

# No Rules Rules

NETFLIX and the Culture of Reinvention



## Why Leaders Should Care?

Modern businesses are competing on innovation rather than error reduction. If you're leading an organisation where new ideas and speed are more important than "being right 100% of the time", you must build towards a Culture of Freedom and Responsibility.

**Health Warning:** the authors argue strongly that this culture be created in sequence: First build up Talent Density, then increase Candor, and finally begin Removing Controls. You must heed this advice. Random attempts for 'radical candor' without the underlying expectation and reality of "we are a group comprised of high performers who continually earn the right to be here" (talent density) will lead to confusion and loss of motivation.

# BOOK SUMMARY

No Rules Rules is an enlightening and thought-provoking book that challenges conventional wisdom and offers a fresh perspective on leadership and organisational culture. Co-authored by Reed Hastings, the co-founder and CEO of Netflix, and Erin Meyer, a professor of global management, this book presents a fascinating exploration of Netflix's unique and unconventional approach to corporate culture.

Hastings and Meyer delve deep into the inner workings of Netflix, providing readers an insider's view of the company's philosophy and practices. The book begins by examining the traditional rules and structures that govern many organizations and then explores how Netflix took a radical departure from those norms to foster a culture of innovation, agility, and high performance.

The authors highlight the importance of a culture that encourages freedom and responsibility, where employees are empowered to make their own decisions and take ownership of their work. They argue that this approach fosters creativity, attracts top talent, and ultimately leads to business success.

One of the book's standout features is its authenticity.

# BOOK SUMMARY

Hastings openly shares his own experiences, successes, and failures, making the content relatable and credible. The conversational tone of the writing style makes it accessible to both seasoned executives and aspiring leaders.

No Rules Rules challenges the reader to question long-held assumptions about organizational structures, processes, and management. It emphasises the need for adaptability in a rapidly changing world, where innovation is the lifeblood of success. By breaking down the traditional barriers that stifle creativity and autonomy, the book encourages CEOs and leaders to create an environment that allows their teams to thrive.

However, while the book offers a compelling argument for embracing a no-rules culture, it falls slightly short in providing practical guidance on implementation. Some readers may find themselves craving more tangible strategies or step-by-step advice.

In conclusion, No Rules Rules is an engaging and insightful book that challenges traditional leadership norms and offers a roadmap to a more agile and innovative organizational culture. It provides CEOs and business leaders with a valuable perspective on how to empower their teams and foster a culture of continuous improvement.

# RECOMMENDED SEQUENCE

## FIRST

1. **Build up talent density: by creating a workforce of high performers.**
2. **Introduce candor: by encouraging loads of feedback**
3. **Remove controls: such as vacation, travel and expense policies**

## SECOND

1. **Strengthen talent density: by paying top of market**
2. **Increase candor: by emphasizing organizational transparency**
3. **Release more controls: such as decision-making approvals**

## THIRD

1. **Max-up talent density: by implementing the keeper Test**
2. **Max-up candor: by creating circles of feedback**
3. **Eliminate most controls: by leading with context not control**

# KEY POINTS



## **Talent Density.**

Your number one goal as a leader is to develop a work environment consisting exclusively of stunning colleagues.

Hastings stumbled on this during a major downturn in 2001. When the .com bubble burst he had to lay off 1/3 of his staff. After a short period of mourning these losses, his team rebounded and by 2002 Netflix was doing far more work with 30% fewer people. “The office was buzzing with passion, energy, and ideas”. His insight: talented people make one another more effective. And the idea of ‘Talent Density’ was born.

Top talent is drawn to opportunities that allow them to work with other high performers. The collective energy, intellectual stimulation, collaborative culture, and growth potential that come from working alongside other top talent create an environment where they can thrive, contribute their best work, and continuously elevate their skills and abilities.

Beware bad apples. Professor Will Felps of the University of New South Wales in Australia, conducted a fascinating study demonstrating contagious behaviour among teams in a work environment. Phelps found that, even when other team members were exceptionally talented and intelligent, one individual’s bad behaviour brought down the effectiveness of the entire team. This result was replicated in dozens of trials conducted over month-long periods.

# KEY POINTS



**Teams with one underperformer did worse than other teams by a whopping 30-40%. [Watch here.](#)**

The rock-star principle. Building talent density sometimes means paying people at the very top of the market. This practice becomes easy to justify when we pay attention to the research-based principle that the best performer in any field typically outperforms her average counterpart by a factor of not 2-3, but by a factor of 20 or more. Bill Gates is often quoted as saying: “a great machine operator commands several times the wages of an average machine operator, but a great writer of software code is worth 10,000 times the price of an average software writer”. Erin Meyers describes this well. [Watch here.](#)

## **Candor.**

With candor, high performers become outstanding performers. Frequent candid feedback exponentially magnifies the speed and effectiveness of your team. Openly voicing opinions and feedback, instead of whispering behind one another’s backs, reduces the backstabbing and politics, and allows businesses to be faster. The more people hear what they can do better, the better everyone gets their jobs, the better of the performance of the company. In a 2014 study, the consulting firm Zenger Folkman collected data on feedback from almost 1000 people.

# KEY POINTS



They found that, despite the blissful benefits of praise, by a roughly three-to-one margin, people believe corrective feedback does more to improve their performance than positive feedback.

If the CEO wants to develop a culture of candor, having the boss give copious feedback to her staff is not the best first step! Instead we recommend focusing first on something much more difficult: getting employees to give candid feedback to the boss. The higher you get in an organisation, the less feedback you receive, and the more likely you are to come to work as “the Emperor with no clothes” or make another error that’s obvious to everyone but you.

The first and easiest step is to put “feedback” as the first or last item on the agenda for every 1:1 meeting, so that it’s set apart from your operational discussions. When the moment arrives, solicit, and encourage the employee to give feedback to you (the boss) and then – if you like – you can reciprocate by giving feedback to them.

Your behaviour while you are receiving feedback is a critical factor. You must show the employee that it’s safe to give feedback by responding to all criticism with gratitude and, above all, by providing “belonging cues”. As Daniel Coyle, author of *The Culture Code*, describes them, such cues are gestures that indicate your feedback makes you “a more important member of our tribe”. [Watch here.](#)

# KEY POINTS



The more you and others in your company respond to all candid moments with belonging cues, the more courageous people will be in their candor.

## **Now Begin Removing Controls.**

As Netflix grew, Hastings didn't want his talented employees to feel that dumb rules were preventing them from using their brains to do what was best. This became the guiding principle for gradually removing controls.

Netflix removed its vacation policy. They decided that professionals had the good judgement to take enough vacation to rest and recuperate, while still delivering the outcomes required for the success of their role in the broader business. Ultimately, they replaced a traditional vacation policy with: "Take Some". That's it.

Senior leaders must publicly role model this in very intentional ways, or a 'no vacation policy' becomes A 'NO VACATION' policy! This is especially true in some cultures.

For example, the average Japanese worker uses about seven vacation days a year, and 17% take no vacation at all. At Netflix, Hastings constantly takes vacations and publicly shares stories and photos from them.



# KEY POINTS



Next, Netflix removed its travel and expense approval processes. Replacing these approval processes with a simple guideline:

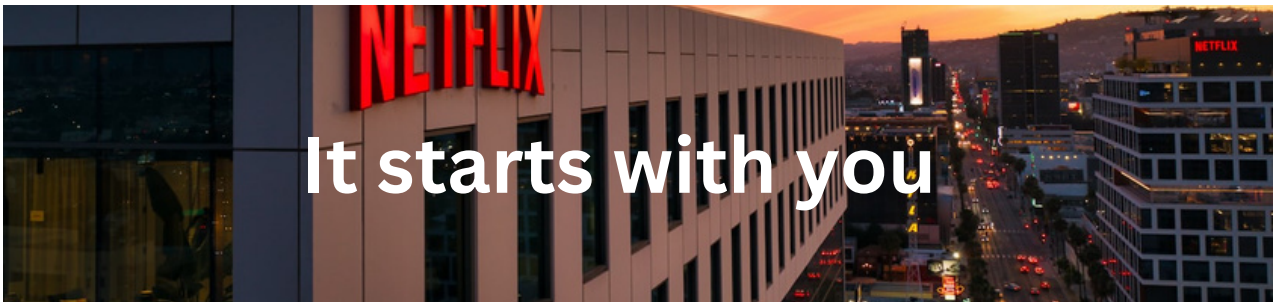
*spend company money as if it were your own.*

*Think of the impact on organisational speed of having dozens of controls in place to mitigate from employees, making poor or dishonest decisions. Processes provide management with a sense of control, but they slow everything way down.*

They decided that some people will cheat, but the gains outweigh the losses. And that is the rub of creating a culture of freedom and responsibility. If your people choose to abuse the freedom you give them, you need to fire them and fire them loudly, so others understand the ramifications. Without this freedom doesn't work.

*“Freedom is not the opposite of accountability. Instead, it is a path toward it.”*

# KEY TAKEAWAYS FOR LEADERS



Building a culture of freedom and responsibility sounds like a great idea, and it is. Leaders must not underestimate the amount of intentionality and role modelling required to pull this off. Here are a few examples.

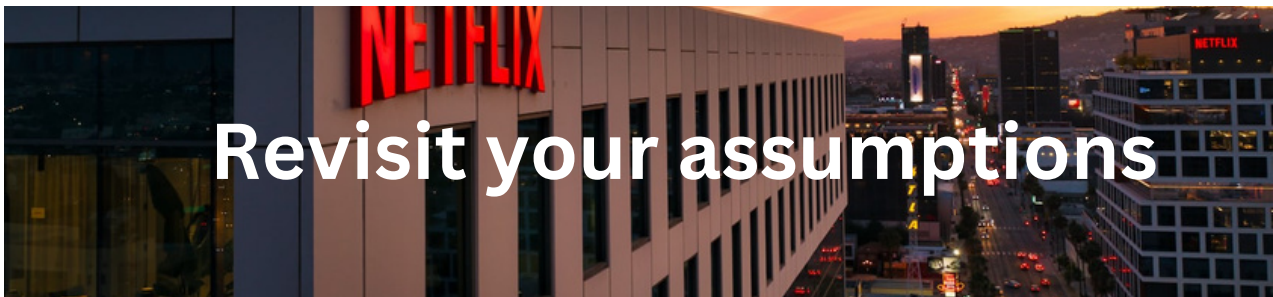
Leaders need to be the first to apply “the keeper test” - a key Netflix practice which maintains talent density. During your next one-to-one with your boss (or the board), ask the following question: “If I were thinking of leaving, how hard would you work to change my mind?”.

This is the ultimate talent density question ... asking this question throughout the organisation builds an expectation that we only work with stunning colleagues here.

Leaders need to step up and be vulnerable regarding their own performance. Common practice at Netflix is for all leaders to not only engage in 360° feedback processes, but also to share the results of those evaluations with their teams. When you go out of your way to share the really candid stuff about all the things you do poorly, it shows everyone that giving and receiving clear, actionable feedback isn't so scary. When CEOs share their 360 feedback, they normalise the transparency, trust and candor that top talent are looking for.

Finally, alignment (or lack thereof) starts and ends with you. When one of your people does something dumb, don't blame them. Instead, ask yourself what context you failed to set. Are you articulating and expressing your goals and strategies? Have you clearly explained all the assumptions and risks that would enable your team to make good decisions? Are you and your employees highly aligned and vision and objectives?

# KEY TAKEAWAYS FOR LEADERS



I believe there is an opportunity for leaders to interrogate the basic assumptions underpinning their management practices. For example, there may be parts of the business that should be led via control-situations where one error has catastrophic safety or reputation-damaging implications (think employee safety, insider trading, or sexual harassment). These must have robust control mechanisms in place. Leaders must, however, question, whether all parts of the business require this error prevention mentality. In the industrial era, the goal was to minimise variation (Henry Ford famously offered his cars in one colour – black). But in creative companies today, maximising variation is more essential.

Another useful practice: generate a list all company policies and ask “why” each one is required. For example, why do we have a performance improvement plan (PIP) process? Such processes tend to be the result of a series of leadership ‘fails’: failing to recruit to desired culture, failing to set clear expectations, and failing to manage staff to those expectations. Instead of the PIP process (which is a notorious time suck for HR, line managers, and everyone else involved) would those resources be better spent fixing the root causes of misaligned expectations and underperformance?

# KEY TAKEAWAYS FOR LEADERS



Leaders in medium-to-large enterprises may find these approaches seem too big and possibly beyond their remit. While this may be true at some level, there is always an opportunity to start somewhere. For example, what's the smallest meaningful step you can take to build talent density? This is about setting an expectation that, in this group, we are more like a professional sports team than a family. In a family, we put up with our eccentric cousins because family is for life.

Leaders do want employees to feel interconnected and part of a greater whole – but we should not want people to see their jobs as lifetime arrangements.

*A job should be something you do for that magical period of time when you are the best person for that job and that job is the best position for you.*

Once you stop learning and excelling, that's the moment for you to pass that spot onto someone who is better fit for it and move to a better role for you. Gaining a role on your team should be like securing a striker role on an Olympic soccer team – it's a massive accomplishment. And there's no shame when someone comes along in 18 months who can score more goals. Maybe it's their turn.



Lighthouse brings these principles to life as we work with our clients using the Lighthouse Leadership System. The system features Alignment, Change, and Empowerment.



The first step is developing alignment around Strategy, Culture, Change, and Execution with their Executive Leadership Team. This process includes an organisational assessment which critically evaluates the organisation's talent vs. what's required to succeed (talent density). Our N.E.W.S. Team Navigation process builds a foundation of candor among the ELT which can be built on over time.



Our clients have big change agendas. We ensure that organisational change includes an exploration of what controls can be relaxed. Organisations can typically relax controls at a pace proportional to the investment made in the new mindsets and skillsets of the team. For example, if an Insurance company implements a new claims system as part of 'Digital transformation', various controls can be relaxed if the team are provided the autonomy and expertise needed to succeed.

The Leadership System integrates and includes work with Extended Leadership Team (XLT - typically the group(s) reporting to the Executive Leadership Team). The XLT is where we help organisations further develop a culture of feedback (candor). This is done by building conversational coaching skills across the XLT and encouraging them to provide specific feedback on an ongoing basis. Practice makes perfect.



We help clients make informed investments in the key capabilities needed to drive their strategy (talent density). For example, Lighthouse developed over 400 Cleanaway leaders across 3 success profiles: Executive Leaders; Regional Managers; and Front-Line Leaders. Our program features 12 core elements and frameworks spanning Self Awareness, Growth Mindset, Emotional Intelligence, Coaching, Psychological Safety, Business Acumen, and Managing Lead/Lag Indicators. Common frameworks with level-specific scenarios ensured cohort-relevant conversations and cross-level concepts. Cleanaway are now able to not only manage the business with more distributed precision (dense talent among Branch Managers) but also lead their people with a greater effectiveness (greater density of Emotional Intelligence).

Growth Mindset is foundational to the Leadership System. Helping all employees develop a growth mindset by writing and working on their own personal Growth Mindset Experiment (GME) encourages vulnerability, activates learning, and reduces fear through the organisation. When everyone on the team is working on their own 'GME', we build the platform for both candor and further talent density.

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**Eric Miller** helps organisations achieve their growth targets by adopting Leadership Systems. Eric brings an engineering mindset to the field of leadership and organisational development. This translates into bespoke, measurable implementation roadmaps which bring strategy and execution together to deliver sustainable results.

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