were far superior, if for no other reason than their speed.

Later, at Netflix, we had a striking realization about this after we had a big, very painful layoff. In 2001 we had to lay off a third of the company. The dot-com bubble had burst, and the economy had gone bust with it, and we were on the brink of bankruptcy. It was brutal. Then that Christmas the cost of DVD players dropped and they became the big gift, and the business took off. Now we had to do twice the work with two thirds the people. We couldn’t hire anybody except people to put DVDs in envelopes. We had so many new customers that we didn’t have enough inventory, and we had to put every tiny cent of profit we had into buying more product. And yet everyone was much happier. I was carpooling to work with Reed one day, and I said to him, “Why is this so fun? I can’t wait to get to work. I don’t want to go home at night.

We're working so hard, but it's great. What is it about what we're doing?" He said, "Let's figure it out."

Our first big realization was that the remaining people were the highest performers, and it taught us that the best thing you can do for employees is hire only high performers to work alongside them. It's a perk far better than foosball or free sushi or even a big signing bonus or the holy grail of stock options. Excellent colleagues, a clear purpose, and well-understood deliverables: that's the powerful combination.

When I Saw the Light

Reed and I and the executive team were determined to figure out how to sustain the creative spirit and extraordinary level of performance our teams were demonstrating as the company rapidly scaled up. We were going to have to start hiring *fast*, and we wanted to ensure that we maintained our exceptionally high talent density—the high quotient of top performers that had seen us through the downturn so deftly. We began to systematically explore how we could free people up to do their best work while also providing the right amount of guidance and feedback to keep teams on track yet able to dramatically change course if necessary.

This was when I learned in a much deeper way about the drivers of high-performance innovation. For the first time in my career, as a member of the executive team, I was directly engaged in developing the product itself. It wasn't a highly technical, complex software product, as at Pure. We were an entertainment company, and I was a huge movie fan. I was also, as I would say often to tweak the engineers, *normal*. I was the customer. I became fascinated with how we were developing the product. We were huge fans of A/B testing, rigorous experimentation, and open debate about what was right for the product. In product development, if something doesn't work, you get rid of it. I realized we could apply that same principle to managing people.

I understood that part of the reason large teams are crippled in their ability to innovate and move fast is that because it's hard work to manage them, companies build infrastructure to make sure people are doing the right things. But the teams I saw that accomplished great stuff just knew what they most needed to accomplish; they didn't need elaborate procedures, and certainly not incentives. Most technologists will tell you that a small team of brilliant engineers will do better work than a large team of hardworking ones. I started thinking: Why would that be true just for engineers? Is it because they are so special and smart? At that time, much as I love engineers, I was pretty tired of their being treated as the special, smart people. To my mind, people across the full spectrum of functions would love nothing more than to be free to tackle projects in the way they think will produce the best results in the shortest possible time. So often, though, they are thwarted by management second-guessing them or by inefficient systems. I wondered: what if people in marketing and finance and my own group, human resources, were allowed to unleash their full powers? They would operate like high-performance engineering teams. In retrospect, that was the moment I left behind traditional HR and took on a new role as the COO of culture and the chief product manager of people.

I began to scrutinize our organizational structure and design. At that point, we had created departments, and Reed and I had agreed that as much as we could, we wanted to keep their management flat because that gave us so much speed. After we'd had to let many middle managers go in our big layoff, we had noticed that everyone moved much faster without all those layers of opinions and approvals. Now we decided that maybe people could move even faster and get more done if we started doing away with policies and procedures. We analyzed every single truism and best practice, just as we analyzed the product. Often when Reed would propose a cut, it sounded so crazy I needed to sleep on it. But as we kept trying things, we kept getting good results. Take our no-vacation-policy policy, which has received a great deal of press. We told people to take the time they thought was appropriate, just discussing what they needed with their managers. And do you know what happened? People took a week or two in the summer and time for the holidays and some days here and there to watch their kids' ball games, just as before. Trusting people to be responsible with their time was one of the early steps in giving them back their power.

I discovered I loved throwing away convention. One of my favorite days was when I stood up in front of the company and said, "I'm going to get rid of our expense policy and I'm going to get rid of the travel policy, and I want you to just use good judgment about how you spend the company's money. If it turns out to be a disaster, like the lawyers tell us it will, we'll go back to the old system." Again we found that people didn't abuse the freedom. We saw that we could treat people like adults and that they loved it.

I started to challenge the conventions around hiring people too. With the company growing like mad and the nature of the business changing so fast—we could see streaming rapidly approaching—we knew we had to build an organization that would always have a really strong talent pipeline. At the time, when I hired a manager, they typically wanted to work with their favorite headhunter, and I knew I had to change that. We needed to be more strategic. I could have tried to get the five best headhunters in Silicon Valley to work for me exclusively. But I decided to throw out the traditional recruiting practice and create a headhunting firm within the company. Instead of hiring people who had worked in other companies internally, I started hiring people who'd worked for headhunting firms to build that capability inside. Because we had that competency, I could tell a manager, "It's okay if you lose a couple of people, because we can get great new people for you fast."

We also challenged the conventional practices for crafting both company-wide and team strategy. We had been creating an annual road map and doing annual budgeting, but those processes took so much time, and the effort wasn't worthwhile because we were wrong all the time. I mean, really, we were making it up. Whatever our projections were, we knew they would be wrong in six months, if not three. So we just stopped doing annual planning. All the time we saved gave us more time to do quarterly planning, and then we went to rolling three-quarter budgets, because that was as far out as we thought we could ostensibly predict.

We experimented with every way we could think of to liberate teams from unnecessary rules and approvals. As we kept methodically analyzing what was working and how we could keep freeing people to be more creative, productive, and happy, we came to refer to our new way of working as the freedom and responsibility culture. We worked for years to develop it—and the evolution continues today. I'll describe the additional components in the chapters to come. They were all built upon the realization that the most important job of management is to focus really intently on the building of great teams. If you hire the talented people you need, and you provide them with the tools and information they need to get you where you need to go, they will want nothing more than to do stellar work for you and keep you limber.

The most recent testament to the power of this approach is the speed with which Netflix has expanded its original programming while also achieving popular and critical success. Ted Sarandos, head of content since the earliest days, told me that freeing high performers from constraints has been vital to building up the original-content business so rapidly. The team has doubled their creation of new content every year, and when we talked, they were producing thirty scripted series and had twelve feature films, fifty-five documentary projects, fifty-one stand-up comedy shows, and forty-five children's shows in production. On top of that, they had just gone global, expanding to thirteen countries at once. What's so amazing is not only the speed with which the team has created so much content but also the diversity of types of content. Ted's group has been able to cater to all sorts of tastes, with offerings ranging from highbrow series like *The Crown* to the wildly crowd-pleasing but hardly critically acclaimed *Fuller House*. The team has even entered the fray of unscripted series, such as with *Ultimate Beastmaster*, a competition show with contestants from six different countries, each speaking their own language.

Ted says that his core approach has been asking his team to focus on finding the best creative talent with the skills to execute, and then giving those creators the freedom to realize their vision. That has been the greatest differentiator between Netflix and the Hollywood studios, he says, allowing his team to compete so effectively for top creative talent and to launch such breakthrough shows. Creators love that his team doesn't micromanage the production process, barraging them with notes. Ted's group also doesn't use the traditional pilot system, instead green-lighting creators to produce a full season of episodes. They put their confidence in people who've proven they can produce, and hand in hand with the freedom those people are given is the understanding that it's they who are accountable for the quality of shows. They have risen to the occasion. By contrast, the traditional Hollywood way has been creation by committee, with accountability spread too thin.

Ted told me that being steeped in the Netflix culture also allowed him to feel comfortable freeing his team from constraints they might have imposed on themselves. For example, they broke their own model for bringing in new shows with only their third original series. Because they weren't using pilot testing, they had decided to bring in only series that already had very well-developed scripts and the acting talent lined up. But then Jenji Kohan, the creator of the Showtime series *Weeds*, proposed *Orange Is the New Black* before any scripts were written. Ted and his team were so impressed by her vision for the show and had such confidence based on her track record with *Weeds* that they very shrewdly threw their rule out.

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Ask yourself: If you were to treat managing people the way you treat managing product, wouldn't you also want to approach the entire system differently? If you started not with best practices but with what it takes to deliver a fabulous end product to your customers, what system would you invent? Wouldn't you want your people to be more agile? Wouldn't you want to be able to rely on their being proactive and staying ahead of the curve, because they know that they've got to help you steer the way? Wouldn't you rather be devoting the full measure of your time and attention to making sure they have the resources and information they need to do that for you and to discussing challenges with them, getting their best input and their pushback, rather than processing forms and approvals and policing them?

I'm not at all saying that teams don't need direction setting and coaching. They do. But the ways in which they're given direction and feedback are often far from optimal. At the same time we were experimenting at Netflix with eliminating processes, we were also experimenting with better ways of communicating where the company was heading, what goals to be driving toward, and how people were performing.

IN BRIEF

▶ The greatest team achievements are driven by all team members understanding the ultimate goal and being free to creatively problem-solve in order to get there.

▶ The strongest motivator is having great team members to work with, people who trust one another to do great work and to challenge one another.

▶ The most important job of managers is to ensure that all team members are such high performers who do great work and challenge one another.

▶ You should operate with the leanest possible set of policies, procedures, rules, and approvals, because most of these top-down mandates hamper speed and agility.

▶ Discover how lean you can go by steadily experimenting. If it turns out a policy or procedure was needed, reinstate it. Constantly seek to refine your culture just as you constantly work to improve your products and services.

QUESTIONS TO CONSIDER

- As you survey your company-wide policies and procedures, ask: What is the purpose of this policy or procedure? Does it achieve that result?
- Are there any approval mechanisms you can eliminate?
- What percentage of its time does management spend on problem solving and team building?
- Have you done a cost-benefit analysis of the incentives and perks you offer employees?
- Could you replace approvals and permissions with analysis of spending patterns and a focus on accuracy and predictability?
- Is your decision-making system clear and communicated widely?

CHAPTER TWO

Every Single Employee Should Understand the Business

| Communicate Constantly About the Challenge |

When I advise doing away with as many procedures and approvals as possible, I am inevitably asked, "But how? How can that be possible? What takes the place of rules, processes, approvals, bureaucracy, and permissions?" The answer: Clear, continuous communication about the context of the work to be done. Telling people, "Here's exactly where we are, and here's what we're trying to accomplish." The more time managers spend communicating and elaborating and being transparent about the job to be done, about the challenges the business is facing and the larger competitive context, the less important policies, approvals, and incentives are.

Even if you're not at liberty to do away with policies, procedures, bonuses, and formal annual reviews, you can implement much clearer, more open, honest, and continuous communication about the business challenges and how employees are meeting them. This facilitates much more timely improvements in performance as well as more limber adjustments of goals. It also encourages people to ask questions and share ideas, which can lead to extremely valuable insights about how to improve your product, your service to your customers, and the business itself. I came to appreciate how important it is for every single employee to truly understand the business when I myself began to learn deeply about the business at Netflix.

People Don't Want to Be Entertained at Work; They Want to Learn

When I was at Sun we had 370 people in HR. 370 people! And virtually all of them were divorced from the business; they couldn't tell you what we made. We were doing initiatives and off-sites and celebrations. We were half entertainment and half happy-face HR. It was really fun but somehow empty. We always wanted more respect and recognition.

I became jazzed about my work in a new way when I became integrally involved in growing the company at Netflix. When I accepted the job, it was on the condition that I would not be siloed off as the HR lady; I would report directly to Reed and be part of the executive team. That meant that I had to step up and learn deeply about how the business worked. As I did that, I came to understand the enormous value of every single employee at the company gaining the same understanding. Reed and I had both been inspired by the argument for open-book management in Jack Stack and Bo Burlingham's book *The Great Game of Business.* The importance of transparency was driven home for me by our dramatic shift from the DVD-by-mail model to the subscription model.

One morning when Reed and I were carpooling to work, he started passionately talking about changing from a pay-per-rental service to a subscription model, getting all fired up about it. I told him, "Okay, all right! I can hear it in your voice. I know what happens when you get like this. You are sure you're right about this, aren't you?" I knew that most employees weren't going to like the change, but I also knew that Reed was going to do it anyway because he believed it was the right thing for the business. It was clear that the change would be wrenching. It involved much more than simply changing the terms on the website; we had to change the shipping model and the billing model and the whole structure of the company, its departments and supervisors and salespeople. We also had to bring in lots of new people who could build up our technical capabilities for serving subscribers and making good use of the tsunami of user data we'd be accumulating, and we were facing intense competition for them from our biggest competitor, which was a hundred times bigger than we were: Blockbuster.

The beautiful thing for me was that because the shift in the business was so dramatic, I had to focus very intensively on two things. First, I had to deeply understand the new business model and what was at stake. Subscription is a numbers race, and revenue occurs only over time after an up-front investment. I appreciated what a very big bet it was. We'd have to spend considerable money to sign up a first group of subscribers, which was an investment in getting more customers, and those new customers would allow us to pay for the next expansion. This is the fundamental Netflix model; pay up front for benefits in future years. At this stage in our growth, that considerable up-front expense meant that we didn't have much time to make the model work. Second, the urgency of getting it right meant that I had to help everyone else in the company understand the new business model too. At the time, the only model any of us knew included due dates and late fees. When Reed proposed a subscription without due dates and late fees, it was truly scary. After all, late fees were the gas in Blockbuster's engine. When we said weren't going to charge them, everybody in the company was asking, "How's that going to work?"

I fell in love with being a businessperson, and I didn't want to be happy-face HR den mother anymore. I also fell in love with explaining very clearly and fully to everyone in the company why we were making the decisions we were, how they could best participate in achieving our goals, and what the obstacles would be.

My aha moment reminded me of when my son was six and playing soccer. My husband was the coach, and I'd go to lots of the practices. Watching the kids was hysterical. They'd just clump around the ball. I asked my husband in the car on the way to the team's first game, "So what's your strategy for the game?" He said, "Well, I was going to really attempt to have everybody moving down the field in the same direction at the same time." I responded, "You know, I think that's achievable," and he said, "Well, but in the second half, they've got to go the other way." The World Cup fell later in the season, and I had the kids over to watch. When they saw the view of the game from the blimp, they realized, *Oh! That's what a pass looks like!* Business is no different. People need to see the view from the C suite in order to feel truly connected to the problem solving that must be done at all levels and on all teams, so that the company is spotting issues and opportunities in every corner of the business and effectively acting on them. The irony is that companies have invested so much in training programs of all sorts and spent so much time and effort to incentivize and measure performance, but they've failed to actually explain to all of their employees how their business runs.

The Heartbeat of Communication

Of course, as a business grows more complex, communicating about how it works, let alone about the course for the future, also becomes more complicated. Working out how to do this—and, for company leaders and HR executives, coaching all managers to do it, and do it consistently and continuously—takes time. The key is to establish what I call a strong heartbeat of communication, and that takes experimentation and practice.

For a time, Reed and I would meet with every ten new hires in a room and go through a PowerPoint, which was our starting point in creating the Culture Deck. We'd say, "This is your cheat sheet. This is what you should expect from one another and absolutely expect from your management." Over time, we developed "new employee college." For one whole day each quarter, every head of every department would make an hourlong presentation on the important issues and developments in their part of the business. The idea for the college actually came from Cindy Holland, who is now VP of content acquisition/original series. She and I were backstage watching a set of management presentations the executive team was giving to a group of investors. She realized that she was learning a great deal, and she turned to me and asked, "Why do we do all of this hard work for a bunch of strangers but don't do it for ourselves?" So we rolled it out for everybody.

Netflixers will recall with a kind of awe that taking in all the information at new employee college was like drinking from a fire hose. They heard detailed presentations that included the metrics and the deliverables of each department. This not only gave employees a deep understanding of our business but also introduced them to the heads of the different parts of the business. Better still, they could ask those people questions.

Ensure That Communication Flows Both Up and Down

It's vital that communication go both ways. People must be able to ask questions and offer critiques and ideas. Ideally, they should be able to do so with all managers, up to the CEO. At new employee college, as we started the proceedings, we'd say to the participants, "You will take out of this day what you put into it. If you don't ask questions, you won't get answers." I look back now and realize that this was crucial early stage-setting for the success of the company. It gave people at all levels license to freely ask for clarification, whether about something they were expected to do or about a decision made by management. Not only did this mean they were better informed, but over time it instilled throughout the company a culture of curiosity. That meant managers often gained important insights because someone had asked a really good question. Here's a great example. During new employee college, Ted Sarandos explained what's called windowing of content. The term refers to the traditional system that developed for feature film distribution: a movie would first come out in theaters, then go to hotels, then to DVD, and at that point Netflix could bid to pick it up. During the Q&A, an engineer asked Ted, "Why does the windowing of content happen like that? It seems stupid." Ted recalls that the question stopped him cold. He realized that although it was the convention, he really didn't know why, and he answered frankly, "I don't know." He told me that the question stuck with him and that it "made me challenge everything about the windowing of content, and years later, it contributed to my complete comfort with releasing all episodes of a series at once, even though no one had ever done that in television."

Never underestimate the value of the ideas, and the questions, that employees at all levels may surprise you with.

Everyone Working for You, at All Levels, Can Understand Your Business

I expect you've had the experience of talking to someone on your team about a business issue and being asked a question that makes you think, *This person is* clueless*!* Well, next time it happens, I want you to say to yourself, *Wait, right, this person* is *clueless. He doesn't know what I know. So I have to inform him.*

When I would talk with a team leader at Netflix about a team member who needed more help understanding a problem— which, given the fast-moving and technical nature of so much of the business, happened regularly—sometimes I'd get pushback. They'd say something like "I tried to explain it to him but he's too stupid to listen." My answer was always "Well, then you made it too complicated to understand.” The rule I would give them was this: explain it as though you’re explaining to your mother. This was because often through the years, when I’d talk to my mom about some HR initiative I was spearheading, speaking fluent HR gobbledygook, she’d say to me, “Honey, that just sounds stupid.” She was always right.

Coming up with simple yet robust ways to explain every aspect of the business isn’t easy, but it pays huge rewards. To drive this home when I consult, I often ask managers of companies with a customer service group, “How much do you think your customer service representatives understand about how your business works? Do they appreciate the most pressing issues facing the business? How much do you think they know about how their work contributes to the bottom line— and I mean really know, meaning the numbers?”

Now, how often do you think companies drop the ball when it comes to customer service, despite all the talk about improving the customer experience? The research offers a wealth of appalling data. Reportedly 78 percent of consumers have failed to complete a purchase or other transaction because of a poor service experience, and the costs to businesses in the United States have been estimated at $62 billion annually. Research also shows that word of bad customer experiences spreads to twice as many people as that of good experiences. This is a problem that must still by and large be solved by people. Despite attempts to offer customer service through computer bots or preprogrammed FAQs or messaging systems, face-to-face or voice-to-voice service is far and away most effective.

Any company with a customer service organization wants those people to be highly engaged, and the first step is to teach them how to read the company’s P&L. Of course, generally they are the last people the P&L would be shown to. After all, most of them don’t stay long, right? They’re the lowest on the totem pole. Yet all business success is fundamentally driven by word-of-mouth marketing, and the people who are in direct contact with customers must understand that their every interaction with a customer leads to that person telling another person, for free, either to use the company’s product or service or not to. Everyone in customer service, from day one, should understand exactly how the experience they provide customers directly impacts the bottom line. Making that clear isn’t difficult. Every company has calculated its cost of customer acquisition, and each person who becomes a customer on another customer’s recommendation saves the company that amount of money. Every company can share that information with service representatives as part of bringing them on board.

When I give this advice about sharing business details, I sometimes get the response that only smart people can understand this information and only smart people want it. I find that there’s a bias among executives that this is “MBA stuff” and that “those people” wouldn’t be interested or couldn’t get it. My answer: then don’t hire people who are that stupid. Better yet, don’t assume that people *are* stupid. Assume instead that if they are doing stupid things, they are either uninformed or misinformed.

But surely employees need to be at a higher level before they’re told so much about the down and dirty of the business, no? What if the department is in trouble? What if the company is struggling to build a market for a big new product? Won’t they be freaked out? And can they really be trusted with so much information? Of course, some information must be kept private, but you can absolutely convey the intensity of the competition you’re up against and share the major challenges being faced.

It’s ironic how little information about strategy, operations, and results is generally shared with employees throughout companies. After all, public companies share that information with the whole world these days. Why should the investors on earnings calls know more about what’s happening in your business than most of the people working in it? I think it would be great if companies held the equivalent of an earnings call for all employees. In fact, why not have them listen to the actual earnings calls?

If your people aren’t informed by you, there’s a good chance they’ll be misinformed by others. If you don’t tell them about how the business is doing, what your strategy is, the challenges you’re facing, and what market analysts think of how you’re doing, then they will get that information elsewhere—either from colleagues, who will often be equally ill informed, or from the Web, which loves nothing so much as a rumor of doom or a juicy conspiracy theory.

Team Coaches Are the Model, Not Guidance Counselors, Professors, or Entertainers

So many companies spend so much money on—and ask employees to devote so much time away from their jobs for— formal training classes. Much of this time, money, and effort is misplaced. As sports coaches will tell you, there's no better way to learn how to perform than to be in the game.

A little while back I was consulting to a young company I love, and the learning and development head told me that their younger people needed to learn to be better managers. I asked, "What do they need to know how to do?" She answered, "Well, they need to be better managers." I said, "Specifically doing what?" And she said, "Management." I pressed, "But what part?" She responded, "Well, we're going to have to have a full curriculum with conflict management and interpersonal communication." Those are probably the two most popular classes in the training canon, and I'm sure they've helped some people become better managers. But if I could pick one course to teach everybody in the company, whether they're in management or not, it would be on the fundamentals of how the business works and serving customers. This is the information people most want, because they know they can take it and run with it. Courses on conflict resolution they generally roll their eyes about, not to mention resenting the time away from their work.

What about the so-called millennials? I get asked all the time in my consulting, "You know we have to treat millennials differently. What is your advice?" People have gotten the impression that millennials require perks and all sorts of lifelong learning programs, because surveys show that what they most want from their work is to keep learning. I think it's totally false that we have to treat them differently. I can't stand the term "millennials," and the ones I know hate the name tag too. We should simply think of them as people early in their careers. Yes, we should teach them more, but we should teach them more about how business works. It's great that they want to learn. How could they not? They're just out of school. They're in that spongy, want-to-learn-everything phase of life. They're going to eat up whatever you feed them. If it's just snacks, that's all they're going to eat. But if you start feeding their brains the real meat of business, you'll be amazed by how engaged they are and by how much they contribute. They are not some sort of alien being. They are young workers bursting with potential. If we teach young employees how to read a P&L instead of how to tap a beer keg, or give them an honest-to-God project they have to collaborate on rather than doing an online training about collaboration, we're giving them a skill they will apply for the rest of their lives. They understand what constitutes true lifelong learning.

As for perks and entertainment, sure, people like them. Who doesn't enjoy some free pizza or cocktails with colleagues? I sure do. But I've found that the best perks and special time away from the grind are opportunities to understand the business and customers better. At Netflix in the early days, we created many opportunities for people to learn about the movie business. Many of us were film nuts, but we didn't know much about how films get made or about the culture of true film fanatics, and at that time Netflix was especially well known to that crowd for offering art films that were hard to find anywhere else. So we took the whole company to the Sundance Film Festival. We also regularly brought people down to Los Angeles to hear talks by famous directors and cinema-tographers and editors. I was a huge fan of off-sites too, but not for having good barbecue. We planned serious agendas and had people present lots of data, pose really tough questions, and debate like crazy about the company's future and the competitive landscape.

When I got a call last winter to talk at a gathering of five hundred software engineers at a dude ranch in eastern Washington, I couldn't wait to hop on the plane for some quality time with my beloved geeks. The meeting was all about the future of artificial intelligence. Spending three days immersed in everything to think and know about how the most game-changing technology of our time will transform every service and product on the planet? What could be better?

You may not be able to sponsor such a gathering, or to send yourself and your team to one, but think about everything you can do with the resources you have to provide them with as much information as you can that will help them help you better.

Keep At It Constantly

At Netflix we all thought at first that we'd just do a simple little slide deck and pull it out again and again. As it turned out, not only did every new batch of employees have different questions, but the nature of the business and the challenges kept changing. You've got to constantly monitor the message and update it. This is a job that you should be doing forever.

How do you know when people are well enough informed? Here's my measure. If you stop any employee, at any level of the company, in the break room or the elevator and ask what are the five most important things the company is working on for the next six months, that person should be able to tell you, rapid fire, one, two, three, four, five, ideally using the same words you've used in your communications to the staff and, if they're really good, in the same order. If not, the heartbeat isn't strong enough yet.

IN BRIEF

- ▶ Employees at all levels want and need to understand not only the particular work they are assigned and their team's mission, but also the larger story of the way the business works, the challenges the company faces, and the competitive landscape.
- ▶ Truly understanding how the business works is the most valuable learning, more productive and appealing than "employee development" trainings. It's the rocket fuel of high performance and lifelong learning.
- ▶ Communication between management and employees should genuinely flow both ways. The more leaders encourage questions and suggestions and make themselves accessible for give-and-take, the more employees at all levels will offer ideas and insights that will amaze you.
- ▶ If someone working for you seems clueless, chances are they have not been told information they need to know. Make sure you haven't failed to give it to them.
- ▶ If you don't tell your people about how the business is doing and the problems being confronted—good, bad, and ugly—then they will get that information somewhere else, and it will often be misinformation.
- ▶ The job of communicating is never done. It's not an annual or quarterly or even monthly or weekly function. A steady stream of

communication is the lifeblood of competitive advantage.

QUESTIONS TO CONSIDER

- How well do you think people throughout the company could describe its business model? Why not ask them to do so? No prompts allowed.
- Do you share with employees the same information presented in your company's earnings calls? How frequently do you show them the company's P&L? Where are they likely to get data about how your company stacks up against the competition?
- Is everyone aware of difficult challenges your company faces? Have you asked them their thoughts about how to tackle these? Do you have a disciplined process for disseminating information and discussing challenges?
- What areas of your business do you think your people know little to nothing about? Could you ask a leader in that domain to come and talk to your team? Are there any other ways you could facilitate communication between the groups?
- How well do you think your people understand who the customer is and what their needs and desires are? Do you regularly share customer research? Can you facilitate your team spending some time with customers?
- If you were going to hold an off-site, what is the most pressing issue you would want your people to learn about and debate? How could you provide the richest possible presentation of information?
- What existing meetings or forums could be used to carve out dedicated time for communicating more about the business context? Do you regularly review these meetings to be sure they still are effective? Do you set different agendas for different kinds of communication (for example, a weekly stand-up versus a quarterly all-hands meeting)?

CHAPTER EIGHT

The Art of Good Good-byes

| Make Needed Changes Fast, and Be a Great Place to Be From |

We had a director of engineering at Netflix whose job was to work on improving our search capabilities, a top company priority. Streaming was taking off and we needed to be able to help people find all of our great content more easily. Facebook was also taking off at the time, and this director started making the case that we should work with Facebook and create a big presence there. He made a passionate speech about it at a company meeting. The executive team responded that Facebook wasn't one of our five priorities. Improving our search capabilities *was*, and we reiterated that it was hugely important and was what we wanted him to focus on. But he kept arguing the case about getting on Facebook, and finally I decided to talk to him about it. I told him, "Look, we all know how you feel about Facebook, but you run search. Maybe you should go work at Facebook. They'll hire you in a hot minute. We'll miss you terribly, but—call me crazy—we need the guy who's running search for us to be into search." He was brilliant, but we didn't just need someone brilliant. We needed a brilliant person in the job who really wanted to lead a team to do *that* job. Eventually he left to work at a start-up and one of his team stepped into the role and loved it.

One of the benefits of the leadership communicating clearly to everyone in the company about where you're heading and the challenges and opportunities that future will bring is that it better equips people to evaluate how well their skills fit into that future. They can also consider whether or not that future is one they want to be a part of and, if it isn't, can pro-actively seek out new opportunities.

Remember the engineer who kept bending my ear saying he didn't think management understood how much the nature of working at

Netflix had changed from the early days? Well, the truth was that he had no interest in working for a large corporation. Meanwhile, he was located in the hotbed of bold new start-ups. Like the smart guy he was, before long he began to look around at that incredibly vibrant start-up scene and found an opportunity to work in the way that he loved so much. We should all be prepared to make moves periodically, whether within a company or to a new company, in order to work in the way we love and do things we're passionate about. We should also be told if we're not performing well enough, so that we can either make speedy corrections or move to a new firm.

Taking Performance Evaluation Ten Games at a Time

One reason the sports team analogy is so helpful in managing people is that everyone readily understands that coaches are letting the rest of the team and the fans down if they don't replace players who aren't producing top performance. Winning games is the only measure of success for sports teams, which is why it's not just players but coaches too who are replaced readily on top-performing teams.

I'm not a huge sports fan, but I can say that I've become a huge fan of good sports coaching. Since I've been out consulting, I sometimes get invited to speak with people who have coached professional sports teams. On one such occasion I found myself in Montreal getting ready to participate in a moderated discussion at the Centre Bell, which is the largest hockey arena in the world, home to the Montreal Canadiens. I was standing in a waiting area with the other person who was going to be onstage with me, Scotty Bowman, whom I'd never heard of. He's a retired National Hockey League coach who had a remarkable career, with the most wins in NHL history, coaching the Canadiens, Pittsburgh Penguins, and Detroit Red Wings, among other teams, and taking those three teams to a record nine Stanley Cup victories.

We were talking about golf and his grandkids when he pointed up at the ceiling and said, "You know, Patty, we're below the ice." I know essentially nothing about hockey, but I found it thrilling to be there with him. The moderator introduced me first, and I walked out on the stage to polite applause, a little daunted by being in this massive hockey stadium with three huge spotlights shining on me and seeing my face on a jumbotron screen the size of a billboard. Then the moderator introduced Scotty, and as he walked onstage, the crowd went absolutely wild. At that moment it sank in that he was a hockey god, and I was in this famous hockey stadium where he'd led the team to so many victories. The moderator turned to Scotty and said, "Mr. Bowman, you've coached so many famous players to such tremendous success. What's your secret? How did you give them feedback?" And Scotty said, "Well, we have an eighty-game season, and every ten games I would sit down with them individually. I'd bring all their stats and I would I ask other people—the other coaches, the other team members—for feedback also, and the player would bring a self-evaluation. Then we would have a conversation about what to do for the next ten games."

The moderator said, "Thank you, Mr. Bowman!" and then turned to me. "Patty," he said, "you're well known for not believing in the annual performance review, but I've never really heard you say what you advise instead." I pointed to Scotty and replied, "What he said!"

The problems with the annual performance review system are not just that it is rigid and has been tied too strictly to compensation decisions. It is also very time-consuming and costly. And despite the devotion of so much time and resources, it generally doesn't even do a good job of giving people the feedback and coaching they need. Too many managers rely too heavily on that once-a-year formal review to tell employees how they're performing and set goals for them. If you're a manager who has no latitude to do away with annual reviews, then fine, but go ahead and start having the kinds of frequent one-on-one meetings with your people that Scotty Bowman described. This is both much more effective and more humane. When performance issues arise, the sooner you address them with people, the better they will be able to see what they're not doing well enough and make corrections. Often, people are slammed in an annual review for some performance shortfall from many months prior. They rightfully say to themselves, *You couldn't have told me that months ago? Now you're going to give me a crappy raise, and you didn't even give me the opportunity to address this issue?*

I also believe that apprising people of how their performance is being perceived by their teammates and other colleagues is invaluable in allowing them to gain critical perspective. If negative feedback is coming from people besides the boss, it's much harder for us to fall back on the all-too-easy rationalization that the boss is just biased or has a personal problem with us.

Why Not Just Get Rid of Formal Reviews?

Consider the question I asked the chief human resources officer (CHRO) of a large corporation about its performance review process. The executive team wanted me to advise them about how to make the process more effective and efficient. I told the head of HR, who had called me, that I didn't think they would really be interested in having me work with them because I was sure they wouldn't like what I'd recommend. She pressed, and I agreed to have a one-hour call with the team. The head of IT and I were on before the others, and I asked her, "Hey, what do you think of the performance review process over there?" She said, "I hate it! I have a huge team and we're in the middle of it right now. Why do you think it took three weeks to set up this call? Nobody has time to do anything else. We've all just about stopped working on anything else but reviews. It's an insane amount of time."

When everyone was on the line, I asked my favorite question about the review process: "Do you have any proof of the value of the annual review process to your business?" As usual, they had done no analysis that could tell them the value. The bottom line for the head of HR was "Well, Patty, what we really want to know is just how to make it more efficient."

If you can't find good, solid data showing that the process is contributing to some important business metric, then I strongly advise you to lobby for doing away with it. When I advised that CHRO in our conference call to do away with the system, he responded, "Well, what else are we supposed to do?" Good question. A number of great companies, both large and small, have done away with the traditional system and instituted new approaches. Accenture, Deloitte, General Electric, and many others have concluded, just as we did at Netflix, that the review process was flawed and much too time-consuming. Many great alternatives have been developed. When I was working at Pure Software, we switched to quarterly appraisals, which were much better than annual ones. Maybe that's a good first step. One CEO I recommended this to said to me, "But I found the information from the annual review so valuable." Fine, but how much more valuable would that information be if it came more fluidly?

I understand that for many companies simply jettisoning such an elaborate process is impractical. Why not try, though, doing away with it in some tiny corner of the company and see what happens? Or you can take incremental steps. That's the way GE transitioned out of its performance review process, which it had been administering for decades. The company ran pilot programs testing changes in the system involving thirty thousand employees around the world and listening to their feedback about how to improve feedback. It then implemented a new approach with a mobile app that enables real-time feedback continuously throughout the year.

Which brings me to the other element of the prevailing performance review process that I advise be either greatly improved or simply stopped.

RIP the PIP (or Actually Help People Improve Performance)

The conventional wisdom is that a company should put an employee it's thinking of saying good-bye to on a PIP (performance improvement plan). The way PIPs are often carried out is particularly cruel, because they're really all about proving someone is incompetent. Often the problem isn't even that a person is not a high performer or doesn't have the potential to be a high performer in another job at another company. Often there is nothing wrong with the way they work or the effort they're putting in or the way they are interacting with colleagues or their boss. They might be fabulous. They're just not right for their job as it is evolving, or they won't be high performing in the next job you need done. And there's no reason to put people who simply don't have the skills you need on a performance improvement plan.

I also came to realize that when you hire someone and it turns out that they can't do the job, the problem is with the hiring process, not the individual. You simply hired the wrong person. It's not their fault! So you shouldn't make them feel like it is.

If we think this way about who needs to move on, we can have a more honest conversation with people that's not about casting aspersions on them. There is no need to essentialize them as a failure.

We should simply be pointing out that they're not a good match for what we need. It's not personal and it's not about failure. It's about aligning skills and know-how with the team objectives. That doesn't mean that people won't be disappointed or sad or unhappy or upset. I've wept through as many good-byes as anybody else. But ultimately people understand, and they appreciate that you're not lying to them.

For much of my career in HR, I spent lots of time on PIPs. I do think that they have the potential to work well, about which more in a bit. But when I started working closely with programming teams at Netflix, I came to understand that sometimes it's in everyone's interest for people to move on to a new job quickly rather than keep trying to improve their performance. I saw a few teams late to deliver again and again, and I realized that it wasn't because people weren't working hard; they were working their asses off. They just didn't know what they were doing! Yes, sometimes managers and colleagues can teach people, but often it's vital to efficiently find people who can do the work *now.* And prolonging efforts to help people improve often simply impedes them from making true progress—at another firm.

One of the teams at Netflix hired a guy that everyone loved. I was pretty sure after interviewing him that we should keep looking for a more qualified person. But the team said, "No! We'll teach him; we'll get him up to speed." I said, "Maybe, but you'll get him up to speed for what we need now, not six months from now." They insisted. Six months later the poor guy was even further behind the curve and his team was totally frustrated and also crazy busy making up for his shortfall. Meanwhile, I was able to call the HR person at Apple, whom I knew pretty well, and recommend him, and he had a great new job there even before he left. He came into my cubicle on his last day and gave me a big flowering bush, God love him.

There are certainly many cases in which the PIP process could be used to help someone make vital improvements in performance. That should absolutely be the only goal of the process. If there is a clear way to assist a person in getting up to speed with a skill or set of skills in a reasonable period of time, I say, wonderful, do that. Those skills might not be nuts-and-bolts job requirements like learning a new program or becoming proficient in giving presentations. They might be more qualitative, "soft" skills like becoming a better team player or learning how to manage people better. I saw many employees considerably improve their people skills. The key is to be realistic about how likely it is that significant improvement can be made. And be sure that improvement is the true goal, rather than making a case to let someone go. If it's not, then the responsible thing to do is to forgo the process.

People Very Rarely Sue

Many people push back with me about getting rid of the PIP process because they think it's a requirement to avoid being sued. I don't think people realize how hard it is to actually sue a company and how much time it takes—in many cases years. In my experience, people sue their former employers because they think they've been treated unfairly. But that's not because they weren't put on an improvement plan. It's generally because they weren't told the truth when they should have been about their performance or their fit. I've found that generally if people are mad enough to sue, there was a point when somebody should have told them, "You know, you're being a jerk! You're making us crazy! We're not going to want you around anymore if you keep treating people like that." Or if the situation was that the future looked significantly different from the present, no one said, "I want you to know that in six months this is what success is going to look like. It's very different from what we're doing now. It's going to require significantly different sets of experiences and really different ways of doing things. And if I were recruiting for this team from scratch, I'm not sure I'd hire you." That conversation might be painful, but it's truthful, and it allows you both to do a better job of assessing whether or not a person will be able to adapt, or even wants to adapt. Often people are well aware that they're not getting the job done right, and that's no fun for them at all. Talking openly about the problem is a relief. One person said to me after his manager had told him we had to let him go, "Well, he gave me enough rope to hang myself and I did it twice; tell him that he could have actually shortened the rope by half, because I knew fifty feet ago."

The irony of the PIP being used as a means to avoid being sued is that it actually fans the flames of resentment, all because of the fear of being honest.

About "Engagement"

“Engagement” is a term that, when used in business, I dislike about as just about as much as “empowerment.” In a talk I gave at a conference to a room full of just HR people, I asked them, “How many of you have laid anybody off?” Everybody’s hand went up. Then I asked, “Okay, how many of you have laid off a family member?” Zero hands. “And yet,” I said, “how many of you use the word ‘family’ at work every day?”

For so much of my traditional HR life, a huge part of my work was relationship therapy. People constantly wanted me to facilitate counseling sessions with bosses and employees. Eventually I stopped agreeing to do them because every time I tried to intervene, it backfired. What is essential, instead, is to coach not only managers but all employees that they are expected to communicate openly about issues they are having with one another.

Another reason I hate the word “engagement” as we use it about work life is that it implies that the problem in performance is generally that people aren’t committed to their jobs. Let’s face it: such people are low-hanging fruit. If all high performance required was letting go of people who aren’t engaged, every company would be thriving.

I recently had a conversation with a brilliant new head of HR that’s a cautionary tale about focusing so much on engagement. She’d been at her new company for eight weeks, and she had already conducted a seriously eye-opening analysis of how employee engagement tracked with performance. She had taken a close look at the company’s heat-mapping survey, which measured how happy and engaged employees were, and compared those results with the performance of teams. The good news, she told me, was that most of the company was green, meaning highly engaged and happy. But the bad news was that the teams with subpar performance were just as green as those that were performing really well. That’s a striking demonstration that there is not such a simple link between engagement and performance. By superimposing business metrics over happiness metrics, she enabled the company to begin to differentiate much more effectively what was going on in the teams that were performing so well versus those that weren’t.

In my experience, high performers are, in fact, often somewhat frustrated with how their teams are performing rather than satisfied that everything is going swimmingly and life is all good. They are pushing for great results, and achieving those often requires some pain and a degree of discontent. That commitment to achievement is what we want to foster, not the expectation that as long as you're working hard, the company will have your back.

We should not make false promises of job security. I was consulting to a CEO and he asked me, "What should I do about our call center people? We've moved the rest of the company into a new building, and I don't think we want to bring our call center people into the space. I think it might be best to outsource that work now." I asked him, "Why have you been lying to them?" He said, "What are you talking about? I would never do that! Never in a million years!" So I asked him, "Is it true that you said that everybody who comes to work for you will have a future in the company, that their career with the company will continue as long as they're willing to contribute?" He said, "Yeah, I said that, but that was a few years ago!" And I said, "Well, your recruiters are quoting you and still saying it every day." False promises will only lead to people feeling betrayed.

People often come up to me after a talk to ask for career guidance. I tell them, "You want to be a lifelong learner; you want to always be acquiring new skills and having new experiences, and that doesn't have to be at the same company. The fact is that sometimes you're hired by a company to do something, and then you do it and it's done. If I hire people to rebuild my garage, when they're done I don't need them to rebuild the back of my house."

My Algorithm

I tell managers to use a simple rule when evaluating their teams, which I call an algorithm because engineers love the word, and I love engineers: is what this person loves to do, that they're extraordinarily good at doing, something we need someone to be great at?

This way of thinking is just like reasoning about any other business activity. It's based on critical thinking and it takes the emotion out of the decision. Employees can also use the algorithm to assess whether they should stay at a company or start looking for a new job that will be a better fit.

Another good thing about it is that it helps hiring managers to appreciate what a person's talents and passions are, rather than fixating on what they can't do, and to assist them in finding a better fit in a next job. Another crazy traditional HR rule is that managers should not give references to people who are fired. This too is out of fear of being sued. But you can be open with people about what sort of reference you'll be able to give and let them decide.

I used to sit down with my soon-to-be-ex-employees and say, "Okay, we've established the fact that you're not a team leader"— for example —"but that's okay, you're a really talented engineer. I'll be happy to be a reference for your technical acumen, but I'm not a good choice if you need praise about your management skills."

As with the programmer I helped get a job at Apple, I actively recommended people who were leaving us to other companies. Many have gone on to have flourishing careers elsewhere. They shouldn't have to carry with them the stigma of being "fired." When someone is "fired," no weapons are involved; they're not being killed. And who first decided to say that people were being "terminated"? One company's failure might be another company's treasure. Many times I found that even people I thought were not very good went on to be really successful because they found the right fit.

One of my favorite cases of someone finding a really great new fit is a designer whom I just loved. She'd been with Netflix since the very early days and had weathered so many changes. She worked like a demon, and she was very talented, but as the product became more and more about a different kind of design, her skills were no longer a good match. It was so hard to let her go, and I told her, "Don't lose me, okay? I'm there if you ever need me." Well, she moved right on to a great new job at one of the best companies in Silicon Valley. Then one day I was meeting with the head of HR at Microsoft, and while I was sitting in the lobby, this designer walked by. I called out, "Girl, what are you doing here?" And she told me she was interviewing for another job. We had a great catch-up, and when the HR head showed up, the designer and I gave each other a big hug. As I was walking away with the HR head, she said to me, "Hey, I understand that you have a practice of proactively letting people go and that you often stay close with them. How do you do that? Tell me about somebody you fired who you're still on good terms with." I said, "Well, the woman you just saw me with is somebody I had to let go." She said, "She hugged you!" And I told her, "Yeah, I loved her then and I still do!

Owning and Living the Culture

There is no question that the discipline of proactively letting people go was one of the hardest, probably the single hardest, component of the Netflix culture for managers to become comfortable with. But most of them did.

John Ciancutti, one of my favorite Netflix alumni, was beautifully clear about how he experienced this transformation. He told me, “The way that we’re socialized to work with people, to not tell them hard truths, is completely different from how Netflix was trying to get us to operate, and so you’re fighting your own instincts. And for me I really learned to embrace the model at Netflix after I hired a guy who was super strong on paper and knocked it out of the park in the interview, but he could just not execute in the Netflix environment at all well. He wasn’t a strong doer, and at Netflix it wasn’t enough to be smart; you had to get a lot done. Learning to come to grips with that and say good-bye to him, even though he was very popular, was owning the culture, and having that confidence from letting him go was the point for me when I never looked back.”

Jessica Neal, who was our VP of staffing, moved on from Netflix and is working with a great start-up, Scopely, where the CEO is really innovative and wants to build a freedom-and-responsibility culture, and she’s helping managers learn the beauty of proactively strengthening their teams. She told me that some of their teams were doing good but not great work, and she helped the team leaders see that they had to make changes. She said, “They come to me and say, ‘Oh my God, my team meetings are better. We move faster. I didn’t realize how much weight it was.’”

One of my fondest moments at Netflix was right before I left, when a VP, Kevin McEntee, whom I hadn’t seen in quite a while, scheduled a meeting with me. When I asked him what was up, he said he was going to let go one of his team leaders who’d been with the company for a long time but was doing work we had been phasing out. Then he told me, “I’ve talked to her, we’ve been discussing it for the last couple of months, so she knows it’s coming. We’re going to make her last day Friday, and I’m going to talk to her about ten o’clock in the morning. Then I’ll have her come see you because I know she’s going to want to say good-bye. Then I’m going to gather the rest of her team in person and talk to them about it. I’ll send an email to all the other teams after that, and tonight I'll tell the rest of management teams so they won't be surprised. I know what we're going to tell people: how great she was and that she's done and she's moving on." When he finished, I just said, "Glad I could help!" He laughed and said, "Yeah, I don't know why I came in here." And I said, "No, it's great. It makes me really proud that you've done this all on your own."

The next week another manager came to me and said, "I have this problem person on my team," and I told him he should go and talk to Kevin. He pushed back and said, "But I came to you." I told him, "You know, you'll learn more about how it really works in our culture by talking to another leader."

Instilling belief in the practice gets easier as managers come on board. The greater the density of great team builders you achieve, the more you can spread the practice organically.

Living It Myself

I'm not advocating this only as one who has seen the positive results for others; I've also gone through the process of recognizing that it was time to proactively move on, as I did when I jumped over to Pure to work with Reed. I've also had to move on when doing so was very difficult for me. Eventually, when we worked together at Netflix, Reed and I both had to come to terms with the fact that it was time for me to go. Like anyone who has worked hard and helped to build something they are proud of, I found the thought of leaving painful. Walking away from an exciting future that I wouldn't be part of was perhaps the most difficult part. I had experienced this many, many times from the other side of the table. I was not immune to the emotion of the situation. But I had tremendous respect for Reed's discipline to choose his team for the future.

I absolutely loved my fourteen years at Netflix, and I am proud of, and gratified by, all that we accomplished—especially how we built the culture. But I am also now loving the opportunity to share the insights I learned with other companies, particularly with so many creative and brilliant start-up founders. Just as I have seen with so many of the Netflixers who have moved on to new challenges, I am thrilled to be applying the lessons I learned to help other dynamic organizations figure out the way forward.

And Reed and I have had a very good good-bye. We had a wild and exhilarating ride, and we are forever friends. I still say “we” when I refer to Netflix and probably always will. This book of advice is a direct result of my experience and experiments there. I will always follow the success of the company and the people in it. As I see Netflix win so many awards and become part of the entertainment landscape, I could not be more delighted. Netflix is not about to stop moving on with moving on, and neither am I.

Much media coverage of the labor market in recent years has mourned the passing of lifetime employment. There is no question that the dislocations of the contemporary work world can be horribly stressful and inflict terrible costs on employees and their families, or that they have left far too many people behind. The loss of purposeful and rewarding employment by so many skilled and hardworking individuals is a tragedy that the business community and our politicians must find much more effective ways of redressing. The best way for both companies and individuals to contend with the fierce competitive dynamism of business today is to stay limber, to make sure they are developing the skills and gaining the experience required for future success. We should all be proactively preparing for the road ahead.

Managers don’t do best by their people by sugarcoating difficult truths, waiting until the last moment to let them go, or shunting them into roles they don’t truly want or the company doesn’t really need. The effects of all of these are disempowering, dispiriting, and corrosive, both for the individuals in question and for entire teams. People deserve to know the truth of their prospects, in real time. Being totally honest with them and supporting them in finding new opportunities is the best way to ensure that both they and your team can flourish.

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It takes practice and courage to get better at truth. It takes finding your personal power. You never really finish this task, so it’s time to get started!

IN BRIEF

- ▶ Employees need to be able to see whether their talents and passions are a good match for the future you are heading to, in order to determine whether they may be a better fit at another firm.
- ▶ People should hear frequently about how well they're performing. Even if doing away with the annual performance process is not feasible for you, institute much more frequent meetings to discuss performance.
- ▶ If doing away with the annual review process is an option for you, try it! The process is a big waste of time and can become a stand-in for real-time information about performance.
- ▶ Either make performance improvement plans genuine efforts to help people improve performance or get rid of them.
- ▶ The chances you'll get sued by an employee who is let go are vanishingly slim, especially if you have been responsibly and regularly sharing with that person the problems you perceive with their performance.
- ▶ The focus on employee engagement is misplaced; there is not necessarily a correlation between high engagement and high performance. There is also not necessarily a correlation between high performance in a current job and high performance in the job of the future.
- ▶ Use my algorithm in making personnel decisions: Is what this person loves to do, that they're extraordinarily good at doing, something we need someone to be great at?
- ▶ All managers can actively help their exiting team members find great new opportunities; goodbyes can be very good.
- ▶ Managers who adopt this more fluid approach to performance review and team building come to clearly see that it is better for all concerned and better for overall team performance.

QUESTIONS TO CONSIDER

- What would be the equivalent for you of offering your team members individual general feedback on their performance ten games at a time?
- Might it make sense to determine feedback frequency based on benchmark deadlines for achieving team goals, rather than according to a set time period? That might, for example, mean timing discussions according to the stages of completion for a project.
- Whom on other teams could you ask to provide feedback about your team members' performance?
- Can you say that every person on your team is doing a job they're passionate about and great at and that you need them to be doing? If not, can you have a conversation with those who aren't about other opportunities in the company they could consider or about the landscape of opportunity they can consider outside?
- Are you building a network of managers at other firms to whom you can recommend your exiting team members?
- How well are you keeping up on changes in business operations and personnel at firms that might offer good opportunities for them?