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Assessing Leadership in Business – Marketing: A Critical Investigation of Reed Hastings

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As the CEO of Netflix, Reed Hastings is known for his hands-off approach to leadership, which offers employees high levels of autonomy but comes with a cost: elevated expectations and a culture of overly direct feedback that toes the line between critical and constructive. This dichotomy makes him an exceptional case study into the effects of leadership style in a business context, as he has been both praised and rebuked for his leadership as well as for the culture that has been established at Netflix under his command.

Kouzes and Posner’s Five Practices of Exemplary Leadership will be used throughout this paper as a framework for determining whether or not Hastings should be viewed as an exemplary leader. The Five Practices of Exemplary Leadership are the result of years of research and thousands of interviews done by James Kouzes and Barry Posner to find what practices exceptional leaders display when they are at their personal best (Kouzes & Posner, 2017). Topics that will be covered in this paper include Hastings’ background, his current leadership style, Netflix’s culture, how he displays each of the five practices, and key areas for improvement in his leadership. Both academic and non-academic sources will be used throughout this paper to provide the rationale behind claims, as well as to offer specific examples of Hastings’ leadership in action. Finally, a case will be made as to why Reed Hastings should be deemed an exemplary leader.

Background

Having co-founded Netflix in 1997 with the help of Marc Randolph, Hastings quickly developed a reputation in the business world as being a preeminent leader who focused on innovation and high performance to stay ahead of the competition (McFadden, 2020). Furthermore, his ability to foresee and tap into rapidly evolving market trends such as the rise of
video streaming has helped shape Netflix into a global leader in the entertainment industry. However, his path to corporate stardom was not always easy. After graduating from Bowdoin College in 1982 with a major in mathematics, Hastings enlisted with the United States Marine Corps. Unfortunately, his proclivity for questioning the status quo earned him no goodwill in an organization reliant on structure and hierarchy, and he quickly switched to the Peace Corps (Zipkin, 2006). This eagerness to challenge the process is something that has followed him throughout his career, and while it did him no favors in the Marines, it has helped him grow Netflix from a small DVD-by-mail company into a global media monolith.

After returning home from his service in the Peace Corps, Hastings attended Stanford for graduate school (Zipkin, 2006). In 1991, three years after graduating from Stanford, Hastings started his first company, Pure Software, which specialized in creating a debugging tool used by engineers. Pure Software grew quickly, but Hastings struggled in his first leadership role and, recognizing his shortcomings, even asked to step down twice from his position as CEO. As he saw it, he failed to hire the right people, churning through five different VP’s of Sales in Pure Software’s six years of operation. He explained, “I kept picking the wrong type of person because I just didn’t know that much” (Schmidt, 2020, para. 9). Hastings’ difficulty in hiring the right people at Pure Software is partly responsible for his later decision to make Netflix’s culture deck available to the public, thus improving Netflix’s hiring process by making it clear to potential employees exactly what to expect with a career at the company, essentially filtering out people who would not fit the culture prior to any interviews being completed.

In 1997, Pure Software was bought out by a competitor; Hastings’ said that this was due to the company becoming over-bureaucratized and bogged down by procedure as it grew, claiming “We stopped being innovative. We were all about process, and then the market shifted”
(Spangler, 2020a, par. 29). This experience served as a lesson for Hastings, and he vowed to avoid creating another process-laden culture that would be unable to quickly adapt to market changes.

Another insight that Hastings gleaned from his time at Pure Software was that niceties and euphemisms do no favors in business (Ian, 2020). He felt that an inability to speak directly was hurting the company’s ideation, as well as the relationships between employees. Since that time, he has adopted a policy of direct and honest feedback, both personally and at Netflix. This decision is not without its detractors, as Netflix has been panned by critics for being a culture devoid of empathy and understanding. Hastings counters this critique with the saying, “to disagree silently is disloyal” (Wilder, 2018, para. 31). He believes the best ideas are those that have been thoroughly vetted and debated over, and Netflix’s culture reflects that. Any idea at Netflix, regardless of who is proposing it, will be carefully discussed, and all pros, cons, and alternative options will be evaluated (Netflix Culture, n.d.).

**Netflix’s Culture**

Hastings prides himself on being very hands-off and sees his main responsibility as CEO to be vision setting. He now takes off about six weeks a year for vacation and stays out of day-to-day decision-making as much as possible. However, while he may not be as involved in the daily operations at Netflix as he once was, the values that he has instilled in Netflix’s culture continue to guide the company. Key values at Netflix are *worker empowerment, transparency, a dream team mentality, and direct and honest feedback* (Netflix Culture, n.d.).

Netflix’s focus on worker empowerment is best explained in their culture deck with the following headline, “Context not control” (Netflix Culture, n.d.). Bosses and managers at Netflix
are expected to provide employees with everything they need to make well-informed decisions, but they will not make the choices for them. Additionally, employee spending, travel, gifts, etc. are not monitored or regulated, with the only guidelines being to “act in Netflix’s best interest” and “use good judgment” (Netflix Culture, n.d., para. 38). This freedom greatly benefits Netflix, as an emphasis on self-management and autonomy has repeatedly proven to create a greater sense of well-being and job satisfaction in employees, which then improves performance (Harriss, 2020). Another benefit of leaving key decision-making up to lower-level employees is that it prepares them to make quick decisions in times of crisis, thus enabling the company to pivot faster when responding to external forces. These norms and processes were established primarily to avoid repeating the mistakes that Hastings saw, and for which he was partially responsible, at Pure Software concerning an over-reliance on process, and they have been highly effective in building an innovative culture at Netflix (Wilder, 2018).

Closely linked to worker empowerment is transparency. At Netflix, almost all memos, financial reports, strategic decisions, etc. are available to all employees regardless of rank (Netflix Culture, n.d.). Providing employees with all critical and relevant information provides them with the foundations to make well-reasoned choices, and gives them a higher sense of ownership in the company. At Netflix, transparency is also used as a learning tool. Employees are expected to broadcast their mistakes, as well as explain the flaws in logic or errors in judgment that caused them to occur (Koss, 2020, paras. 36-44). This process is referred to as “sunshining,” and allows the “sunshiner” to take accountability for their mistake, provides the team with a lesson learned as to what not to do, and encourages innovation by showing that failures are not fatal to someone’s career at Netflix. However, it is important to note that while sunshining can benefit the team, it can also create uncomfortable situations in which a
“sunshiner” is on the receiving end of criticism which leans more towards negative criticism than it does to constructive criticism. This drawback of the sunshining process combines the most negative aspects of Netflix’s emphasis on transparency and direct feedback but is luckily not very common thanks to Hastings’ emphasis on building a culture that does not support “brilliant jerks” (Netflix Culture, n.d., para 26).

While mistakes are used as learning experiences at Netflix, repeat poor performers are not kept on. The significance of continuous high performance at Netflix is best expressed through the following quote from the “Dream Team” section of their culture deck which states, “We model ourselves on being a team, not a family” (Netflix Culture, n.d., para. 20). The publication of this statement on their general website makes it clear to any would-be employees that Netflix is more focused on establishing a culture of exceptional performers than it is on building a workplace environment predicated on comfort. As a result, the Netflix model attracts highly motivated employees who are comfortable working in a stressful environment as long as they are doing meaningful work and pursuing ambitious goals. Another example of the importance of high performance at Netflix is the “Keeper Test,” in which a manager must consider how hard they would fight to keep an employee if they were preparing to leave for another company (Allyn, 2020, paras. 6-10). If the answer is “not very hard,” then the employee will be let go to make room for a more positive contributor. The dream team philosophy and keeper test strategy are the most heavily critiqued aspect of Hastings’ leadership, as people claim that they create a toxic environment of job insecurity where employees are constantly fearing the threat of severance due to their performance being deemed merely adequate. However, it is important to note that Netflix’s turnover rate falls below industry averages, and their firing rate is only 2 percentage points higher than the average, so these claims are relatively unfounded.
(Ramachandran & Flint, 2018). This can be attributed to the high levels of communication and transparency between employees, as well as Netflix’s straight forward hiring process in which the company’s culture and expectations are made clear to potential employees, thus preparing candidates for the potential culture shock while at the same time dissuading poor fits from pursuing roles.

Due to the culture of direct and honest feedback, employees get continuous input on their performance, so there are no surprises and ample opportunities to improve before severance. This mitigates some fears of job insecurity caused by the “Dream Team” philosophy. Employees will have multiple calls for improvement before being let go, and as stated previously, one mistake should not be enough to get someone fired. Another benefit of a culture that values feedback is that all ideas and decisions are carefully discussed, and alternative strategies are presented before a final choice is made (Netflix Culture, n.d.). This prevents rash and uninformed decision-making which can plague companies who operate under strict hierarchies which do not encourage counter-dialogue.

**Reed Hastings’ Leadership**

Reed Hastings mixes aspects of both *transformational* and *laissez-faire* leadership styles in his role as CEO of Netflix. HubSpot describes these two styles as the following: transformational leadership is focused on change, specifically in the form of improving upon a company’s conventions, and is best used in high growth companies; whereas laissez-faire leadership is all about empowering employees and trusting them to complete their roles with minimal oversight (Becker, 2020).
The concept of transformational leadership was first introduced by James MacGregor Burns in the 1970s and was later expanded upon by Bernard Bass who broke it down into four different components: intellectual stimulation, individualized consideration, inspirational motivation, and idealized influence (Cherry, 2020). Intellectual stimulation is centered on challenging the status quo and encouraging creativity, individual consideration focuses on offering support and encouragement to individual followers, inspirational motivation comes down to a leader’s ability to share a clear vision to employees, and idealized influence is when a leader serves as a role model for followers. Hastings displays three of these components well, as he encourages risk-taking and creativity at Netflix, crafts clear goals that motivate workers, and thoroughly espouses the Netflix culture both through speech and action. The one component that Hastings could improve in is individual consideration. While Hastings does encourage transparency and open lines of communication at Netflix, the culture he has established is not known for being emotionally supportive for employees.

The concept of laissez-faire leadership was developed by Kurt Lewin in the 1930s (St. Thomas University Online, 2014). The basis for laissez-faire leadership is trust, specifically the act of trusting employees to work independently without clear directives. The laissez-faire leadership style is viewed by many as overly lax, and likely to result in miscommunication and lower productivity. What keeps Netflix from falling into this common trap is the company’s emphasis on high performance and transparency, and Hastings’ ability to craft clear visions for the future. Exhaustive hiring practices and the severance of weaker performers ensure that all Netflix employees are experts at their craft, which makes granting them the autonomy to make important decisions less risky. Furthermore, being transparent with sensitive information provides employees with a strong foundation to make well-reasoned decisions that benefit the
company. Finally, Hastings’ overarching goals guide employees and help direct them to make choices that are in accordance with Netflix’s culture and mission.

Hastings’ blending of these two leadership styles can be seen in his role as CEO of Netflix, where he is primarily responsible for guiding the broad vision of the company yet leaves the methods of reaching that vision up to his employees. His eager lack of involvement in the day-to-day decisions of Netflix can be seen in his talk with Chris Anderson from TED, where he claimed “I pride myself on making as few decisions as possible in a quarter” (Wilder, 2018, para. 30). Hastings has exhibited transformative leadership by first evolving Netflix from being an exclusively DVD-by-mail company to a streaming juggernaut, and now to a leading content creator. However, apart from telling his employees where he wants to take the company, he largely stays on the sidelines and leaves the tough decisions to the experts.

The lack of corporate oversight and micro-managing at Netflix has encouraged employees to innovate by leveraging their knowledge and experiences to help the company. An example of this is that at one point there was no download option on Netflix, and Hastings was publicly opposed to the idea of adding it. However, employees researched the idea, presented their findings supporting the creation of a download button, and ultimately won his vote of approval (Koss, 2020). In many companies, working on an idea that has been publicly denounced by top leadership would be quickly shut down by management, but Hastings has created a culture in which employees feel comfortable going against superiors to act in the company’s best interest, and in which convention is willingly overridden.
The Five Practices of Exemplary Leadership

The Five Practices of Exemplary Leadership are core behaviors that top leaders display and follow when they are at their best (Kouzes & Posner, 2017). These practices are 1. Model the Way, 2. Inspire a Shared Vision, 3. Challenge the Process, 4. Enable Others to Act, and 5. Encourage the Heart. While Hastings has excelled in utilizing most of these principles during his time as CEO of Netflix, he has ample room for growth in others.

Model the Way

Modeling the Way is comprised of two main points (Kouzes & Posner, 2017, p. 24). The first is to establish personal and company values. The second is to create standards of excellence and set an example for others to follow in achieving goals while upholding those values.

Hastings has been effective in modeling the way by establishing company values that align with his personal values, with many of the current Netflix values having grown out of his own experiences. For example, the aforementioned insistence on worker empowerment arose from his own perceived failures at Pure Software, where he felt that the company had become mired in structure and hierarchy. Transparency and feedback also became important values for him while at Pure Software. The stress of his first time as CEO combined with extended time away from home hurt his marriage, and only after attending couples therapy with his wife did he learn to “express resentments and be honest” (Spangler, 2020b, paras. 8). He carried this newfound skill over into his work life, and was amazed at the results, as employees began to truly share their thoughts and feelings with each other, on topics such as his leadership, project development, ideation, and other crucial business functions. Many of Netflix’s policies now emphasize honest feedback between employees, including feedback to Hastings, as well as promote high levels of
transparency to keep everyone in the loop so that said feedback emerges from a strong base of knowledge.

The most high-profile example of Hastings modeling the way came in 2011 after his much-derided decision to split Netflix into two different companies, both under the overarching Netflix corporate umbrella (Wingfield & Stelter, 2011). In this model, the newly created Qwikster would have taken over the DVD-by-mail business, and Netflix would have handled streaming. The proposed separation would have forced consumers to create two different accounts if they wanted to keep each service, making subscriptions more complicated and more expensive. The idea was scrapped just a few weeks after its announcement, but much of the damage had already been done. Nearly a million subscribers quickly dropped the platform, and Netflix stock dropped 75% (Marshall, 2020). While the idea was an overwhelming failure and did not even come close to Hastings’ high demands for excellence, his response left no doubt that he remained the man to follow. Hastings responded by issuing a public apology, and took a retreat with 60 executives and directors to discuss where he went wrong, essentially sunshining himself to the entire world and being open to feedback from his subordinates, which was bound to be negative after such a consequential mishap. Doing this proved that Hastings truly lived by the company values, and encouraged employees to do the same.

**Inspire a Shared Vision**

Inspiring a Shared Vision is reliant on a leader’s ability to look toward the future, establish clear goals, and make employees passionate about reaching those goals (Kouzes & Posner, 2017, p. 24). In this regard, Hastings is an excellent vision setter. The best example of Hastings’ vision setting comes from an interview nearly 20 years ago where he stated, “The
dream 20 years from now…is to have a global entertainment distribution company that provides a unique channel for film producers and studios” (O’Brien, 2002, para. 9). Hastings was spot on regarding where he thought Netflix could be and where the company is now, which is especially impressive since the interview took place well before internet speeds were fast enough to properly watch films on the internet. Many leaders have a tendency to focus on the short term, but Hastings has the rare ability to predict where an industry is headed and to prepare accordingly. Having started as a small DVD-by-mail subscription service, Hastings had the foresight to see the rise of streaming and took advantage of Netflix’s unique opportunity to capitalize on it well before competitors even realized the possibilities that digital viewing offered.

Netflix’s evolution from a DVD-by-mail service into a streaming juggernaut brings up another aspect of vision setting – knowing when to stop. While Hastings has an aptitude for foreseeing Netflix’s best route to success, he is not always right. As discussed in the last section, Netflix (at Hastings’ urging) announced the split of its DVD-by-mail and streaming services into two separate businesses. In this case, Hastings’ may have saved himself from unneeded stress had he quit on the idea earlier, but his willingness to accept that it was a flop soon after its announcement at least showed consumers that Netflix’s focus remained on them. Many leaders likely would have forged ahead with the plan in pursuit of the greater profits that it could have created while ignoring the consumer pushback, but Hastings’ readiness to hear feedback, even when it was negative, saved the company from further embarrassment and subscription slippage.
Challenge the Process

Challenging the Process is Hastings’ most noteworthy trait, and is centered on innovation and disrupting the status quo (Kouzes & Posner, 2017, p. 16). Hastings’ ability to shake off the shackles of convention and see opportunities where others see roadblocks is what makes him an exceptional leader. Hastings’ vision setting combined with his willingness to stray from the norm has helped Netflix outlast market challengers and carve out their own space in the intensely competitive entertainment industry. His grand plans for challenging the process at Netflix can be seen in the name, with “Net” showing that the company was never going to remain a DVD-by-mail service forever (Castillo, 2020, para. 7). In his time as CEO of Netflix, Hastings has led the company through three business models; first switching from being purely a DVD-by-mail service to a streaming platform, and from that evolving into a leading content creator. Each of these stages has seen Netflix successfully challenge industry leaders with deeper pockets than them, first beating out Blockbuster, and now competing directly with other streaming platforms as well as massive historical production companies such as Warner Brothers and Disney (Low, 2020).

Enable Others to Act

Enabling Others to Act is essentially trusting your employees to complete their assignments to the expected standards. A key benefit of enabling others to act according to Kouzes and Posner is that “when you strengthen others by increasing self-determination and developing competence, they are more likely to give it their all and exceed expectations” (2017, p. 18). As stated previously, worker empowerment is a focal point of Hastings’ leadership. Netflix employees are trusted with classified information at all levels, expected to make
consequential decisions with minimal oversight, and are subject to almost no regulations and guidelines when working. Hastings has crafted a culture that embodies the idea of using self-determination to develop competence, and employees who can adapt to the initial shock of being in such a fast-paced but loosely regulated work environment soon develop the skills necessary for quick and effective decision making.

**Encourage the Heart**

Encouraging the Heart largely deals with placing trust in employees, celebrating accomplishments, recognizing individual excellence, and creating a feeling of community among employees (Kouzes & Posner, 2017, pp. 18-19). Encouraging the heart is likely Hastings’ weakest point as a leader in regard to the five practices - depending on who you ask. While some would argue that Netflix’s “Dream Team” philosophy is ideal for bringing the best out of employees, Hastings has been criticized for employing a leadership style once described as being “unencumbered by emotion” (Allyn, 2020, para. 25). The importance of performance at Netflix limits any serious “familial” bonds, as high performers are promoted and low performers are let go. In this way, Netflix has a habit of either bringing out the best or worst in people. Effective and passionate workers can find Netflix to be the perfect place to work thanks to the freedoms and challenges that it offers, but weaker performers will be forced to face the constant stress of wondering whether or not their days are numbered.

**Issues of Hastings’ Leadership and Netflix’s Culture**

The Netflix culture, and by extension Hastings’ leadership, is not for everyone. The company has been criticized for its perceived over-use of feedback and transparency, particularly
when it comes to employee firings (Ramachandran & Flint, 2018). Additionally, Hastings’ perceived lack of emotional intelligence and delayed responses to cultural insensitivities have been maligned by outside critics and employees alike.

At Netflix, the looming threat of being fired is something many employees worry about, but what happens after also brings the ire of critics. As part of their culture of feedback and transparency, Netflix notifies coworkers via email when people are fired, but, “The emails about firings can reach hundreds of employees across multiple divisions and can be painfully specific” (Ramachandran & Flint, 2018, par. 39). This act can serve as a learning point for many employees, but it is important to note that these emails only express the perspective of the company and not that of the severed employee. This one-sided dialogue prevents employees from sharing their point of view and can fuel the very gossip that management is attempting to limit with this action.

The benefits of diversity in the workplace are well detailed, with different backgrounds, ideas, viewpoints, etc., providing a boon to ideation, productivity and problem-solving, employee engagement, and other factors crucial to a business (Western Governors University, 2019). Knowing this, Netflix does an effective job in creating an inclusive workplace, with their corporate website claiming that “Nearly half of our U.S. workforce (46.4%) and leadership (42.0%, director level and above) are made up of people from one or more underrepresented racial and/or ethnic backgrounds” (Myers, 2021, para. 11). However, having people from diverse backgrounds in positions of leadership does not necessarily mean that their voices are being heard. The best example of this is Hastings’ handling of Jonathan Friedland, Netflix’s former chief communications officer after he twice used the N-word in meetings over four months. His actions were met with “wide complaints from the staff,” and one former employee stated that
“[Friedland] should have been fired right away, not months later” (Donnelly, 2018, paras. 5 & 9). Friedland’s firing took place only after Hastings learned that he had used the word twice, months after the original complaints reached him. Hastings accepted that he could have dealt with the situation more adeptly, and claimed that he and Netflix would be better moving forward. However, his slowness to act raised questions as to why it took so long for him to address the situation, especially when considering that Netflix has gained a reputation for its cutthroat culture and “no brilliant jerks” philosophy.

Another point of contention when it comes to Netflix’s handling of transparency is their practice of allowing executives to see the salaries of all employees. “As of 2017, anyone director-level or above can see what everyone makes (and their pay history) through an internal system called Workday” (Sandberg, 2018, para. 4). In theory, this would benefit the company by providing managers with information that can be used to determine whether or not employees are deserving of raises. However, it can have the negative effect of creating jealousy between executives, as well as still leaving lower-level employees in the dark regarding what they are earning in comparison to their co-workers. Making salary information available only to higher-level employees ensures that there is an asymmetry in information that benefits only a select few employees. Tim Herrera from the New York Times explains the importance of salary transparency with the following quote, “there are direct, concrete consequences for falling victim to salary secrecy, including wage suppression and a lack of transparency around pay inequity, which disproportionately affects women and minorities” (2018, para. 7). Netflix has taken the first step towards a level of transparency that would benefit all of its employees, but as of right now the changes are not far-reaching enough to benefit anyone other than the already elite upper-level management members.
Conclusion

In conclusion, Reed Hastings is an exceptional leader, but one who has ample room for growth. The most important area of development for Hastings concerning his leadership is improving his emotional intelligence, particularly his ability to empathize. Daniel Goleman defines empathy as “thoughtfully considering employees’ feelings -along with other factors- in the process of making intelligent decisions” (1998, p. 9). Additionally, relying more heavily on empathy through the use of consumer perspective-taking likely would have led Hastings’ to realize that Qwikster was doomed to fail, and his continuing to improve his EQ moving forward will help avoid similar PR nightmares in the future. In regard to Netflix, instilling more empathy into the culture could be done by listening to the complaints of employees who call for better handling of racial issues, freely sharing the salaries of all employees to prove a commitment to equality and transparency, ensuring that feedback does not cross the line from constructive to critical, and keeping the details on why employees were fired exclusively to the teams that their severance directly effects.

Taking into account the aforementioned issues, the benefits of Hastings’ leadership far outweigh the negatives. His guidance has helped Netflix repeatedly innovate and stay ahead of the competition, and Netflix’s culture has resulted in consistently high performance among its employees. The “Dream Team” philosophy may dissuade people who seek long term job security and stability from joining Netflix, but as Hastings once so eloquently put it when accused of scaring off potential employees, they would be losing “only the ones we don’t want” (Marshall, 2020, para. 35). It takes a particular type of person to want to work at Netflix, and they are very clear in explaining exactly what they are looking for in employees. Similarly, employees know exactly what a career at Netflix will be like thanks to the company’s publishing
of, and repeated emphasis of, their culture deck, which makes it clear what employees can expect. For as long as employees seek roles that challenge them and help them grow as individuals, and want to be part of a team that consistently breaks boundaries, Netflix should have no trouble attracting top talent. Hastings’ is not without his flaws as a leader, but as long as he is in charge at Netflix, they will continue to punch above their weight and alter the entertainment landscape for the better.
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