



Dear Partner,

We often find opportunities to learn via thought provoking books that spark discussions and insights at our firm. These books can be about developing oneself, developing a business, building relationships, or other topics. These reports share books that we find both interesting and widely applicable.

#### SUMMARY

##### **1. *No Rules, Rules: Netflix and the Culture of Reinvention*, by Reed Hastings and Erin Meyer**

In *No Rules, Rules: Netflix and the Culture of Reinvention* Reed Hastings, co-founder and co-CEO of Netflix, details how he rejected conventions and established a revolutionary management style at Netflix. Reed collaborates with Erin Meyer, a professor at INSEAD, to explain how the workplace culture at Netflix enabled the company to constantly reinvent itself and build a dominant competitive position in the marketplace. Hastings' emphasizes the key aspects of his organizational philosophy: increasing talent density, focusing on innovation over efficiency, removing bureaucratic controls, and creating a culture of consistent candor and honesty. In the view of the authors, once these components of the culture were broadly instituted, they formed a resilient system at Netflix which has driven both innovation and adaptation. Meyer provides an outsider's perspective and helpful comparisons to other organizations.

#### KEY TAKEAWAYS

While the book is full of recommendations, case studies, and insights, we focus on three key takeaways below which resonated with us.

- 1. The Importance of "Talent Density".** Talent density is a concept at Netflix which states that when an organization has the right group of highly talented people working together, amazing things can happen. Netflix is very clear about their focus on getting the best people. The book speaks in depth about the "keeper" test which asks all managers if they would fight to keep each of their reports. If someone is a "keeper", then it is best to find a way to keep them. If they aren't a "keeper", then they should be given a good severance package and asked to leave. In the view of Reed Hastings, strong performance is contagious. For creative work, the productivity level of the best people relative to the average worker is huge. Reed says their best performers can be anywhere from 10-100 times more impactful.

In the early days of Netflix—following the internet bubble crash—Hastings was forced to lay-off a third of his employees. The process of deciding who to keep was difficult and he worried deeply about the potential ramifications. In the months following the layoffs, however, he observed that the work environment had taken a turn for the better. Investigating the cause of this unanticipated change led him to completely change his understanding of employee motivation and leadership responsibility: performance—both good and bad—is infectious and talented people make one another more effective. As Meyer explains, "If you have adequate performers, it leads many who could be excellent to also perform adequately. And if you have a team consisting entirely of high performers, each pushes the others to achieve more."

In the words of Reed Hastings, “it would be better to have five people who are incredibly talented than 10 or 100 people who are less good”. This comports with our experience: the challenges of bigger teams such as complicating communications, increasing bureaucracy, and subtle cultural differences combine to have a big negative impact.

2. **The Concept of “Team” in Contradistinction to “Family”.** At Netflix, they focus on “team” over “family”. To Netflix, it isn’t about the individual’s performance, it is about how the individual works with the team. They use the term “team” in contradistinction to “family”. To Netflix, family is not the right metaphor to use when organizing a high performing team. Family is about “unconditional” love and families can be dysfunctional and “loyal” to a fault. In contrast, a team is all about performance contribution and effectiveness working with other people. Also, it is clear when you are on a team that there is a chance you won’t always be on the team. There is no shame in this when competing at an “elite” level.

We found this distinction very thought provoking. Much has been written about the next generation of professionals and their heightened expectations. Treating members of an organization as family could be a tempting way to deal with these expectations. Hastings and Meyer provide some useful context on the pros and cons of this attitude and some alternatives.

3. **The Importance of Candor and Constant Feedback.** There is a unique sense of transparency at Netflix. Reed Hastings states that he spent a great deal of his early life and career “avoiding conflict”. At a very early point in his CEO tenure, Reed realized that he was not being honest with his employees or himself. He became an “honesty seeking CEO”. His view is that good feedback can be difficult, but ultimately leads to growth. At Netflix, they have found the best way to make candor work is to make feedback a regular part of their day to day working lives (i.e., to “farm for dissent”).

We have heard several compelling business leaders who have also discussed the importance of feedback. In our view, Hastings’ discussion is similar to the formula in Ray Dalio’s book: Pain + Reflection = Progress. It is easy to talk about these subjects. It is hard to overcome all of the societal and social norms that push candor down. Having cultivated systems that encourage candor, leaders like Hastings and Dalio are protective of them, and understandably so.

## SUPPLEMENTARY MATERIALS

In addition to the book, we recommend the following supplementary sources:

- I. [TED Talk](#): Reed Hastings describes three key elements of a successful work culture, sharing how to design a company around inspiration, creativity, and candor.
- II. The original [Netflix “Culture Deck”](#) credited to Reed Hastings and Patty McCord can be found here.

We hope you enjoyed this synopsis. We are happy to discuss any of these topics further with you if of interest.

All the best,  
The Team at Crescent Park