

Masters of Scale Episode Transcript: Need to Know, July 2022

“Need to Know, w/Reid & Bob: Business withdrawals from Russia, strife at Netflix, Musk vs Twitter, the business world’s role in democracy, Crypto’s future, & more”

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BOB SAFIAN: Hey listeners, it’s Bob. Today we have a fresh installment of our Need to Know series. In these episodes, Reid Hoffman and I have unfiltered conversations about the most important business topics impacting entrepreneurs right now. We have a lot to cover today, from crypto to Twitter to Russia’s invasion of Ukraine. These Need to Know sessions help us put some context around what we’re hearing in our podcast interviews and elsewhere. We’ll be digging into the key trends of the day that all entrepreneurs and business leaders should be up to speed on. Let’s get into it.

[THEME MUSIC]

SAFIAN: All right. Well, if we’re ready to dig in, we’ll dig in. Because we haven’t had a chance to have a focus chat like this in a while.

There’ve been so many shifts this year, as you and I were talking about: Russia’s invasion of Ukraine, the attempts to isolate Russia economically, boycotting oil and gas, inflation spiking, the risk of recession. And then there’s still the continuing drag and risks of COVID. It’s a lot. How’s your mood in this environment?

REID HOFFMAN: So it’s obviously a world on fire time. It is just a difficult time. Now personally, because why I have gone into entrepreneurship and investing in entrepreneurs is I’m, of course, always optimistic, and I’m always looking at the circumstances as ways that we can build a better future and ways that we could convert challenges or problems into opportunities, into things that you can build a better future. And I’m always optimistic that we can do that. Fortunately, that helps me keep my mood buoyant, even when we have massively stormy times with gale force winds and the occasional hurricane.

SAFIAN: What do you look to to keep you optimistic with all that other noise that goes on?

HOFFMAN: Well, progress to human life is always three steps forward, two steps back — that’s the kind of cycle. But ultimately, you make progress. So some of it’s technology. When you look at every major problem that confronts us, anything from climate change to social justice and economic justice, technology is at least 30% to 80% of the necessary solution for doing it. So being in the place where you’re building technology, investing in it, helping it get constructed, helping people figure out how to

scale it, that's always a lens to the future. Let's go build stuff. Let's not just be mired in things.

Another thing is, while pretty disappointed in a number of people, perhaps the current most iconic evil person is Putin who's causing suffering for many millions, but there's also so many good people, people who choose to be poetic, love over hate, who choose being of service over being destructive. It's one of the things I love about business. And everyone always forgets, Adam Smith is not just the wealth of nations, but the theory of moral sentiments of how we are of service to each other, how we construct a world where we work for each other.

SAFIAN: There are some things that you see businesses doing in response to Putin: pulling out of Russia, walking away from revenue, which businesses are reluctant to do. And it's one of those moments where leaders talk about their values, but when you're faced with a financial cost, it can be challenging to stick to. What are the discussions you're having with people around these topics?

HOFFMAN: I think that part of the thing, which we've said in multiple contexts on Masters of Scale is: be human first. Part of what you go and say, "Well, I might be able to have higher revenue by staying in business with Russia, but I'm not going to do that because there has to be some understanding in the entire society context."

And so saying, "Hey, I don't do business with people when they're in that kind of aggressive state, I don't seek to get economic thing, I don't seek to provide service to them," this is a way of tangibly making a difference, I think is a good thing to do. And then you also have to sort out these more complicated issues where sometimes staying engaged is better. So I tend to think that, for example, in another governmental challenge context, staying engaged in order to help change them is better. And so part of the reason why Russia flips a bit on this is because, well, they're actually engaging in war and in rubbing and in massive civilian casualty. "Okay, until we sort this out, you're the enemy. And we don't do business with the enemy."

SAFIAN: It's an interesting flip, right? Because the assumption for a long time was the marketplace, and capitalism is what we can use to over time change these cultures and recognize the opportunities that a more open society can offer. And yet, once a certain threshold is crossed, that theory takes too long or, as you say, becomes morally suspect.

HOFFMAN: Yeah. And also, for example, if you go, "Well, this country has some human rights abuses. Should you do business with it?" Part of it is not just, "Well, I just ship them product," but it's like, "Okay, if I'm going to be engaged here, I need to be positive on humanity, on the human rights things. What are the things I do? It might be ways that I participate in communities. It may be a way that I try to influence when I'm in business with those folks." And so it isn't just simply a choice of, "Well, I discover this door A, door B." You're making the doors. It's how you're walking down the path.

SAFIAN: I spoke recently on Rapid Response with the CEO of Upwork, Hayden Brown about just this sort of challenge. Upwork was doing business in Russia and Belarus, as a global talent marketplace, when Russia invaded Ukraine. Hayden knew that pulling out would hurt revenue and that Upwork's stock might take a hit, but she decided to go ahead anyway. It wasn't an easy call. Here's Hayden.

HAYDEN BROWN: I was reading letters from customers saying, "We're innocent civilians in Russia and Belarus. We're not supporting Putin. Don't turn us off." And I 100% ascribed to that.

On the other side, we were getting lobbying from everyone in Ukraine — from the government on down saying, "How can you be supporting this war by continuing to operate?" Ultimately my conclusion was, as a business, we did have to take a values-based view. I can't pretend to be blind to this.

And that was an incredibly hard decision. But we've seen record high numbers of Ukrainians working on our website, earning their livelihoods, not just for themselves, but often for entire pods of families and friends.

We would get these videos and photos. Landed in Dubai. Landed in Poland. Landed in Estonia. And we would literally be with the tissues out, in tears, seeing these happy families sending us messages of, "We made it. Thank you so much. We're so excited to be starting our new lives."

Every single one of these crises, as horrible as they are to live through, is this moment where you see your company and your team, the culture and the fabric is tested. And it's either built stronger and better, or it comes out in tatters.

SAFIAN: The expectation that businesses take positions on political and social issues, it's become more and more acute. The Supreme Court decision to overturn Roe v. Wade certainly amplified that pressure. How do you decide what your policy and approach should be when there are strong feelings and lots of people on both sides of an issue? You're going to alienate somebody either way, and the historical approach has been, "Well, there's no margin in getting involved in that."

HOFFMAN: I think there's lots of places that businesses should actually get involved, especially in the U.S. but generally around the world, business leaders are important leaders in societies. And to say that, "Oh, I just don't get involved," it's like, "Well, if we are having a racist criminal justice system, you say, 'I don't get involved,' you sit on the sideline, you're partially responsible." You say, "Well, but business, and I've got customers who are on both sides." Then you're like, "No, what's your ethical compass? Because it's our duty to not be racist." And then, so you get to a very complicated subject: Roe v. Wade.

And then as a business leader, you go, "Okay, what do you do in this melee?" And I tend to think that there's a good trend in asking businesses to take some, I don't think they should take stands on everything, but stands on key things.

And as a business, "Well, if we have offices or employees in state X, which is outlawing abortion, and then there's another state where it's not outlawed, we'll pay for the transport and the hotel and the sojourn over here," that's also an instance of good leadership on this topic, but you have to of course be graceful and respectful as you're doing this within the business side.

SAFIAN: American society is so divided, I wonder, is there a risk that the marketplace becomes divided too?

HOFFMAN: Businesses are the efficient and adaptive social organisms that we've thus yet created in human history. They're very adaptive to customers. They're adaptive to employees. They're adaptive to shareholders. And it's one of the reasons why when people say, "Well, they should just cut in a direction that's totally opposed to those things," that's not the way they work; they work by being adaptive.

SAFIAN: I want to share another audio clip, from the Rapid Response interview I did with PwC's Tim Ryan. Tim talks about the unique, modern pressures on today's CEOs and business leaders...

TIM RYAN: No doubt about it, the role of the CEO today is massively more challenging than the role just even three years ago, five years ago, 10 years ago.

Today when you look at the distrust in our society, you look at the number of issues, people expect the CEO community to weigh in on a whole bunch of other topics. Problem is, we can't weigh in on everything. Because if we take the eye off the ball, we're in real trouble because we won't be fulfilling what we're supposed to be doing. For me, it ties back to, what are your core values? And what's important to those stakeholders: investors, customers, employees? And if something is going to affect how our people feel at work and their ability to be happy and focused on what we're trying to do. We've got to weigh in, and we've got to let them know. If something is more ancillary, then we make sure we let our people know we're thinking about it, but I try not to weigh in on that.

If we can give our employees certainty in an uncertain world, if we can help them know what we stand for and create a better environment, we're going to try to address it. Sometimes you address it with a public statement. Other times you address it by talking to them, other times you address it by providing benefits or support. This is a top three or four issue when I travel with CEOs and we share with each other how we're learning in this day and age, especially when the expectations are high.

SAFIAN: I want to ask you about some specific companies and industry situations. And I have to start with Elon Musk and Twitter. Nothing seems like it's going to be resolved anytime soon. Are there larger themes and lessons from this situation?

HOFFMAN: Elon's a friend, but I haven't had an insider's conversation with him about this. Twitter is one of those very important things, a public square; it does need innovation and evolution. And I think this whole drama around the acquisition ultimately just creates a reduction of value.

We've got this strangest circumstance ever, which is a company suing an individual to follow the merger agreement where the individual, Elon, says, "Well, the merger agreement has some material adverse conditions," and the company claiming it doesn't. Literally, if you had written a Hollywood script, people would've thought, "Oh, that's too strange. We're never going to make it." But overall, the tragedy is Twitter is a very important function in the world and in society, and I think this is not the right way to realize the right innovation and change for it. And so I hope whatever happens, it's resolved reasonably quickly so that Twitter can get back to building for how it participates in our society both now and hopefully, in better and better ways as they evolve.

SAFIAN: So another media company I want to ask you about, Netflix. Streaming platforms, totally on a tear during the pandemic, demand surge, and then things seem to stall. For a business like Netflix, is this an expected stage of scale hurdle? This is going to periodically happen when you grow, you reset, and there are plateaus?

HOFFMAN: I think you expect this kind of thing. I mean, you get large, you get to a certain size, the market wants to say, "Well, you just keep compounding to whatever point where you have more accounts than the entire human race." It doesn't work that way.

And so part of how you broaden a business is not just fresh new subscribers or maintained, robust non-churn rates, but, also how you build the business in terms of other things that you can deepen your relationship with your existing customers or establish new customers with new products, and I think that's one of the things you're going to begin to see from Netflix. I find that to be the normal projection of things. One of the reasons I personally invest intensely in the private financing — series As, series Bs, and I don't tend to do as much public — is because I always think in three years as the minimum increment, more like five and 10, and within that, I think Netflix still has a very compelling set of offerings and products, and so I'm bullish on the company.

SAFIAN: Well, they're certainly an institution and a leadership team that has demonstrated an ability to adapt in a lot of different circumstances over a lot of different years.

HOFFMAN: Yes.

SAFIAN: So, I want to ask you about the crypto world. We've seen heavy price corrections; some people calling it a crypto winter. You talked to me, a while ago, about the debate among Silicon Valley investors between AI and crypto. "What's going to be the defining tech of the next era?" And in recent weeks, it seems like the market's answered that question: "It's not crypto." That for all the promise of Web3, it's too early. Where do you sit on this? Did the hyperbole get ahead of practical application, or are we overcorrecting on the fear side?

HOFFMAN: It's funny because I listen to both sides. I got one side saying, "Well, it's all equities that have no value and backing; that people are buying," and then the other side, which is, "This is the fundamental new platform that has been missing for how you evolve the internet. That it will touch a number of really key things." I go, "Well, actually, in fact, weirdly enough, since they seem in opposition, both are right."

The crypto bulls are right, because this is a fundamental, new technology application. I do think it'll affect things like identity and payments and financial systems and art and creativity and everything else on the internet. And I think you already see some of it, even though the use cases are tiny and have yet to really grow.

And then on the other hand, I'd say, "But is the bulk of the speculation around these crypto tokens, do a bunch of them look like pump and dump sorts of schemes? Yep. A bunch of them do look that way."

There's important values for the future of our financial society on both sides. And the real thing is reflecting what's really good about how we shape our society. And it's both, not one or the other. So therefore, that nuanced set of how you shape it is really important.

So, I'm still very bullish on crypto overall, in the long term. I think that correcting what the immediate value of these things is, I think is a good correction.

SAFIAN: And when there's a correction like this, the government often jumps in, and there is more regulation. Does that slow things down? Does that create a platform that allows things to speed up? It kind of does both at the same time, right?

HOFFMAN: Yeah. It really depends on how smart the regulation is. Smart regulation, which generally tends to be minimal, tends to be outcome-oriented versus process-oriented, "These are the things that you have to avoid as outcomes, or ensure as outcomes" as a way of doing that, versus, "You must do it this way or not do it this way," tend to create and stabilize better transactional liquidity, better trust, better speed of action, therefore innovation.

The big problem is regulatory agencies trend towards, "Thou shall not, thou shall not, thou shall not, thou shall not. Check with me for years," which is enormously innovation-quelling. And what you want to do is say, "Look, how do we keep the major risks out? How do we protect consumers or other folks who may need protection?" And then, within that, how do you literally have as much innovation and room for innovation as possible.

And you need the upsides desperately. You need the upsides in dealing with the pandemic. You need the upsides in creating economic prosperity. You need the upsides in changing the cost curve and things like medicine. You need all those upsides. So, how do you do that? Well, the answer is you have to have the range for innovation, which means taking risk; you have to have a minimalist and smart regulatory scheme, if you have one.

[AD BREAK]

SAFIAN: Before the break, Reid shared with me his perspective on Twitter, Netflix, the state of crypto, and doing business in Russia.

Now, we dive into the ever-evolving state of the workplace, with a special cameo about the challenges facing women. We also discuss Reid's optimistic case for the economy and entrepreneurs, and his more cautionary perspective about the political environment.

SAFIAN: The future of the workplace feels, in some ways, more uncertain than ever. Right? You see Brian Chesky, at Airbnb, make remote work the norm. And then you see folks like Jamie Dimon, at JPMorgan Chase, make in-office mandatory. It's all over the place. There's this executive who said to me, "If you look back at policies just two or three years ago, three days a week in the office would've seemed like a gift. And now, it's viewed as draconian to have to be in the office three days a week."

Are we seeing an overcorrection in certain places? Or are different kinds of workplaces going to have just a much wider variation in what they offer than they ever did before?

HOFFMAN: There were a bunch of structural forces that drove things to be in the office, to be in the room where it happens, to be in meetings, like the speed of decision-making, the ability to build trust, the ability to build culture together.

There's still that pressure to be in the room. And so, I tend to think it will get back to, call it, 70 or 80% there. The reason why it's not 100 percent is because we've now run a two-year experiment. In fact, you can discover that certain kinds of people are more productive. "If you give me a day at home, I can work through it, and I can be much more efficient and productive because I don't have the downsides and distractions of an office," which will lead to some hybrid environments. And I don't think that companies are going to have to mandate a whole lot because I think they'll find an actual cadence.

Naturally playing out on this. But I think they'll want to nudge it, call it, modestly, especially initially, to get back together in-person.

I actually think we'll, by nature, work on hybrid a whole lot more to try to keep that tool within our company's work chest, because that allows us to have certain kinds of productivity, certain kinds of employees that might otherwise not be available. And so, overall, I think that's where we're all going to trend towards.

SAFIAN: I do say that personally, I don't necessarily find myself pressing to go back into the office all the time. I feel like working remotely has been so much more efficient. But I also feel like there's some creativity that emerges when you're in person, particularly unplanned in-person engagement. And I feel like that's what I miss. And that's what I haven't yet seen. A system that cohesively bridges that divide for that unplanned, the unscheduled Zoom call.

HOFFMAN: Well, as amazing as these environments are — Zoom and Teams and Meet and all the rest of the stuff — it just doesn't work the same. I find that when I'm sitting with an entrepreneur, working on their business, ideating in person, I perform better. We perform better.

SAFIAN: When it comes to taking care of the way employees work, I'm reminded of my conversation with Reshma Saujani on Rapid Response. Reshma is the founder of Girls Who Code and Marshall Plan for Moms. She observes that we've reached a momentous inflection point for the future of women in the workplace. And this was before Roe v. Wade was overturned. Let's hear.

RESHMA SAUJANI: Everything's at stake. Everything's at stake because we have an opportunity to build a new normal. It's so frustrating about this future of work conversation, the conversation is still are we going back to the office or not? Two years later, can't we talk about the design?

Maybe work days should be nine to three to match school days, maybe we should be offering different kinds of benefits like childcare, maybe we should be thinking about technology so people can actually work remotely and be in the office and still feel like they're able to connect. We could be having so many different, exciting, innovative conversations, but we're pulled back, people are trying to make us have the same exact one. So I think the need for resistance, the need for these two years to not be in vain, the need to basically be able to walk out of this and say, "Who do I want to be when I get out of this? And what do I want to be? What do I want to build?" This should be a moment of innovation.

You don't have to go back to a broken system. And what's fascinating even there, the Great Resignation is actually being driven by women. Women are quitting. And what's fascinating is they're quitting, and they're going to a new place, and then they're quitting

again because they still have the same imbalance. So maybe what we need to be doing at this moment is: we need to be figuring out how we can empower you to ask for what you need.

SAFIAN: I want to come back to the overall environment for businesses, for founders. Recession.

Inflation, funding for new businesses and all business is becoming more difficult. Now, maybe that's to be expected. Is it healthy in some ways?

HOFFMAN: It's definitely healthier in a couple ways, capital isn't free, being choiceful, being scrappy as a business, really figuring out which initiatives you need, being disciplined about how you're building the company and who persists as employees is I think really important — and all of that, the capital restrictions tend to lead to. Now again, everyone tends to get a bit into “the sky is falling,” and you're like, “Well, no, actually in fact, it's just, evaluations reset to pre pandemic position and we're sorting out what the new world and market looks like.”

And I think people need to not be quite as panicked as they seem to be doing, because I think business will get back to growing and all the rest. Now one of the things that I frequently say is how do you convert negatives or challenges into positives? In this capital market, the fact that I, business X, have a going concern, I can make it work. Then that helps me against my competition, and I should lean into that. So you take these negative circumstances, whether it's competitive with another company, talent, other kinds of things, and you try to convert that to an advantage for how you're playing and the nature of your game.

SAFIAN: It's amazing that the economy feels more perilous now in some ways than during the heat of the pandemic, right? Are we just forgetting how bad it really was at that time? Or did we use tools that now we don't have available because we used them?

HOFFMAN: Well, among the things that we did during the pandemic is we did a level of stimulus. Like 2008, we thought the financial system was going to collapse. For the pandemic we put in stimulus that was every month we were doing like a 2008 stimulus package. So that's a huge amount of just injection of money. And that's part of the reason why it's not surprising that we have difficult pains now because during that stimulus package, we ended up with tons of money, distortion of labor markets. And you say, okay, all of this stuff needs to be worked through and improved. But it's a natural thing and ultimately, I think it will play for the best.

SAFIAN: Markets and economies are emotional as well as practical. Hope and belief in this better future can become self-fulfilling and vice versa. Do you have a sense about what direction our momentum is leaning right now? And are there things that you look at in gauging when hope and belief is ascendant versus anxiety and fear?

HOFFMAN: Well, this is one of the reasons I love entrepreneurship. I tend to do Series A and Series Bs, because they tend to be always there, always persistent with it. I think the market really much more affects growth financing, series Ds, series Es. Strong entrepreneurs realize that and are trying to approach that with some care and some velocity as to make sure they raise their Series A and Series B and then generate velocity.

That's part of the reason why we need entrepreneurship more and more. It's part of the reason why my very first book, which we reissued the 10th anniversary edition this year, *The Startup of You*, is how to have every individual, not necessarily starting a company, but acting with the intelligence and the fortitude and the insights that entrepreneurs do.

SAFIAN: How much does doubt about democracy impact the economy? What sort of a drag does that create?

HOFFMAN: This kind of thing is detrimental to business. One of the reasons I think business leaders need to step up and say, "what really matters is rule of law. What really matters is democracy and voting where everyone is enfranchised. What really matters is a peaceful transition of power where people concede and move on because it's part of the belief and the health in society over everything else."

And I think that's something that's very important to the business environment. Business leaders articulating very strong leadership on this is not being partisan, it's being American in terms of no, no, we need to have rule of law, democracy, peaceful transition of power. And any challenge to that is actually in fact anti-American. And it'll affect relative to stability of investment relative to stability of customers relative to dependencies on supply chain and possibly in a working talent, whether it's immigration or otherwise. So I think these are fundamental health of business in our society topics.

SAFIAN: Businesses often say, like, "Oh, in times of high uncertainty, it's hard to do X or Y." I think there's always high uncertainty, right? We're never sure about what's coming next. In hindsight, it seems clear, but we're always in moments of uncertainty.

HOFFMAN: Yeah. And that's part of the reason why businesses tend to be good and adaptive, and I'm optimistic because we continue to play forward whatever the volatility is.

SAFIAN: You know Reid, there are so many things to worry about today. We've talked about Russia, and U.S. politics, and inflation, and so on, but you've also pointed out the opportunities, even for a business like Netflix that's hit some headwinds. In this complicated environment, can you sum things up? Do you have any final thoughts or encouragement for our listeners?

HOFFMAN: Well, I think we have obviously a whole range of different kinds of listeners. And what I would say is that it's important to always be playing to how we build the future and playing to the upside and playing with optimism. Because if you're not that way, you almost guarantee pessimism, you guarantee down. And so you always should be, and I think this is very natural for our listeners, because those are the people who naturally find us, but it's: how do you say, "Okay, I recognize that times are difficult. How do I play for a better future?" And I think that's the important north star to keep guiding your own journey, your own boat with.

SAFIAN: Well, Reid, you always keep my spirit up after we talk and point me in a good direction. So thanks, and thanks again for doing this.

HOFFMAN: Thanks, Bob.