

Masters of Scale Episode Transcript: Reed Hastings

REED HASTINGS: The horse was the dominant form of human transportation for about 5,000 years: domesticated in Kazakhstan, 3000 BC.

REID HOFFMAN: That's Reed Hastings, the founder and CEO of NetFlix. You might think he's giving an elevator pitch for a NetFlix Original—like Marco Polo, but without the blind Taoist monk. He's actually revealing the foundational strategy that drove the company's success. He starts the story on the plains of Kazakhstan and moves pretty quickly from there.

HASTINGS: The horse was the dominant form of human transportation for about 5,000 years—domesticated in Kazakhstan, 3000 BC. So for 5,000 years, if you wanted to make a contribution of personal transportation, it was a better saddle, better breeding, better hooves.

And then in one generation, from 1900 to 1930, everything changed with the internal combustion engine.

HOFFMAN: What Reed Hastings understands—with such clarity—is that technological shifts *don't* always happen incrementally. Sometimes, they burst over your head like a thunderclap, and wipe away habits that have lasted thousands of years.

HASTINGS: And the trick is to realize, those are pretty rare.

HOFFMAN: So sometimes innovation happens fast—and that's the kind of change we typically aim for in Silicon Valley. But more often, innovation happens slowly. And Reed Hastings knew early on that NetFlix needed both kinds of innovation. They started by sending DVDs in the mail, and evolved into a streaming video service with original content.

HASTINGS: Much of the time, the right strategy is to improve what you've got, and then some of the time, everything changes—and correctly recognizing the differences there is really important. Humans are inventing faster and faster, and that does mean that the typical business model is shorter lived than it would have been before. So I'm not expecting Internet streaming to be 5,000 years, like the horse. But it may be like the automobile, where it's 100 years or more.

HOFFMAN: Now that's the sort of foundational insight that not only drove NetFlix strategy, but also defined their culture. Here's why: Reed could see that he needed a team that could develop a first-rate logistics operation for shipping DVDs. And at some point, that same team would have shed all of that logistical expertise and build an online streaming service from scratch. So who the heck can make that leap? Certainly not someone who's worked in a mailroom for 50 years, and developed an expertise in shipping little red envelopes.

Reed knew he needed flexible problem-solvers who could change with the times, and he built a company culture *for* and *with* them. It's a great example of why I believe there are many good company cultures and many bad company cultures, but a winning company culture emerges when every employee feels they personally own the culture.

[THEME MUSIC]

HOFFMAN: This is Masters of Scale. I'm Reid Hoffman, co-founder of LinkedIn, investor at Greylock, and your host. And I believe that a strong culture is critical to companies that hope to scale. But truly strong company cultures emerge only when every employee feels they *personally* own the culture.

And by strong culture, I don't mean authoritative. Quite the contrary. A strong culture should be a true articulation of how your employees work at their best. It should be grounded in your shared mission—the thing you're actually trying to accomplish. It should be understood by everyone and built by everyone. And it should start from your earliest days as a startup.

But the question remains, how do you get everyone across the org to share your values, without stifling diversity and hiring in your own image? And trickier still, how do you spread those values when you're hiring new employees by the hundreds?

On today's episode, I'm going to talk with Reed Hastings, the CEO of Netflix, about his journey from a dysfunctional culture in the first phase of his career, to the high-performing culture he nurtures at Netflix. At times, you might find it a bit awkward that Reed Hastings and I have almost the same name.

But we're going to push past that. As the episode continues, I'll simply refer to him as "Reed."

We're going to come to the Reed Hastings story in a moment. But I want to start at the beginning here. If you want to build a strong culture, the first thing you have to do is open your eyes. You have to start observing your culture the *instant* you arrive at the office—as soon as you walk through the front door.

Margaret Heffernan, former CEO of five companies, can spot the warning signs in just a few paces from the front door to the front desk.

MARGARET HEFFERNAN: When you walk into a company, you instantly learn a huge amount. I can think of one company that I do work with in Switzerland, where they have outsourced the receptionist—and all I can tell you is that that cultural marker, which is, "We don't really care about the people who walk through our front door," pervades everything about the way that they treat people in that company.

There are all sorts of cliches and truisms about first impressions. But actually, what you

see when you're walk in is almost always what you get when you get to know the company better.

HOFFMAN: So as the world's lone expert on reception desks, I had to ask Margaret: What's the friendliest reception she's ever received?

HEFFERNAN: I can think of a company in San Francisco that I've written about a lot called Method home care products, where the founders and senior people in the company actually take turns being the receptionist, because they want to know who is coming to see them.

HOFFMAN: At this remarkably welcoming company, the leadership team doesn't just hand their employees manuals on how to behave—neither are they passive observers. They embody their cultural principles. I believe that a healthy culture emerges only when every employee, from the CEO to the receptionist, opts into the culture every day. The cultural principles themselves can change over time.

They can vary from company to company, and they can strike outsiders as really bizarre. That's all fine. But the one thing must remain constant: your staff must truly believe in your office culture.

It's best to start thinking about this when your team is small, and the culture is still malleable. A company's culture cements very quickly. So as you grow, you have to be very careful about what it is you're scaling. You can get away with a lot more when when your staff is teeny—say, two or three people.

And that's *exactly* the sort of team Reed Hastings was leading back in 1991. Long before he had founded Netflix, he was a programmer. Reed, along with two of his colleagues, invented a debugging tool for other programmers. They called it Purify, and it was a hit. That's when things got messy.

HASTINGS: And on the back of one niche idea like that, was able to start a company—Pure software. First round of funding was family and friends—20 people by 20K—to be able to get an office and start selling.

And then we doubled every year. And it was in one way tremendous—Morgan Stanley took us public in 1995, we acquired all these companies. But in another way, it was terrible, because we got more and more bureaucratic, less and less inventive, less and less fun. And it was that classic, "Company got soft and political as it got bigger."

HOFFMAN: Consider what Reed Hastings was up against. He was a programmer, not an experienced executive. He was acquiring companies, which means whole teams, with their own hardened working habits, were slapped together. At one point, his company, Pure Software,

acquired three companies in the span of 18 months. And as the culture eroded, Reid had a solution—of sorts.

HASTINGS: Well, I had the early idea that if anything was wrong, I could just work a little harder to make it right. And so I was coding all night, trying to be CEO in the day, and once in awhile, would squeeze in a shower. And it turns out that's not a good recipe for leading a large group of people.

At the time, I thought if I could just do more sales calls, more travel, write more code do more interviews, that somehow it would work out better. I don't think I ever really escaped from that, until the company got acquired by our largest competitor in 1997, six years after starting. And it was only then, in afterwards processing what had happened, that I was able to get some perspective on it.

HOFFMAN: So Reed made a very typical mistake in his first company. He thought he could solve his company's problems just by working harder.

But hard work isn't enough, and more work is never the real answer. To succeed as you scale, you have to leverage every person in the organization. And to do that, you have to be very intentional about how you craft the culture. This was exactly the lesson Reed took from Pure Software. Their management decisions had created a culture that rewarded the wrong behavior and retained the wrong employees.

HASTINGS: Well, the mistakes in Pure was that every time we had a significant error—sales call didn't go well, bug in the code—we tried to think about it in terms of, what process could we put in place to ensure that this doesn't happen again, and thereby improving the company? And what we failed to understand is by dummy-proofing all the systems, that we would have a system where only dummies wanted to work there, which was exactly what happened. And so the average intellectual level fell, and then the market changed, as it inevitably does. In that case, it was C++ to Java, but it could be anything.

And we were unable to adapt to it, because we had a bunch of people who valued following the process rather than the first-principle thinking.

HOFFMAN: Notice Reed's double insight here. Pure Software couldn't adapt because they had the wrong employees, and they had the wrong employees because of management decisions that explicitly selected for those employees. It was an insight that catapulted him. Pure Software sold for \$750 million dollars. That gave Reed the seed money to launch Netflix in 1997.

It started as a service that mailed DVDs to your door. And it's easy to forget just how radically Netflix upended the video rental business from day one. No late fees. No extra shipping charges. Lose a DVD? Get a new one in the mail, no questions asked. Their most fearsome

competitor, Blockbuster, quickly followed suit, matching service for service, but not quite fast enough.

Blockbuster filed for bankruptcy in 2010, and shrunk from 9,000 stores at its height to roughly 10 stores today, 8 of which are reportedly in a frigid part of Alaska with sluggish Internet service. Score one, Netflix. But there's a deeper reason Netflix was able to outmaneuver a company more than 100 times its size. It's not a story of competition, but cooperation—a cultural flourishing that took place within Netflix's headquarters. It was a culture built almost as a counterpoint to Pure Software.

HASTINGS: we were unable to adapt to it, because we had a bunch of people who valued following the process rather than the first-principle thinking.

HOFFMAN: A bit of background on first-principle thinking—you'll hear this expression a lot in Silicon Valley. First-principle thinking is the idea that everything you do is underpinned by foundational beliefs—or “first principles.” Instead of blindly following directions, or sticking to a process, a first-principle thinker will constantly ask, “What's best for the company? And couldn't we do it this other way instead?” And these are the kinds of inquisitive minds that Reed Hastings wanted to unleash on Netflix, for virtually every decision.

HASTINGS: And so the reverse of that, which we do at Netflix, is you have to be a first-principle thinker. There's an overhead to that, about what's best for the company. So this is true on the broad scale, like what kind of content we do. It's also true in the micro, which is, “How should I travel, business, or coach, or by bus?” And we asked people to do what you would think is best for the company. We don't give them any more guidelines than that.

And some people that frustrates, but those are probably not the people that's a good match for Netflix. And other people like this sort of first-principle thinking all the time.

HOFFMAN: This may sound like the sort of advice a tech entrepreneur would naturally follow. Who wouldn't want to hire a first-principle thinker? Well, it's easy to tell yourself that in the abstract. But when you're running a fast-growing company, you're also going to be telling yourself, “I desperately need a sales expert, a programmer, a designer, an accounting wiz”—and you'll find applicants who have resumes with all of the skills suited for that moment.

It's all too tempting to tell yourself, “Well, we'll find a first principle thinker with the next hire.” Just look at what happened to Reed when he was at Pure Software. He's a first-principle thinker. You'd think he'd hire other first-principle thinkers. Game recognizes game, right? And yet he neglected that hiring standard—for six years. That is why you must define your culture *before* you scale. And you have to think deeply about what cultural attributes you want to preserve at scale.

Reed gave this a lot of thought in the founding days of Netflix. He wasn't just looking backwards, at the lessons learned from Pure; he was also looking ahead, where he saw an enormous threat to the company. Forget Blockbuster—how would Netflix survive the dawn of online streaming? Broadband Internet was making its way into households across the US. It seemed inevitable to Reed that streaming entertainment would eclipse DVDs, just as surely as the combustion engine eclipsed the horse and carriage.

And here's what makes Reed such a fantastic strategic thinker—he was fretting about this in the late '90s, when broadband Internet had reached fewer than one in 10 households.

To comprehend why Reed hires first-principle thinkers at Netflix, you have to remember how he views these technological shifts. Innovations generally happen incrementally—except for those moments when everything dramatically changes. And then everything moves slowly again.

HASTINGS: If we continued to refine DVD-by-mail for another two decades, that would have been a failure strategy, because the underlying substrate was changing, and Internet delivery was becoming possible. But now that we're in Internet delivery, we think that Internet television is going to be a 50 or 100-year paradigm. And so now our focus should shift to be, how do we do better and better on the core?

HOFFMAN: Reed's knowledge of history, the changing nature of technology and the historical moment he was in, led to the understanding he would need people to change with the times.

People who could rip up a process, and return to the first principles of delivering entertainment by any means necessary—whether it's horseback, mail, fiber optic cable—or maybe in the future, Elon Musk's neural lace. Regardless, you need people who can change the business model—fast.

So how did Reed identify those candidates? It started with a now-legendary document at Netflix: a collection of more than 100 slides known as the “culture deck.”

These slides defined exactly what the Netflix culture stands for, and who they're trying to hire, and what they can expect.

HASTINGS: The culture deck started about 10 years ago. So first couple of years, we were just focused on survival, then we got public in 2002, cash-flow positive—and it was clear we were going to survive. So we then started really thinking about the culture—what we wanted to be, how we wanted to operate. And so over successive years, I improved this deck which I would go through with new employees. And sometimes those new employees would love it, sometimes they were like, “Oh my god, why didn't you tell me this before I started?”

“That doesn't make sense to me.” And so we realized we should give it to every

candidate. And so then about 2007, 2008 we did that by posting it on SlideShare. But again, it was really just to be able to send a link to the candidates. It's not very pretty, it's not very highly designed, doesn't look like it's an external marketing piece, but that authenticity, really, people liked in the outside world, and now it's over 10 million views on SlideShare, and continues to be studied around the world.

HOFFMAN: And what were the unexpected benefits of having published it?

HASTINGS: Well, let's see—the core benefit, which we did expect, was that candidates were very aware of the culture. The unexpected benefit was, many people became candidates for us, because they loved that—what we described in terms of freedom and responsibility—that might not have otherwise thought about us.

HOFFMAN: Here's the fascinating thing about Netflix's culture deck. It's not meant to appeal to every job seeker. In fact, it's meant to *repel* some job seekers.

HOFFMAN: One of the things that I think that shocks people about the Netflix culture document is they say, "Look, adequate performance should get you a severance package." What's the way that you both create that high performance, but also doesn't feel too dangerous to people?

HASTINGS: Yeah, we try to always emphasize honesty—so you can always ask your manager, "Hey, if I were leaving, how hard would you work to change my mind to stay?" That's sort of the acid test—I would call it the "keeper test." So we encourage people to check in with their manager on that.

So we try to be very thoughtful, so it should be that there's no surprises about that—and we all aspire to excellent performance, and there's no short-term judgment, or like, "Last week you made a mistake, and so you're out." It's not like that at all. It's about, really, the expectation of future contribution, which is based on a range of factors and performance to date.

HOFFMAN: This keeper test may sound a bit Darwinian. No one wants to hear a manager say, "I wouldn't fight to keep you. Thanks for playing."

But I actually believe it's more compassionate to ask this question, repeatedly. You have to be thoughtful about who fits in, and who clashes with their coworkers. Suppose a manager decides to keep a brilliant jerk on the team. Morale sags. The team's performance drops. Then you have a truly Darwinian struggle on your hands. And in that sense, the keeper test cuts both ways. A manager can fail it as surely as any employee. That's why a commitment to culture must pervade every decision.

Without a clear sense of how staff should work together, it's all too easy for managers to narrow

their focus on individual players. And emphasizing individual performance, at the expense of the team, can be downright hazardous to an organization, as Margaret Heffernan has observed.

HEFFERNAN: There is often a belief among very successful, very competitive people, that the thing you want to do in a company is get everybody to compete with each other.

That if it's "Everybody's racing against everybody," you'll have this kind of white heat of brilliance and creativity. And I think pretty much everything about that's wrong. And that's not to say that I'm not competitive—I'm deeply competitive with myself, in the sense that I really want to do a better job today than I did yesterday. But I don't want you to fail. And I have seen more companies and organizations go wrong, because of what I think of as negative competitiveness.

"I do want you to fail," or, "I want your department to fail," or, "I want your product to fail, because that will make me shine." I've seen more damage and destruction and waste from that mentality than probably from any other misunderstanding. If you can build an environment in which people really want to help each other, full of people who are generous, you will do infinitely better than creating some kind of Olympic sport within the company.

HOFFMAN: Here we come to the essence of a strong culture. It serves as a check on selfish ambition. It's a civilizing force that excludes anyone who will drag down the team, and also welcomes anyone who elevates the team. In short, it's warm, but not cuddly. And if that sounds a bit paradoxical, Reed Hastings has a clarifying analogy.

You'll never hear him refer to his colleagues as a "family." It's a term that visibly grates at him. He likens Netflix instead to a sports team—they expect high performance from their players, and they use internal collaboration as a tool to drive external competitiveness.

HASTINGS: In team sports that really succeed, there often is a lot of warmth between the players. And so it's emphasizing those aspects, and demonstrating that when people come in, everyone tries to help them.

But ultimately, it is about performance, unlike a family, which is really about unconditional love. Even if your brother does something awful and goes to jail, your love doesn't stop. And that's just a different and important part of society, but that's not what we're about. What we're about is collectively changing the world in the areas of Internet television, and that takes incredible performance at every level. We're also about really honest feedback all the time, so you can learn and be the the best that you can be.

HOFFMAN: Are there any company cultures that you think should do family versus team?

HASTINGS: I suppose a family business—it's a way of providing an income to a family.

HOFFMAN: So if it's family already, why not.

HASTINGS: It's a family already. But no—I mean lifetime employment, unconditional support, no matter what the performance is. I don't see how that makes sense for organizational excellence and contribution to society.

HOFFMAN: So let it be known that Netflix does not promise unconditional love—and they're exceptionally frank about this in their culture deck, which every prospective employee reads. This has become a powerful tool for them—one that creates a built-in filter to every hire. It's a great hack that other companies would be smart to adopt. Because the hiring process is a critical—but often overlooked—part of maintaining company culture. When you're growing and hiring fast, it's easy to place expediency over excellence.

You'll often find yourself tempted to hire perfectly-qualified candidates, who you know—in your gut—are *not* a fit with your cultural values. My strong advice: Resist.

HOFFMAN: So how do you resist the urge to hire a candidate who is brilliant, qualified, perfect in every way—with the sole exception that they might clash with the company's culture? I asked Jeff Weiner, the CEO of LinkedIn, how he does it. "With reluctance," he told me—until he saw the consequences of the decision.

JEFF WEINER: As the organization grows in success, you're going to have a lot of demand for your products, and you're going to need to hire quite rapidly. And as a result of that, you're going to be bringing people into the organization that are less familiar with the founding DNA, what it was you're trying to accomplish.

I remember early on in my tenure at LinkedIn, we were around the table. Call it a hiring committee, a small group of people responsible for evaluating new prospects. We were evaluating some LinkedIn profiles, and there was one profile in particular for a very important role, and the person who was sponsoring this prospect said, "Look at this profile, look at the background, look at this experience, look at the skill set. I mean, we couldn't find anyone better. I should warn everyone, I don't know that they're the right kind of cultural fit for us, based on the following. But we'll make it work."

And inevitably, when you try to pull that off, and you kind of rationalize to yourself that, despite the fact you know there is this misalignment, you'll make it happen—inevitably, it almost never does. And it becomes very expensive in terms of time, energy, and even resources working through that, and trying to rectify those situations.

Fast forward about six to nine months, and we were around the table—very similar group of people, evaluating somebody's profile, and someone said, "Check out this profile, look

at this background, look at this set of experiences and skills, just unbelievable. But they're not a cultural fit, so let's move on to the next candidate." And that's when you know you're in a position where you can scale—especially when that discussion is taking place and you're not in the room.

HOFFMAN: Notice how Jeff points out that this willingness to reject A-players has to persist, even after he leaves the room. Some CEOs, like Aneel Bhusri, co-founder and CEO of Workday, refuse to leave the room until the team has made this decision so many times, it's a reflex.

ANEEL BHUSRI: You know this well, Reid. In the early days, it's just you, and a few other people, so we just did it ourselves. We set out to interview the first 500 people.

HOFFMAN: To be clear, by "we," Aneel means he was personally involved in interviewing the first 500 hires for cultural fit.

BHUSRI: After our hiring managers had identified people, and put them through the process for skills, we would then interview the individual at the last stage, and it would be purely about cultural fit. And we would test on whether they were an "I" person or "we" person—we were looking for "we" people, we were looking for people that had a clear driver for why they wanted to be successful. We were looking for people that were high integrity. We were looking for people that did not job-hop. And you could look at a resume, you can tell if they're the shiny, new-penny type that jumps from one op to another. We were looking at people that were going to be with us for seven, eight, nine, 10 years.

We just did a town hall a couple days ago, and we've got tons of people who have been with us ten years. And that's how you build a great company. So I was interviewing those first 500 people.

HOFFMAN: And it's somewhat obvious from this, given that you set up that initial culture, but how then, past the first 500, did you help keep that?

BHUSRI: Well, we kept interviewing people after the first 500, but we armed those first group of people. We decided—I think it was at a company meeting—to say, "OK, now you guys are on the hook. You interview the next 5,000. Make sure the next 5,000 people are great cultural fits."

They still, to this day, take that role very seriously as ambassadors of the culture.

HOFFMAN: I want to acknowledge the risk of this conversation. A strong culture is great for team performance—but you also run the risk of defining your culture so narrowly, that the founding team starts hiring in their own image. And if your founders are a bunch of young, Ivy

League white guys hiring other young, Ivy League white guys, you're not just being biased—you're being foolish. You want a strong adaptive team, you need different perspectives.

Tristan Walker, the founder and CEO of Walker and Company, considers the diversity of his staff a strategic advantage. They're hard at work developing health and beauty products for people of color, which his competitors mistake for a niche market. It only looks niche when you're surrounded by white people, he argues. His competitors' oversight is his team's opportunity.

TRISTAN WALKER: So how do we come up with ideas and idea generation, et cetera? We have an innovation pipeline that's three, four years long.

But a lot of those ideas start with ourselves, because we're part of the community we're serving. This goes back to some of that strategic advantage. I feel like the diversity of our company needs to reflect the diversity of America, the diversity of the world. And out of that comes innovation and ideas that are fresh and new.

HOFFMAN: It's a sentiment echoed by Mariam Naficy, founder and CEO of MInted, a site that sells home decor from independent designers around the world. She invites designers to submit their best works through a crowdsourced competition. And she knows from experience that great design is tucked away in nearly every market of the world, just waiting to be discovered.

MARIAM NAFICY: So my dad was with the UN. He is an economist—development economist—and so we would move every time he got a new assignment. So we were in Kuwait, then Lebanon, and we were there when the war started. Then Tanzania, which was stable, Iran—so I was there during the revolution—and then Egypt. And then, actually, I got exposed to a lot of design, architecture, and style that really influenced me. And I didn't realize how much it did, until I started Minted. I saw things in Iran, for example, that are hard to get to now.

I would go through bazaars with my mom. And my mom is Chinese, my dad is Iranian. We would haggle our way through markets a lot.

HOFFMAN: And how did that diversity of international cultures and perspectives help prepare you for thinking about, "We're going to do design competitions, we're going to crowdsource design, we're going to create a range?"

NAFICY: You realize the breadth of perspective that is actually out there, that we don't necessarily have access to as consumers here—that really helped me. I think also, I really believe different people have different aesthetic tastes, and you need to be able to address them.

And the best way to address them is really by tapping into global creativity.

HOFFMAN: I only bring up these examples because they underscore the hidden costs of a whitewashed office culture. You can scale a product to the world without looking like the world, to be sure—but the slightest misconceptions you have about your customers translate into missed opportunities for your business. And as an investor at Greylock, we look for a range of diversity on the team and on its board.

We have worked with recruiting groups and all kinds of organizations, like Sheryl Sandberg's *Lean In* movement, to close the gaps. But I don't claim to have a silver bullet. At the very minimum, everyone should be playing the long game on this issue. When we ask this question year by year, it has to be front and center.

Suppose you have your long game down. You have diversity, a culture deck like Netflix of 124 slides, clearly defined, built into the hiring process, shared with 10 million viewers.

Are you all set to scale? Not quite. Because your culture is not just an expression of how your team works together—it's how they work together at their *best*. You should tell the truth, but add a dash of idealism.

HASTINGS: We try to constantly encourage employees to figure out how to improve the culture, not how to preserve it. And so everyone is trying to add value by, "Here's a place we can improve in what we do." And so that keeps it very alive. It's not the golden tablets; it's a constantly evolving living document and practice.

HOFFMAN: I like Reed's expression—a living document. And it's brought to life by a peculiar tension between reality and aspiration—the culture you want, and the culture you strive for. A truly strong culture is always under construction.

HOFFMAN: Do you release new versions of the deck?

HASTINGS: Yes—so it's been updated a couple of times. We haven't unwound anything, but we've constantly realized—the current issue is the deck makes us, in some cases, look cold and competitive, and actually employees experience us as very warm and collaborative.

But that aspect doesn't really come out in the decks. We're constantly trying to update the deck to be more reflective of who we actually are.

HOFFMAN: So Reed will keep revising that document, and his employees will keep reading it. And no matter what the size of your company, I'd suggest you do the same. Start early—when you're still small and your culture is still being shaped—and recognize that it's both a creative exercise and an organic system, one that your employees will shape with you.

Granted, there are people who will tell you, this is a highly overrated exercise. Culture is an elusive concept. And some people question whether culture—right or wrong, strong or weak—is just a figment of our imaginations. It's a question I posed to Reed Hastings.

HOFFMAN: I had a conversation with a friend of mine—who I can't quote yet, because he hasn't given me permission. But he basically argued to me that culture was a retroactive narrative of successful companies.

When you're successful, then you can tell the story of the culture that made you successful—and the classic one here is, "Culture eats strategy." But do you think that that counter point of view is just foolish? Or do you think that that is something that actually, in fact, there is a little bit of, for really successful high-performing companies, are then very congratulatory to their culture?

HASTINGS: Well, very successful companies also work in buildings rather than tents. But that's a generally accepted practice, that buildings work better than tents. So you do have to watch out for that retroactive thing, of kind of what's different.

But I would say, on balance, the culture will help Netflix prosper through multiple eras in a way that, say, my first company Pure Software did not. And so from a personal experience, we've been able to adapt from DVD-by-mail, taking on Blockbuster, defeating a company that was 100 times larger than us, to then go from DVD-by-mail, to streaming of other people's content, to streaming of our own content, from 100% percent domestic to global.

So we've encountered many challenges, which Pure Software in the 1990s would not have been able to do. And so I'm very personally convinced that the culture has been helping on that. But again, I encourage people not to believe in things, that "Culture eats strategy for lunch." Both are really important. We spend a lot of time on strategy, and why not do both well? Why do you have to rank them? Let's try to do culture well, let's try to do strategy well.

HOFFMAN: Think about that list of changes Netflix has weathered. The same people who shipped DVDs are now producing original content, snapping up movies at film festivals, and streaming entertainment worldwide.

Netflix is the Madonna of companies, constantly reinventing itself. And notice how Reed, despite his strategic brilliance, is convinced that his previous company wouldn't have made the transition. It's as close as you get to a control experiment—same strategic mind, two different cultures. Only one conquers the world. And maybe culture is just a byproduct of strategy. Maybe you can ignore it and focus on strategy alone.

But consider that list of threats that Reed faced—do you really want to take that risk? I wouldn't.

And at the very least, if you're thoughtful about culture, you can avoid hiring a bunch of white guys named Reed. Otherwise, your water cooler banter will sound like this.

HASTINGS: Great pleasure, Reid. Now let's do the Reed and Reid thing. Oh, right.

HOFFMAN: So Reed, it's always great talking to you. I always learn something new.

HASTINGS: You too Reid, a great pleasure.

HOFFMAN: I'm Reid Hoffman—not Reed Hastings. Thank you for listening.