NO RULES RULES

Netflix and the Culture of Reinvention

REED HASTINGS
Netflix co-founder & CEO

ERIN MEYER
INSEAD Business School

'INSPIRED'
Jim Collins

'INVALUABLE'
Satya Nadella, CEO of Microsoft

'AMAZING'
Ben Horowitz



'I had the privilege of learning from Reed personally and studying the Netflix culture. The insights in this book are invaluable to anyone trying to create and sustain organisational culture.'

Satya Nadella, CEO of Microsoft

'Reed Hastings learned early what it takes to build an enduring great company. Here in *No Rules Rules*, he and Erin Meyer teach the culture that propelled Netflix into one of the most distinctive and impactful companies on the planet. Packed with vivid specifics, they illustrate how Hastings melded a spicy concoction into a framework of freedom and responsibility. Well-written and fast-paced, timeless and timely, inspired and practical, smart and wise – read it and learn the Netflix secret sauce from the master himself!'

Jim Collins, author of *Good to Great*, co-author of *Built to Last* and *Beyond Entrepreneurship*

'As the information age shrinks product cycles and compresses time frames, the most important business question of our era is "how do we keep innovating?" In this breakthrough book, Reed Hastings and Erin Meyer provide the answer. They lay out a proven, systematic methodology for building, maintaining and enhancing a highly innovative global culture. It is an amazing piece of work. Bravo!'

Ben Horowitz, co-founder of Andreessen Horowitz

'Forget reinventing television; Reed Hastings' real achievement is reinventing corporate culture, and in *No Rules Rules*, Reed reveals all the tactics and processes that he's used to make Netflix one of the 21st century's most innovative companies. Clear, compelling, fascinating and (for a book about Netflix) appropriately binge-worthy, *No Rules Rules* is the book I wish I had read when I was starting out, and it's the book I'll be giving to every CEO I work with. It's simply a must-have for any business leader.'

Marc Randolph, Netflix co-founder and author of *That Will Never Work: The Birth of Netflix and the Amazing Life of an Idea*

'Netflix's unique culture of freedom and responsibility and its flexibility to adapt are fuelling its remarkable rise around the world. In *No Rules Rules*, Reed Hastings and Erin Meyer reveal the fascinating story of Netflix's success, while providing actionable lessons for leaders on how to attract top talent and unleash their creative energies to drive excellence.'

Susan E Rice, former US national security adviser and permanent representative to the United Nations

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'In alternating sections with Meyer, who provides elaboration based on more than 200 Netflix interviews, Hastings details the making of the Netflix way, from hiring the best creative talent at high pay to increasing candour through frequent feedback and gradually removing controls that stifle innovation . . . Fascinating story of a counterintuitive approach that apparently works.'

Kirkus Reviews

'Aspiring tech moguls should flock to Hastings and Meyer's energetic and fascinating account.'

Publishers Weekly

'A fascinating analysis of Netflix . . . Highly recommended for leaders eager to build innovative, fast and flexible teams.'

***Library Journal*, starred review**

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ALSO BY ERIN MEYER

The Culture Map

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INTRODUCTION



Reed Hastings: "Blockbuster is a thousand times our size," I whispered to Marc Randolph as we stepped into a cavernous meeting room on the twenty-seventh floor of the Renaissance Tower in Dallas, Texas, early in 2000. These were the headquarters of Blockbuster, then a $6 billion giant that dominated the home entertainment business with almost nine thousand rental stores around the world.

The CEO of Blockbuster, John Antioco, who was reputed to be a skilled strategist aware that a ubiquitous, super-fast internet would upend the industry, welcomed us graciously. Sporting a salt-and-pepper goatee and an expensive suit, he seemed completely relaxed.

By contrast, I was a nervous wreck. Marc and I had cofounded and now ran a tiny two-year-old start-up, which let people order DVDs on a website and receive them through the US Postal Service. We had one hundred employees and a mere three hundred thousand subscribers and were off to a rocky start. That year alone, our losses would total $57 million. Eager to make a deal, we'd worked for months just to get Antioco to respond to our calls.

We all sat down around a massive glass table, and after a few minutes of small talk, Marc and I made our pitch. We suggested that Blockbuster purchase Netflix, and then we would develop and run Blockbuster.com as their

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online video rental arm. Antioco listened carefully, nodded his head frequently, and then asked, "How much would Blockbuster need to pay for Netflix?" When he heard our response—$50 million—he flatly declined. Marc and I left, crestfallen.

That night, when I got into bed and closed my eyes, I had this image of all sixty thousand Blockbuster employees erupting in laughter at the ridiculousness of our proposal. Of course, Antioco wasn't interested. Why would a powerhouse like Blockbuster, with millions of customers, massive revenues, a talented CEO, and a brand synonymous with home movies, be interested in a flailing wannabe like Netflix? What did we possibly have to offer that they couldn't do more effectively themselves?

But, little by little, the world changed and our business stayed on its feet and grew. In 2002, two years after that meeting, we took Netflix public. Despite our growth, Blockbuster was still a hundred times larger than we were ($5 billion versus $50 million). Moreover, Blockbuster was owned by Viacom, which at that time was the most valuable media company in the world. Yet, by 2010, Blockbuster had declared bankruptcy. By 2019, only a single Blockbuster video store remained, in Bend, Oregon. Blockbuster had been unable to adapt from DVD rental to streaming.

The year 2019 was also noteworthy for Netflix. Our film *Roma* was nominated for best picture and won three Oscars, a great achievement for the director Alfonso Cuarón, which underscored the transformation of Netflix into a full-fledged entertainment company. Long ago, we had pivoted from our DVD-by-mail business to become not just an internet streaming service, with over 167 million subscribers in 190 countries, but a major producer of our own TV shows and movies around the world. We had the privilege of working with some of the world's most talented creators, including Shonda Rhimes, Joel and Ethan Coen, and Martin Scorsese. We had introduced a new way for people to watch and enjoy great stories, which, in its best moments, broke down barriers and enriched lives.

I am often asked, "How did this happen? Why could Netflix repeatedly adapt but Blockbuster could not?" That day we went to Dallas, Blockbuster held all the aces. They had the brand, the power, the resources, and the vision. Blockbuster had us beat hands down.

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It was not obvious at the time, even to me, but we had one thing that Blockbuster did not: a culture that valued people over process, emphasized innovation over efficiency, and had very few controls. Our culture, which focused on achieving top performance with talent density and leading employees with context not control, has allowed us to continually grow and change as the world, and our members' needs, have likewise morphed around us.

Netflix is different. We have a culture where No Rules Rules.

NETFLIX CULTURE IS WEIRD



Erin Meyer: Corporate culture can be a mushy marshland of vague language and incomplete, ambiguous definitions. What's worse, company values—as articulated—rarely match the way people behave in reality. The slick slogans on posters or in annual reports often turn out to be empty words.

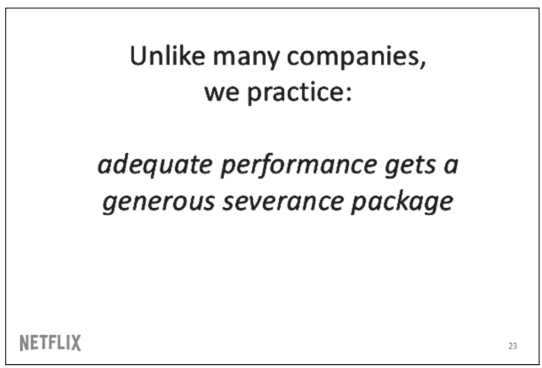
For many years, one of America's biggest corporations proudly exhibited the following list of values in the lobby of its headquarters: "Integrity. Communication. Respect. Excellence." The company? Enron. It boasted about having lofty values right up to the moment it came crashing down in one of history's biggest cases of corporate fraud and corruption.

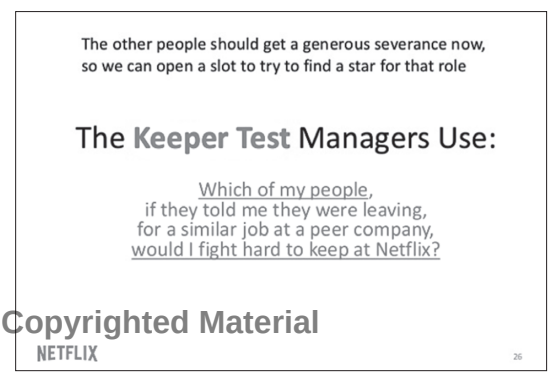
Netflix culture, on the other hand, is famous—or infamous, depending on your point of view—for telling it like it is. Millions of businesspeople have studied the Netflix Culture Deck, a set of 127 slides originally intended for internal use but that Reed shared widely on the internet in 2009. Sheryl Sandberg, COO of Facebook, reportedly said that the Culture Deck "may well be the most important document ever to come out of Silicon Valley." I loved the Netflix Culture Deck for its honesty. And I loathed it for its content.

On the next page is a sample so you can see why.

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Quite apart from the question of whether it is ethical to fire hardworking employees who don't manage to do extraordinary work, these slides struck me as pure bad management. They violate the principle that Harvard Business School professor Amy Edmondson calls "psychological safety." In her 2018 book, *The Fearless Organization*, she explains that if you want to encourage innovation, you should develop an environment where people feel safe to dream, speak up, and take risks. The safer the atmosphere, the more innovation you will have.

Apparently, no one at Netflix read that book. Seek to hire the very best and then inject fear into your talented employees by telling them they'll be thrown back out onto the "generous severance" scrap heap if they don't excel? This sounded like a surefire way to kill any hope of innovation.

Here's another slide from the deck:



Not allotting employees vacation days seemed downright irresponsible. It is a great way to create sweatshop conditions, where no one dares to take a day off work. And to wrap it up like a perk.

Employees who take holidays are happier, enjoy their jobs more, and are more productive. Yet many workers are hesitant to take the vacation allotted them. According to a survey conducted by Glassdoor in 2017, American workers took only about 54 percent of their entitled vacation days.

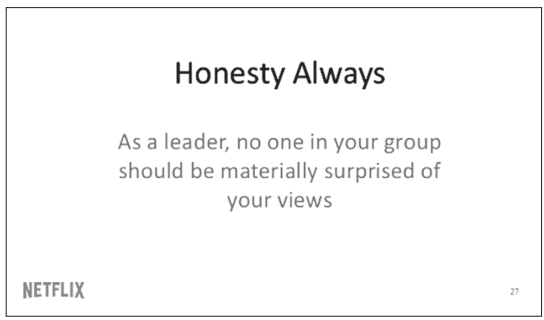
Employees are likely to take even less time off if you remove the vacation allotment altogether because of a well-documented human behavior, which psychologists refer to as "loss aversion." We humans hate to lose what we already have, even more than we like getting something new.

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Faced with losing something, we will do everything we can to avoid losing it. We take that vacation.

If you're not allotted vacation, you don't fear losing it, and are less likely to take any at all. The "use it or lose it" rule built into many traditional policies sounds like a limitation, but it actually encourages people to take a break.

And here's a last slide:



Of course, no one would openly support a workplace based on secrets and lies. But sometimes it's better to be diplomatic than to offer opinions bluntly—for example, when a floundering team member needs a morale boost or a jolt of self-confidence. "Honesty sometimes" we can all get behind. But a blanket policy of "honesty always" sounds like a great way to break relationships, crush motivation, and create an unpleasant work environment.

Overall, the Netflix Culture Deck struck me as hypermasculine, excessively confrontational, and downright aggressive—perhaps a reflection of the kind of company you might expect to be constructed by an engineer with a somewhat mechanistic, rationalist view of human nature.

Yet despite all this, one fact cannot be denied . . .

NETFLIX HAS BEEN REMARKABLY SUCCESSFUL

By 2019, seventeen years after Netflix went public, its stock price had gone from $1 to $350. By comparison, $1 invested in the S&P 500 or NASDAQ

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index when Netflix went public would have grown to between $3 and $4 over the same period.

It's not just the stock market that loves Netflix. Consumers and critics love it too. Netflix original programming such as *Orange Is the New Black* and *The Crown* have become some of the most beloved shows of the decade, and *Stranger Things* became possibly the world's most-watched TV series. Non-English shows like *Elite* in Spain, *Dark* in Germany, *The Protector* in Turkey, and *Sacred Games* in India have all raised the bar for storytelling in their home countries and spawned a new generation of global stars. In the US, over the past few years Netflix has received more than three hundred Emmy nominations and taken home multiple Academy Awards. In addition, Netflix garnered seventeen nominations at the Golden Globes, more than any other network or streaming service, and in 2019 earned the No. 1 spot as the most highly regarded company in America on the Reputation Institute's annual national ranking.

Employees love Netflix also. In a 2018 survey conducted by Hired (a dot-com marketplace for tech talent), tech workers rated Netflix as the No. 1 company they'd most like to work for, beating companies like Google (No. 2), Elon Musk's Tesla (No. 3), and Apple (No. 6). In another 2018 "Happiest Employee" ranking, based on over five million anonymous reviews from workers at forty-five thousand large US companies compiled by the staff of Comparably, a compensation and careers site, Netflix was ranked as having the second-happiest employees of the many thousands ranked. (It trailed only HubSpot, a Cambridge-based software firm.)

Most interesting of all, unlike the vast majority of firms that fail when the industry shifts, Netflix had responded successfully to four massive transitions in the entertainment and business environment in just fifteen years:

- From DVD by mail to streaming old TV series and movies over the internet.
- From streaming old content to launching new original content (such as *House of Cards*) produced by external studios.

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- From licensing content provided by external studios to building their own in-house studio that creates award-winning TV shows and movies (such as *Stranger Things, La Casa De Papel,* and *The Ballad of Buster Scruggs*).
- From a USA-only company to a global company entertaining people in 190 countries.

Netflix's success is beyond unusual. It's incredible. Clearly, something singular is happening, which wasn't happening at Blockbuster when they declared bankruptcy in 2010.

A DIFFERENT TYPE OF WORKPLACE



Blockbuster's story is not an anomaly. The vast majority of firms fail when their industry shifts. Kodak failed to adapt from paper photos to digital. Nokia failed to adapt from flip phones to smartphones. AOL failed to adapt from dial-up internet to broadband. My own first business, Pure Software, could not adapt to changes in its industry either because our company culture wasn't optimized for innovation or flexibility.

I started Pure Software in 1991. At the beginning, we had a great culture. We were a dozen people, creating something new and having a blast. Like many small entrepreneurial ventures, we had very few rules or policies inhibiting our actions. When our marketing guy decided to work from his dining room because it "helped him think" to be able to pour himself a bowl of Lucky Charms cereal every time he felt the urge, he didn't have to get permission from management. When our facilities person wanted to buy fourteen leopard-print office chairs for our staff members because they were on bargain-basement sale at Office Depot, she didn't have to fill out a purchase order or get approval from the CFO.

Then Pure Software started to grow. As we hired new employees, a few did stupid stuff, leading to errors that cost the company money. Each time this happened, I put a process in place to prevent that mistake from

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occurring again. For example, one day our sales person at Pure, Matthew, traveled to Washington, DC, to meet with a prospective client. The client was staying at the five-star Willard InterContinental Hotel, so Matthew did too . . . at $700 a night. When I found out, I was frustrated. I had our HR person write a travel policy outlining how much employees could spend on airplanes, meals, and hotels, and requiring management approval beyond a specified spending limit.

Our finance person, Sheila, had a black poodle that she sometimes brought to the office. One day, I arrived at work to find the dog had chewed a big hole in the conference room rug. Replacing that rug cost a fortune. I created a new policy: no dogs at work without special permission from Human Resources.

Policies and control processes became so foundational to our work that those who were great at coloring within the lines were promoted, while many creative mavericks felt stifled and went to work elsewhere. I was sorry to see them go, but I believed that this was what happens when a company grows up.

Then two things occurred. The first is that we failed to innovate quickly. We had become increasingly efficient and decreasingly creative. In order to grow we had to purchase other companies that did have innovative products. That led to more business complexity, which in turn led to more rules and process.

The second is that the market shifted from C++ to Java. To survive, we needed to change. But we had selected and conditioned our employees to follow process, not to think freshly or shift fast. We were unable to adapt and, in 1997, ended up selling the company to our largest competitor.

With my next company, Netflix, I hoped to promote flexibility, employee freedom, and innovation, instead of error prevention and rule adherence. At the same time, I understood that as a company grows, if you don't manage it with policies or control processes, the organization is likely to descend into chaos.

Through a gradual evolution, over many years of trial and error, we found an approach for making this work. If you give employees more freedom instead of developing processes to prevent them from exercising their

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own judgment, they will make better decisions and it's easier to hold them accountable. This also makes for a happier, more motivated workforce as well as a more nimble company. But to develop a foundation that enables this level of freedom you need to first increase two other elements:

+ Build up talent density.

At most companies, policies and control processes are put in place to deal with employees who exhibit sloppy, unprofessional, or irresponsible behavior. But if you avoid or move out these people, you don't need the rules. If you build an organization made up of high performers, you can eliminate most controls. The denser the talent, the greater the freedom you can offer.

+ Increase candor.

Talented employees have an enormous amount to learn from one another. But the normal polite human protocols often prevent employees from providing the feedback necessary to take performance to another level. When talented staff members get into the feedback habit, they all get better at what they do while becoming implicitly accountable to one another, further reducing the need for traditional controls.

With these two elements in place you can now . . .

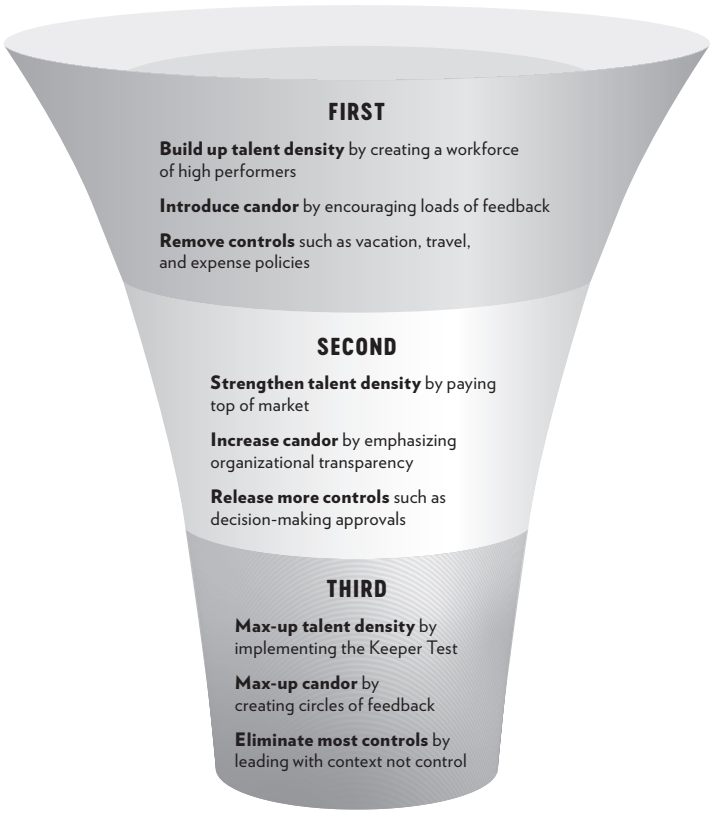
- Reduce controls.

Start by ripping pages from the employee handbook. Travel policies, expense policies, vacation policies—these can all go. Later, as talent becomes increasingly denser and feedback more frequent and candid, you can remove approval processes throughout the organization, teaching your managers principles like, "Lead with context, not control," and coaching your employees using such guidelines as, "Don't seek to please your boss."

Best of all, once you start developing this type of culture, a virtuous cycle kicks in. Removing controls creates a culture of "Freedom and Responsibility" (a term Netflix employees use so much that they now just say

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"F&R"), which attracts top talent and makes possible even fewer controls. All this takes you to a level of speed and innovation that most companies can't match. But you can't reach this level in one go.



The first nine chapters of this book cover this three-step implementation approach through three cycles, each cycle making a section. The tenth chapter looks at what happened when we began to take our corporate culture into a variety of *national* cultures—a transition that has led to interesting and important new challenges.

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Of course, virtually every experimental project includes both successes and failures. Life at Netflix—like life in general—is a little more complicated than this tornado-shaped diagram suggests. That's why I asked someone from the outside to study our culture and write this book with me. I wanted an impartial expert to take a close look at how the culture actually plays out, day to day, within our walls.

I thought of Erin Meyer, whose book *The Culture Map* I had just finished reading. A professor at INSEAD business school outside of Paris, Erin had recently been selected by the Thinkers50 as one of the world's most influential business thinkers. She writes frequently about her research on cultural differences in the workplace for *Harvard Business Review,* and I learned in her book that she was also a Peace Corps volunteer teacher in Southern Africa ten years before I was. I sent her a message.



In February 2015, I read an article in the *Huffington Post* titled, "One Reason for Netflix's Success—It Treats Employees Like Grownups." The article explained:

> Netflix assumes that you have amazing judgment, ... And judgment is the solution for almost every ambiguous problem. Not process.
>
> The flip side . . . is that people are expected to work at a super-high level or be quickly shown the door (with a generous severance package).

I became increasingly curious as to how an organization could operate successfully, in real life, following the stated methodology. A lack of process is bound to create pandemonium, and showing employees the door if they don't operate at a super-high level is bound to instigate terror in the workforce.

Then, a few months later, I woke up to find the following email in my inbox:

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From: Reed Hastings
Date: May 31, 2015
Subject: Peace Corps and book

Erin,

I was Peace Corps Swaziland (1983–85). Now I'm the CEO of Netflix.
I loved your book and we are having all of our leaders read it.

I'd love to have coffee sometime. I'm in Paris often.

Small world!

Reed

Reed and I got to know each other and eventually he suggested I interview Netflix employees to get a firsthand glimpse of what the Netflix culture is really like, and to gather data in order to write a book with him. This was a chance to find out how a company with a culture in direct opposition to everything we know about psychology, business, and human behavior can have such remarkable results.

I have conducted over two hundred interviews with current and past Netflix employees in Silicon Valley, Hollywood, São Paulo, Amsterdam, Singapore, and Tokyo, speaking with employees at every level, from executives to administrative assistants.

Netflix generally doesn't believe in anonymity, but I insisted that during my interviews all employees be given the option to conduct these interviews anonymously. Those who chose that option are referred to in this book by fictional first names only. However, true to the "honesty-always" culture at Netflix, many were happy to share all sorts of surprising and sometimes unflattering opinions and stories about themselves and their employer, while being identified openly.

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YOU HAVE TO CONNECT THE DOTS DIFFERENTLY

In his famous commencement speech at Stanford University, Steve Jobs said: "You can't connect the dots looking forward; you can only connect them looking backwards. So you have to trust that the dots will somehow connect in your future. You have to trust in something—your gut, destiny, life, karma, whatever. This approach has never let me down, and it has made all the difference in my life."

Jobs is not alone. Sir Richard Branson's mantra is said to be "A-B-C-D," or "Always be connecting the dots." And David Brier and *Fast Company* released a fascinating video that claims the way we connect life's dots defines how we see reality, and thus how we make decisions and reach conclusions.

The point is to encourage people to question how the dots are connected. In most organizations, people join the dots the same way that everyone else does and always has done. This preserves the *status quo*. But one day someone comes along and connects the dots in a different way, which leads to an entirely different understanding of the world.

That's what happened at Netflix. Despite Reed's experience at Pure Software, he didn't exactly set out to build a company with a unique ecosystem. Instead, he sought organizational flexibility. Then a few things happened that led him to connect the dots of corporate culture differently. Gradually, as these elements came together, he was able—in hindsight only—to understand what it was about the culture that helped drive Netflix's success.



In this book we'll be connecting the dots chapter by chapter, in the order that we discovered them at Netflix. We will also look at how they play out in the current Netflix work environment, what we've learned along the way, and how you might apply your own version of freedom and responsibility to your organization.

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SECTION ONE

FIRST STEPS TO A CULTURE OF FREEDOM AND RESPONSIBILITY

First build up talent density . . .

1 ▶ A Great Workplace Is Stunning Colleagues

Then increase candor . . .

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

Now begin removing controls . . .

3a ▶ Remove Vacation Policy

3b ▶ Remove Travel and Expense Approvals

This section demonstrates how a team or organization can begin to implement a culture of Freedom and Responsibility. These concepts build on one another. Although you may try implementing elements of each chapter in isolation, such an approach can be risky. Once you have built up talent density, you can safely address candor. Only then can you safely begin removing policies that control your staff.

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FIRST BUILD UP TALENT DENSITY . . .

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1

A GREAT WORKPLACE IS STUNNING COLLEAGUES



In the 1990s, I liked to rent VHS videos from the Blockbuster down the street from our house. I'd take two or three at a time and return them quickly to avoid late fees. Then one day I moved a pile of papers on the dining room table and saw a cassette that I'd watched weeks ago and forgotten to return. When I took the movie back to the store, the woman told me the fee: $40! I felt so stupid.

Later, that got me thinking. Blockbuster made most of its margin from late fees. If your business model depends on inducing feelings of stupidity in your customer base, you can hardly expect to build much loyalty. Was there another model to provide the pleasure of watching movies in your own living room without inflicting the pain of paying a lot when you forgot to return them?

In early 1997, when Pure Software was acquired, Marc Randolph and I started thinking about opening a movies-by-mail business. Amazon was having good luck with books. Why not films? Customers would rent VHS cassettes from our website and be able to return them via the mail. Then we learned it would cost $4 to mail the VHS cassette each way. There wasn't going to be a big market. It was too expensive.

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But a friend told me about a new invention called DVDs, which would be coming that fall. "They're like CDs but hold a movie," he explained. I raced

to the post office and mailed myself several CDs (I couldn't find an actual DVD for my test). Each cost thirty-two cents to mail. Then I went back to my place in Santa Cruz and waited anxiously for them to arrive. Two days later they dropped through the mail slot, unharmed.

In May 1998, we launched Netflix, the world's first online DVD rental store. We had thirty employees and 925 movie titles, which was almost the entire catalog of DVDs available at the time. Marc was the CEO until 1999, when I took over and he became one of our executives.

By early 2001, we'd grown to 400,000 subscribers and 120 employees. I tried to avoid the leadership fumbles of my Pure Software days, and although we avoided implementing excessive rules and controls this time, I also couldn't characterize Netflix as a particularly great place to work. But we were growing, business was good, and work for our employees was OK.

LESSONS FROM A CRISIS

Then, in the spring of 2001, crisis struck. The first internet bubble burst, and scores of dot-coms failed and vanished. All venture capital funding stopped, and we were suddenly unable to raise the additional funds we needed to run the business, which was far from profitable. Morale in the office was low, and it was about to get lower. We had to lay off a third of our workforce.

I sat down with Marc and Patty McCord—Patty had come with me from Pure Software and was head of Human Resources—and we studied the contribution of each employee. We didn't have any obviously poor performers. So we divided the staff into two piles: the eighty highest performers who we would keep and forty less amazing ones we would let go. Those who were exceptionally creative, did great work, and collaborated well with others went immediately into the "keepers" pile. The difficulty was that there were many borderline cases. Some were great colleagues and friends but did adequate rather than great work. Others worked like crazy but showed uneven judgment and needed a lot of hand-holding. A few were exceptionally

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gifted and high performing but also complainers or pessimists. Most of them would have to go. It wasn't going to be easy.

In the days before the layoffs, my wife remarked how on edge I was, and she was right. I worried that motivation in the office would plummet. I was convinced that, after I'd let go of their friends and colleagues, those who stayed would think that the company wasn't loyal to employees. It was bound to make everyone angry. Even worse, the "keepers" would have to shoulder the work of those let go, which seemed certain to lead to bitterness. We were already short on cash. Could we bear a further collapse in morale?

The day of the layoffs arrived, and it was awful, as expected. Those who we laid off cried, slammed doors, and shouted in frustration. By noon it was finished, and I waited for the second half of the storm: the backlash from the remaining employees. . . . But, despite some tears and visible sorrow, all was calm. Then, within a few weeks, for a reason I couldn't initially understand, the atmosphere improved dramatically. We were in cost-cutting mode, and we'd just let go of a third of the workforce, yet the office was suddenly buzzing with passion, energy, and ideas.

A few months later the holidays arrived. DVD players were popular that Christmas, and by early 2002, our DVD-by-mail subscription business was growing rapidly again. Suddenly, we were doing far more work—with 30 percent fewer employees. To my amazement, those same eighty people were getting everything done with a passion that seemed higher than ever. They were working longer hours, but spirits were sky-high. It wasn't just our employees who were happier. I'd wake up in the morning and couldn't wait to get to the office. In those days, I drove Patty McCord to work every day and when I swung up to her house in Santa Cruz, she would practically leap into the car with this big grin: "Reed, what's going on here? Is this like being in love? Are these just some wacky chemicals and this thrill is going to wear off?"

Patty had put her finger on it. The entire office felt like it was filled with people who were madly in love with their work.

I'm not advocating for layoffs, and fortunately we haven't had to do anything like that at Netflix since. But in the days and months following those

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2001 layoffs, I discovered something that completely changed the way that I understand both employee motivation and leadership responsibility. This was my road to Damascus experience, a turning point in my understanding of the role of talent density in organizations. The lessons we learned became the foundation of much that has led to Netflix's success.

But before we go on to describe those lessons, I should give Patty a proper introduction because she played a critical role in the development of Netflix for over a decade, and her protégé, Jessica Neal, runs HR for Netflix today. I first met Patty McCord while at Pure Software. In 1994 she called the office out of the blue and asked to speak to the CEO. My younger sister was answering the phones in those days, and she put Patty right through. Patty was raised in Texas, which I could hear faintly in the way she spoke. She said she was currently working for Sun Microsystems in the HR department, but she'd like to come to Pure Software and run HR for us. I invited her in for a cup of coffee.

During the first half of the meeting, I couldn't understand anything Patty was saying. I asked her to tell me her HR philosophy, and she said: "I believe that every individual should be able to draw a line between their contribution to the corporation and their individual aspirations. As the head of human capital management, I would work with you, the CEO, to increase the emotional intelligence quotient of our leadership and improve employee engagement." My head started to spin. I was young and unpolished and after she stopped, I said: "Is that how all HR people speak? I couldn't understand a word. If we are going to work together you are going to have to stop talking like that."

Patty was insulted, and she told me so straight to my face. When she got home that evening and her husband asked her how the interview had gone, she told him, "Bad. I got in a fight with the CEO." But I loved the way she told me exactly what she thought of me. So I gave her the job, and since then we have had a frank, long-lasting friendship, which has persisted even after her departure from Netflix. It may be partly because we're so different: I'm a math wonk and a software engineer, she's an expert in human behavior and a storyteller. When I look at a team, I see numbers and algorithms that connect the people and discussions. When Patty looks at a team, she sees

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emotions and subtle interpersonal responses that are invisible to me. Patty worked for me at Pure Software until we sold it in 1997, and she joined us early at Netflix.

Patty and I spent dozens of car rides following the 2001 layoffs trying to figure out why the work environment had taken a sharp turn for the better and how we could maintain this positive energy. We came to understand that what Patty referred to as our dramatic increase in "talent density" was behind the improvements.

TALENT DENSITY: TALENTED PEOPLE MAKE ONE ANOTHER MORE EFFECTIVE

Every employee has some talent. When we'd been 120 people, we had some employees who were extremely talented and others who were mildly talented. Overall we had a fair amount of talent dispersed across the workforce. After the layoffs, with only the most talented eighty people, we had a smaller amount of talent overall, but the amount of talent per employee was greater. Our talent "density" had increased.

We learned that a company with really dense talent is a company everyone wants to work for. High performers especially thrive in environments where the overall talent density is high.

Our employees were learning more from one another and teams were accomplishing more—faster. This was increasing individual motivation and satisfaction and leading the entire company to get more done. We found that being surrounded by the best catapulted already good work to a whole new level.

Most important, working with really talented colleagues was exciting, inspiring, and a lot of fun—something that remains as true today with the company at seven thousand employees as it was back then at eighty.

In hindsight, I understood that a team with one or two merely adequate performers brings down the performance of everyone on the team. If you have a team of five stunning employees and two adequate ones, the adequate ones will

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