

Book Review

No Rules Rules: Netflix and the Culture of Reinvention

Authors Reed Hastings, Erin Meyer

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Overview

Netflix is recognized as an amazing company, while many people with dreams and passions desire to work at Netflix. Netflix has been ranked 17th among the 50 most innovative companies in the world (Boston Consulting Group, 2020) and 9th among the world's most admired companies (Fortune, 2021). Many people are very interested in the secret of Netflix's success. For a company, the greatest success is to retain talented employees, letting them willingly contribute their talents to the company. Netflix has achieved this, and the secret lies in its unique corporate culture.

Reed Hastings, the co-founder and CEO of Netflix, has developed a corporate philosophy and a constellation of management principles that make Netflix one of the

most innovative companies in the world. This shows that traditional management philosophy is not suitable for Netflix and could not have stimulated the company's innovation to the greatest extent. Erin Meyer, author of *The Culture Map: Breaking Through the Invisible Boundaries of Global Business* is co-author alongside Reed Hastings in writing *No Rules Rules: Netflix and the Culture of Reinvention* (Erin Meyer – Author of *The Culture Map*). In 2019, Erin Meyer was selected by the Thinkers50 as one of the fifty most influential business thinkers in the world (*No Rules Rules Book*, 2020). Outstandingly, *No Rules Rules: Netflix and the Culture of Reinvention* was nominated as a 2020 Financial Times Business Book of the Year and a New York Times Bestseller (*No Rules Rules Book*, 2020).

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In this book, Hastings and Meyer (2020) highlight the importance of freedom and responsibility in creating a healthy working environment. In the introduction, Hastings explains how Netflix competed with an entrenched company, Blockbuster, eventually disrupting the home entertainment industry. Its victory came from “*a culture that valued people over process, emphasized innovation over efficiency, and had very few controls*” (p. xiii). What has made Netflix so extraordinary is the corporate culture in which No Rules Rules. Hastings found that two things that hindered Netflix’ development: failure to innovate quickly and failure to adapt to the ever-changing market. To cope with the problem, Hastings came up with a “Freedom and Responsibility” approach that attempts to facilitate an environment of flexibility, employee freedom, and innovation.

In this book, authors mainly outline four approaches to build a positive and healthy corporate culture. To better understand these approaches, the book is well-structured into four sections as follows:

Section One: First Steps to a Culture of Freedom and Responsibility

Section Two: Next Steps to a Culture of Freedom and Responsibility

Section Three: Techniques to Reinforce a Culture of Freedom and Responsibility

Section Four: Going Global

Review

Overall, the “Freedom and Responsibility” approach attempts to eliminate control and give employees autonomy, thereby boosting creativity and productivity. In the first section, Hastings and Meyer (2020) discuss how to create a culture of freedom and responsibility, highlighting three steps. First step is to build up talent density by creating a workforce of effective performance. Working with talented colleagues is exciting and motivating, and the authors think that “*high performers especially thrive in an environment where the overall talent density is high*” (p. 7). Thus, once the organization is able to achieve this high density and remove a few less effective employees from the workplace, the next step is to introduce a culture of candor. Netflix creates a milieu in which employees are encouraged to voice their opinions and thoughts with positive intentions. Giving and receiving feedback, circulates in Netflix as commonplace, allowing employees to learn from each other effectively. This stimulates a culture of mutual communication and fosters productivity. The third step is to “*remove controls such as vacation, travel and expense policies*” (p. xxi). The intention is to give freedom to employees in order to get responsibility. When the company gives employees the autonomy to arrange their time, this is the greatest trust and support for employees. Employees can rationally arrange their work according to their own situation and stimulate their own

initiative and effectiveness to the greatest extent.

In the second section, Hastings and Meyer (2020) discuss the Implementation of the culture of freedom and responsibility. Again, three approaches are emphasized. The first approach is strengthening talent density by providing top of the market pay, in which the authors stress the compensation processes that Netflix has implemented to attract and retain talented and outstanding employees. The authors learn that the “high talent density at Netflix is the engine” that drives the company promising business growth. The thing that Netflix has tried to avoid is to adjust “*salaries down if the market rate falls*” (p. 93) as this will reduce the talent density. The second approach is increasing candor by emphasizing organizational transparency. In this stage, the SOS (Stuff of Success) phenomenon is deemed to be dangerous. This refers to when an organization chooses to keep some information hidden, staying silent as it is believed that divulging the information would be harmful to the company. Netflix makes all information transparent, in order to “*build up feelings of trust and ownership*” (p. 108). Netflix has learned that the more employees understand the company’s situation, such as its financial status, strategy, and problems, the more they can put themselves in the company’s position and integrate into the company’s development. The third approach is releasing more control, such as decision-making approval. Again,

Netflix employees are given autonomy and freedom to a large extent, further improving work efficiency.

In the third section, Hastings and Meyer (2020) introduce a constellation of practices to ensure that “*the critical elements of talent density, candor, and freedom persist despite change and growth*” (p. 161). The first trick is to implement the Keeper Test to maximize the talent density. The Keeper Test attempts to reveal whether the manager will try to change his or her mind if a team member wants to quit, or whether the manager will feel relieved when this employee resigns. Netflix has applied this Keeper Test to everyone, and the company observes the employees regularly, ensuring that the right people are assigned to the right positions. The second method is to establish a circle of feedback to maximize candor. Being frank and maintaining a culture of candor is essential to the organization’s growth. Netflix does not set an annual KPI; rather Netflix practices written 360s. “*Each employee selects a handful of people she wants to receive feedback from, and those people fill out the report anonymously, rating the employee on a scale of 1 to 5 across a series of categories and leaving comments*” (p. 192). More importantly, the 360 feedback attempts to study valuable comments and discussion. Consequently, the 360 evaluation improves the performance of individual employees. The third technique is to remove most control through leading with context rather

than control. Netflix learns that leading with context is more challenging but more useful, as this gives employees considerably more freedom. This technique is more applicable for Netflix than a conventional approach that leads the team with control. The team leader provides all of the necessary information so that team members are able to make wise decisions and complete their tasks without ambiguities or processes controlling their actions.

The fourth section reveals if the Netflix corporate culture works globally. As Netflix goes global, and cultural diversity becomes an emerging phenomenon in Netflix; accordingly, Netflix has created an inclusive culture. Netflix has also learned that sometimes what works in the US is not effective in other markets such as European countries; thus, the Netflix culture requires local adaptation. For example, the Keeper Test and all other components can work internationally, but at the same time adaptation is needed in order to cope with local culture and employment practices, as well as laws.

In summary, Netflix is an organization where no rules rules. Implementation of a “freedom and responsibility” approach attempts to maximize talent density and candor, while eliminating control; this allows Netflix to attract and retain talented

people. As employees in Netflix are given autonomy, freedom, respect, trust and appreciation, their inspiration and responsibility are stimulated. As a result, creativity, innovation, work efficiency, and employee loyalty are all greatly improved. This has successfully made Netflix a major player in the home entertainment market on a global scale.

Main contents are extracted from *No Rules Rules: Netflix and the Culture of Reinvention*, by Reed Hastings and Erin Meyer (Penguin Press, 2020)

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