

## culture insight

**CONSCIOUSLY CREATING A CULTURE IS ESSENTIAL TO SUCCESS**

Roderic Yapp

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In 1997, Reed Hastings sold his software company Pure Atria to the Rational Software Corporation for \$700m. One morning during his daily commute with his Marketing VP, Marc Randolph, he complained about the \$40 late return fee that he was charged by Blockbuster for the late return of Apollo 13 which he'd watched over the weekend. This mild irritation led to an idea which led to the creation of Netflix which is now worth in the region of \$200bn.

When most people think of Netflix, they think of a company that is both digital and highly creative but that's not how it started. Netflix started as a DVD via mail business. Customers could rent DVDs via mail for a flat-fee with unlimited rentals, without due dates, late-fees, or shipping costs. They started as a logistics company and gradually evolved their business model into the one we know today.

This is one of the most remarkable organisational transformations ever undertaken yet few people give it the attention it deserves because the company 'evolved as it grew'. The majority of transformation case studies focus on organisations like Semco Partners or Chrysler in the 1980s, companies saved from the brink of extinction by an inspiring visionary leader.

The Netflix story is less dramatic, but arguably more impressive because the company's success and its ability to transform has been built into a

carefully created culture which shapes all decision-making in the organisation.

They call it 'Freedom and Responsibility'.

Netflix empowers its employees with exceptionally high levels of autonomy and freedom. But the flipside of the freedom is a responsibility to act in the company's best interests.

The policy for travel, entertainment, gifts and other expenses is five words long: 'Act in Netflix's best interest'. The holiday policy is 'take holiday'. There are no rules around how many weeks per year. Leaders make sure they take time-off returning with fresh ideas and solutions to problems that benefit the organisation in the long-term. They're not prescriptive about how much holiday you should take or how much you should spend on travel.

Netflix have a core philosophy of 'people over process'. They are aware that as an organisation grows, processes get created which can slow the pace of execution and get in the way. Consider your own organisation for a moment, there are probably plenty of processes which are helpful but many which frustrate you too.

Many people want high levels of freedom but few are willing to accept the high levels of responsibility that comes with it. Netflix actively

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recruits people who want both and are willing to let go those who are not right for the organisation. They apply a process known as the 'keeper test'. Managers are expected to constantly ask themselves if they would fight to keep an employee. If the answer is 'no', then the employee is let go. In Netflix's view, 'adequate performance gets a generous severance package'.

Hastings is unapologetic about this approach. 'You gotta earn your job every year at Netflix... there is no question it's a tough place... there's no question it is not for everyone'.

But this is a theme that you find in high performing organisations and teams. They're very clear on who they want and the behaviours expected of their people. Hastings' mantra of 'earn your job every year' is similar to another high performing organisation, the Royal Marines.

The Regimental Sergeant Major at the Commando Training Centre regularly tweets images and videos of Recruits in training under the hashtag EDEYB (every day earn your beret) reminding current and former Marines of the dangers of complacency. You have to earn your Green Beret and your right to call yourself a Royal Marines Commando every single day by the way you act and behave.

### **Behaviour, Values, Culture.**

Netflix understand the importance of real values. Most firms have nice sounding corporate values such as respect, service and excellence but the reality is that they don't live and breathe in the organisation. They don't shape the way people think and act. Netflix argue that the real values of a firm are shown by who gets rewarded or let go. <sup>[1]</sup>

Consider for a moment 'what are the behaviours and outcomes that lead to a promotion in my

organisation?' Then ask yourself, 'what's the flipside of those behaviours? What are the unintended consequences of promoting these people?'

We've worked with a number of organisations that have a very strong sales culture. Their leaders are people who have successfully demonstrated a track record of revenue generation. Often these people are financially motivated, and laser focused – no bad thing – but often where they struggle is their ability to collaborate and work with other teams towards a common goal.

How do you want people to behave? What context do you want them to have at the front of their mind when making decisions?

These are the sort of questions that people ask when they're seeking to create a high performing organisation.

You can't build a high performing team with low performing people. Netflix have taken time to carefully consider who they want, and what sort of environment they want them to operate in. The Royal Marines operate the same way; who do we want and how do we want them to behave?

High performing teams and organisations are not created by accident. They are consciously built by asking 'who do we want and how do we want them to behave?' The answers to these questions become the culture – and your culture is what delivers your performance.

[1] <https://jobs.netflix.com/culture>