

Netflix and Good to Great: Case Study

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I. INTRODUCTION

Why Netflix?

I went through many websites to find out the top good to great company other than the 11 mentioned in the book by James Collins. I found many articles highlighting different companies. I wanted to discuss the culture of discipline characteristic out of the seven. I selected Netflix because I found appropriate articles defining and highlighting its success story and secondly I think Netflix portrays somewhat all of the seven characteristics of Good to Great Companies. Netflix is a good example of a great company that mainly focuses on the two characteristics: “the culture of discipline” and ‘First Who, Then What’ concept. Although other characteristics of the Great companies described by Collins including ‘confront the brutal facts’ and ‘level 5 leadership’ are also reflected in the company’s features. Netflix has taken this to an extreme with amazing results. I have referred to two articles that define and highlight the features of Netflix.

II. OVERVIEW OF THE COMPANY AND ITS SERVICES

Netflix, Inc. is an American company was established in 1997 that provides on-demand Internet streaming media to North and South America, the Caribbean, U.K. and many other European countries. The company’s website was launched in August 1997 with only 30 employees and 925 workers available for rent. It brought the traditional online pay-per-rental model. In September 1999, the company introduced its monthly subscription concept and then dropped the single-rental model in 2000. Since then the company has adopted the business model of flat-fee unlimited rentals without due date, late fees, shipping and handling fees, or per title rental fees (Lüsted: 2010).

In 2005 Netflix shipped 1 million DVDs out every day and in 2007, the company delivered its billionth DVD. By September 2013, Netflix had 40.4 Million (31.2 million in U.S.) global streaming subscribers. Netflix has played a prominent role in independent film distribution and has also been one of the most successful dot-com ventures. Films such as Born into Brothels and Sherry baby were licensed and distributed independently by Netflix through a division called Red Envelope Entertainment. Moreover the company has exclusive pay-tv deals with major and mini-major movie studios.

In September 2010, Netflix first expanded their business by launching their stream only service in Canada and then in spring 2011, they expanded their business to Latin America and again into the European market in the following year. It officially launched as a streaming-only service in the United Kingdom and Ireland in early 2012 and reached the one million member milestone in the UK the same year (Lüsted: 2010). By the time Netflix launched its services in many European countries and expanded its business.

III. CULTURE OF DISCIPLINE: RINSING THE COTTAGE CHEESE

The author, Jin Collins has done an extensive research on defining the characteristics of the elite companies who made a leap from just good to great and maintained those results for fifteen years. He provided 11 examples of companies that became good to great. The first characteristic of a GTG company according to Collins is its ‘Culture of Discipline’. The culture of discipline is the concept of rinsing its cottage cheese. It is simply one more step that would make a corporation

much better, one more step added to all the other small steps to create a consistent program of super discipline (Collins: 2001).

For Netflix, culture matters a lot. It has the corporate culture that allows a customer service rep to have fun and that is the reason the customers have the impression that Netflix is fun, responsive, and delights their customers. Netflix and many other companies such as Southwest Airlines, and Nordstrom let their employees make decision immediately in case of any issue or problem i.e. the employees have the authority to certain extent. There is no need to escalate. Only a confident company having a strong culture can do this (<http://drivingresultsthroughculture.com/netflix-unique-culture-beautifully-defined/>).

Moreover, the article also contains Netflix CEO Reed Hastings' released a **PowerPoint presentation on Netflix' "Freedom and Responsibility" culture**, into the web sphere in 2009. This 128 slide PPT presentation is a terrific example to understand the culture of the company and high performing, values aligned organizations. Below is the link to the PPT presentation: <http://www.slideshare.net/reed2001/culture-1798664>

The seven aspects of **Netflix culture** as described by the CEO of the company are:

- Values are what we value
- High performance
- Freedom and responsibility
- Context not control
- Highly aligned, loosely coupled
- Pay top of market
- Promotions and development

The culture of the company does not value process adherence. It values freedom, responsibility, innovation, and self-discipline. It seeks to achieve high performance and growth and focus on the results not the process. The aim and focus of the company is not to control but to context. As the company grows more freedom is provided to the employees rather than making it more complex. Their approach towards growth and innovation revolves around the staff of the company. They have a responsible staff that by following a set of few rules, perform high, creatively respond to opportunities and can recover from the previous miscalculations. **They have the ability to think critically and have the authority to take small decisions for the solutions of small problems and continue towards the growth and innovation of the company. The culture of the company focuses on achieving excellence on what the CEO calls it "stunning colleagues": a culture that attracts people and retains. By stunning colleagues he meant the employees who have the capability** "to responsibly perform amidst the ambiguity of a technology driven, fast-paced market that's attracting competitors every day" (<http://drivingresultsthroughculture.com/netflix-unique-culture-beautifully-defined/>). This leads the company to another characteristic of the Good to Great Companies according to Jim Collins; "First Who, Then What".

IV. FIRST WHO, THEN WHAT: GET THE RIGHT PEOPLE ON THE BUS

According to Jim Collins, during the transition from Good to Great Company, only the right people must be on board and the wrong people should be invited to descend. As a result, the company would naturally track to a destination of choice (Collins: 2001). Netflix does not provide any room for 'good performers' and brilliant jerks. Adequate performance will get an employee cut from the team at any level to make a room for a star in that position as called by the Netflix CEO, 'stunning employees'. For instance the stunning colleagues of the company had created a killer iPad application that enables live streaming of hundreds of television shows and movies at the touch of a button. It is **amazing technology that just works**.

Some organizations have supercilious value statements; however, often these value statements are rooted more in aspiration are not implemented practically. To understand the true values of an organization the first thing to notice is that how people interact with one another, who gets promoted, and who is let go. A company's success immensely relies on

this factor. The similar is the case with Netflix. **Netflix** hires and promotes people who demonstrate some particular behaviors and skills: the company value these behaviors and skills:

- **Judgment:** Individuals, who make wise decisions despite ambiguity, can identify root causes and can go beyond treating symptoms, who can think strategically and can articulate what they are and are not trying to do and can smartly separate and decide what can be done now and what can be improved later.
- **Communication:** People who listen well instead of reacting immediately, who are concise and have good in speech and writing skills, treat people with respect unbiased, and do not panic or create fuss in stressful situations.
- **Impact:** People who accomplish tremendous amount of important work, who demonstrate strong performance consistently, who focus on achieving great results rather than focusing on the process and who exhibit bias-to-action.
- **Curiosity:** People who learn rapidly and seek to understand the company's strategy, market, consumers and suppliers, who have a broad knowledge of business, technology and entertainment, and who contribute effectively outside of their specialty.
- **Innovation:** Individuals who can re-conceptualize issues to discover measures for hard problems, who can challenge prevailing assumptions and approaches and suggest better ones, who can create new useful ideas and who keep the company nimble by minimizing complexity.
- **Courage:** Individuals who have the courage to say what they think even if it controversial, who make tough decisions and take smart risks and who can argue any questions that they find inconsistent to the values of the company.
- **Passion:** Individuals who inspire others and care intensely about Netflix' progress and success, who work to win and celebrate and are tenacious.
- **Honesty:** Individuals who are known for candor and are non-political, who can only say those things about their fellows which they can say on their faces and who have the courage to admit their mistakes.
- **Selflessness:** Individuals seek what is best for Netflix rather than best for themselves, who are ego-less and also manage to help their colleagues and who share information openly.

Netflix leaders hire, develop and cut smartly and there are stars in every position. The company believes the more talent it hires the more it accomplishes and the people assist each other and work as a team. All this information described in the article shows that Netflix strongly focuses on the culture and hiring of employees in the company and for this it has predefined values and aspects that the company strongly follows (<http://www.alleywatch.com/2013/11/the-netflix-story-how-good-management-leads-to-social-media-success/>).

Furthermore, each year the company conducts a 360 degree review during which it gives feedback to, and receives feedback from, individuals with whom it works. The foundation of these kinds of reviews lies in the nine values. The employees are able to discover how well they are doing and learn ways in which their colleagues believe they can improve going forward. This is really a refreshingly honest and healthy approach to remind people how well actually the company lives its values. The First Who, Then what concept of Netflix further highlights the 'Level 5 Leadership' aspect of the company.

V. LEVEL 5 LEADERSHIP

Jim Collins also talks about the 5 levels of leaders who displayed extraordinary humility with the desire to get things done well. Would have been if Jim Collins had included the characteristics of these people, too, but there would have been reasons why he chose not to mention (Collins: 2001). Loyalty is one of the features that make the level 5 leaders stay longer with the problems and solve and then experience is another factor that only comes with time and help the leader decides to right the wrong.

Netflix define a leader as a responsible person. The Company has a set of aspects that a responsible person must have:

- Self motivating
- Self aware
- Self disciplined
- Self improving
- Acts like a leader
- Does not wait to be told what to do next
- Picks up the trash lying on the floor

According to the company's set guidelines, a leader must have these features to be a level 5 leader. Netflix defines leaders as those responsible persons who thrive on freedom and enjoy it. The model of the company, unlike other companies, is to provide freedom to their employee as they grow rather than limit it and to continue to attract innovative people in the company to sustain and maintain the success of the company. The company does not want its leaders or employees to create complexity with increased growth.

The information shows that instead of culture of process adherence, Netflix has culture of self discipline and creativity and Freedom and Responsibility. However the freedom is not absolute as there are certain limitations with the freedom at work.

VI. CONFRONT THE BRUTAL FACTS

Confronting the brutal facts of the situations and yet at the same time never loose hope is another characteristic of a Good to great company discussed by Collins. To face the brutal facts is necessary if the company must achieve greatness. Stumbles and hurdles are sometimes inevitable and it does not mean that a great company with sustainable growth and promotion cannot face any brutal situation but the thing is that how to deal with such situations: How to react to such situations and propose solutions to overcome these issues (Collins: 2001). As described in the article, Netflix certainly has had some significant stumbles recently in years 2011 to 2013 but the company seems to be getting back to their basics now.

Moreover the other characteristics of Good to Great companies including the Hedgehog concept, technology accelerators and flywheels described by Collins are also somehow reflected in the features of Netflix. First of all, the Hedgehog concept that is the three overlapping circles: what lights your fire (passion)? What could you be best in the world at (best at)? What makes you money (driving resource)? The overlapping of these three circles or in other words the combined effect of these three aspects is known as the hedgehog concept. It is a key feature of a Great Company. Netflix' employees are clear about their passion and clearly identify the best thing they can do. That's what clearly described in the nine standards Netflix value when hiring any employee. The second characteristic is the technology accelerator. The use of technology is the job of Netflix. By using the technology and community of the Internet, the company helps its customers select movies tailored to their individual tastes with the help of a touch, so they love more movies they watch (Lüsted: 2010). The last characteristic is the Flywheel that can be defined as the "the addictive effect of many small initiatives that act on each other like compound interest (Collins: 2001). Though I could not find this feature distinctly in the articles but It is obvious that great companies keep taking small initiatives to sustain and maintain their growth and innovation. A company's journey from good to great is comprises of tremendous efforts and initiatives as well as the challenges need to be faced. Netflix is one of those GTG companies that started their journey on a small scale and through their efforts and clear goals and values expanded and sustained their businesses.

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