

BUSINESS

At Netflix, Radical Transparency and Blunt Firings Unsettle the Ranks

Buzzwords and anxiety fill the hallways as Hollywood giant tries to maintain a winning culture amid breakneck growth; ‘sunshining’ the ‘N-word’ scandal

By Shalini Ramachandran and Joe Flint

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At a Netflix Inc. corporate retreat in July, Chief Executive Reed Hastings teared up as he addressed some 500 executives.

Mr. Hastings had recently fired his chief communications officer for saying the “N-word” in full form. The executive, who is white, was attempting to make an emphatic point during a meeting about offensive words in comedy programming and said the slur wasn’t directed at anyone.

The incident touched a nerve inside the streaming-video giant. The company’s handling of the ensuing backlash put on stark display the “Netflix way”—a culture where radical candor and transparency are among the highest virtues, and where openly discussing whether people should be fired, and explaining why they were, are common rituals.

The executive in question, Jonathan Friedland, “sunshined” his misdeed—Netflix lingo for an apology or act of transparency in front of colleagues—in the hopes it would blow over. It didn’t. After anger bubbled up in the ranks, Mr. Hastings fired Mr. Friedland in June, and sent a companywide email saying he had come to grips with his own “privilege.”

At the retreat, held at an oceanfront resort outside Los Angeles, Mr. Hastings’ voice broke as he addressed the matter yet again, apologizing that it had taken him several months to act. Suggesting it could be a learning experience for the company, he pulled out a lemon and a knife, cut the lemon and squeezed it into a cup, according to people who attended.

“When life gives you lemons,” he said, taking a swig on stage, “you make lemonade.”

Netflix takes its culture seriously, believing it a crucial ingredient in the success the company has enjoyed en route to becoming a behemoth with 137 million global subscribers. To many Netflixers, the culture, at its worst, can also be ruthless, demoralizing and transparent to the point of dysfunctional. The Wall Street Journal talked to more than 70 current and former employees for this article.

The Netflix way emphasizes “freedom and responsibility,” trusting employees to use discretion—whether it is about taking vacation, flying business class or expensing an Uber ride home. Virtually every employee can access sensitive information, from how many subscribers sign up in each country to viewership of shows to contractual terms for Netflix’s production deals. Executives at the director level and above—some 500 people—can see the salaries of every employee.

Employees are encouraged to give one another blunt feedback. Managers are all told to apply a “keeper test” to their staff—asking themselves whether they would fight to keep a given employee—a mantra for firing people who don’t fit the culture and ensuring only the strongest survive.

Staying true to Mr. Hastings’ vision, always difficult, is getting harder thanks to the breakneck pace of growth and change at the company. In little over a decade, Netflix has gone from a DVD-by-mail outfit to a globe-spanning Hollywood powerhouse with more than 6,000 full- and part-time employees, including nearly 2,000 added just this year so far.

“As you scale a company to become bigger and bigger how do you scale that kind of culture?” said Colin Estep, a former senior engineer who left voluntarily in 2016. “I don’t know that we ever had a good answer.”

Many employees say they see the keeper test as a guise for ordinary workplace politics while some managers say they feel pressure to fire people or risk looking soft. Postmortem emails and meetings explaining why people got fired are viewed by some employees as awkward and theatrical when the audiences can be dozens or even hundreds of people.

Richard Siklos, a Netflix spokesman, said the company only fires employees for performance reasons, not because managers don’t like them, and said managers aren’t judged by how many people they fire. “Far more” of the company’s staffing announcements “are about hiring and promotions than about people leaving,” he said.

“Being part of Netflix is like being part of an Olympic team,” the company said in a written statement. “Getting cut, when it happens, is very disappointing but there is no shame at all. Our former employees get a generous severance and they generally get snapped up by another company.”

Netflix's culture shares traits with other workplaces that encourage openness, such as hedge fund Bridgewater Associates. Many current and former employees credit it with keeping the company stocked with high performers capable of fast decision-making. This, they say, allows for a nimbleness that has helped it disrupt the global TV and movie industries.

"It's not that there haven't been hiccups, but that culture of openness and freedom seems to be doing quite well," said Skip Battle, a longtime Netflix board member who is retiring at the end of the year.



Netflix CEO Reed Hastings speaks during the Wall Street Journal Women in the Workplace Conference in San Francisco on Tuesday. PHOTO: ANDY DAVIS FOR THE WALL STREET JOURNAL

Employees whom Netflix put forward to speak to The Wall Street Journal on condition of anonymity said they embrace the culture and compare it favorably to other companies where they say there is more concern about corporate process and chain-of-command than there is about doing what is best.

Netflix also posted a YouTube video recently to address the company's culture. "I think we're transparent to a fault in our culture and that can come across as cutthroat," said Walta Nemariam, an employee in talent acquisition at Netflix, in the video.

She said when she came to join Netflix, someone advised her to make sure she has a good savings plan in place, suggesting she could be fired. "I was like, 'wow,'" she said. She said in the video Netflix has been a good place for her and employees are "respectful" even while being candid.

People who speak highly of Netflix's culture say the company's critics include former employees who were fired for performance reasons and are disgruntled about their personal experiences.

Keeper test

Several former colleagues describe Mr. Hastings, in complimentary terms, as “unencumbered by emotion.” In just the past year and a half, Mr. Hastings has employed the keeper test a number of times.

Last year, he fired Neil Hunt, the longtime chief product officer who had helped create Netflix’s famed algorithm that curates programming for viewers. He was one of Netflix’s earliest employees and had been Mr. Hastings’ close friend for decades.

Mr. Hastings told Mr. Hunt a lot had changed, as Netflix expanded in Hollywood and overseas, and one of Mr. Hunt’s underlings, Greg Peters, was now more suited for the job. At his retirement party in July 2017, Mr. Hunt choked up.



Greg Peters, president of Japan at Netflix, during a 2016 news conference. PHOTO: AKIO KON/BLOOMBERG NEWS

“I would not have chosen to move on at that particular moment, but you have to separate the emotion from the logic,” Mr. Hunt said in an interview. Now CEO of health tech startup Curai, he added that he had a monthslong, amicable transition.

Mr. Hastings’ ring of top executives take the keeper test seriously. At a meeting in late spring of Netflix public-relations executives, one said every day he comes to work he fears he is going to get fired. Karen Barragan, the vice president of publicity for original series, asked how many other people felt that way. A number of hands went up.

“Good, because fear drives you,” Ms. Barragan said, according to people familiar with the meeting.

In an interview, Ms. Barragan denied making that remark but confirmed she led a discussion meant to destigmatize employees’ fears. “We talk openly about issues that may be uncomfortable in other workplaces and try to always approach an issue from all sides,” she said. “The intent is so we can get better.”

When Andrew Parker, who has a doctorate in computer science, started at Netflix with a group of others a couple of years ago, he was filled with anxiety.

“It was very much on our minds: How do I know if I’m about to be fired?” He said his manager told him that “it should not be a surprise if you are let go,” and that there would be a buildup over months of increasingly acute feedback. Mr. Parker said he left Netflix voluntarily in August.

“I think some people felt it was a culture of fear,” said Barbie Brewer, a former Netflix vice president of talent who left last year. “But nowhere in the keeper test does it say you have to be perfect. I think as long as you realize that, it’s not quite as scary.” Ms. Brewer said her parting with Netflix was mutual. She took a severance package and a six-figure pay cut to go to her next job. She said she had tired of Netflix’s heavy workload and constant travel.

The firings can be insensitive, several former employees said. Ernie Tam, who had worked as a Netflix engineer for six years, was called into his manager’s office on a Monday morning in 2015. “You’re no longer a star performer,” the manager said. An HR representative came in, discussed Mr. Tam’s severance package and took his laptop. “I just left the office and never came back,” Mr. Tam said. “For a period of six years, I was a star performer, then all of a sudden I was not.” Mr. Tam said he was surprised, despite receiving negative feedback from his manager over the previous month, because earlier managers had given him time to improve after criticizing him.

Mr. Tam said that, despite the shock, he feels fortunate to have worked at Netflix, both because of how much he learned and the generous salary. “It’s difficult to find so many smart people working for one company.”

One former employee remembers seeing a woman who was just fired crying, packing up her boxes, while the rest of her team shied away from the scene without offering any support. They feared that “helping her would put a target on their back,” the employee said. “I just couldn’t believe it.”

A former marketing vice president had been working all weekend on a marketing shoot in 2014 to promote the second season of “Orange Is the New Black” in New York City. During the weekend, her boss, Chief Marketing Officer Kelly Bennett, scheduled a Monday morning meeting, saying he and then-Chief Talent Officer Tawni Nazario-Cranz would stop by on their way from California to London.

In the meeting at her hotel, Mr. Bennett fired her, telling her she wasn’t a “cultural fit.” He then “got up and walked out,” the former executive said. “I was flabbergasted.”

Welcome to Netflix

Netflix prides itself on having a unique culture that doesn't tolerate mediocrity. Can you make it through orientation?

1. Which of the following sensitive pieces of information are available for a sizable portion of employees to see?

Salaries

Programming contracts

Subscriber numbers by market

All of the above

Next Question »



Methodology: The Wall Street Journal came up with a quiz to guide readers through Netflix's unusual culture. The answers are based on Netflix's culture document and interviews with dozens of current and former staffers.

employees across multiple divisions and can be painfully specific, calling out an employee's flaws, while inviting more questions and gossip, many employees say.

In one recent case, Chief Financial Officer David Wells sent an email in August to employees saying he "decided to exit" David Burt, a vice president. "It is now clear that David was not forthright with us around a major employee issue that impacted the business even when directly asked," he wrote in the email.

A person familiar with the case said the "employee issue" referenced in the email involved a sensitive medical condition and that Mr. Burt had acted to protect the person's privacy and confidentiality.

She turned to Ms. Nazario-Cranz and asked, "what could I have done differently?" She said Ms. Nazario-Cranz told her she should have fired somebody on her team faster.

"I was trying to help somebody in their career, and they maybe saw that as a sign of weakness from me," the former executive said. She cried all the way home on her six-hour flight to Los Angeles, wondering how she would break the news to her pregnant wife.

Mr. Siklos, the Netflix spokesman, denied the executive was told she was too slow to fire someone. "The former executive in question was told clearly that they were being fired, after a series of conversations, because of their personal behavior," he added.

Once people are fired, Netflix believes in explaining the reasons. The emails about firings can reach hundreds of



The Netflix logo is seen on the office in Hollywood. PHOTO: LUCY NICHOLSON/REUTERS

postmortem

Sean Carey, a former Netflix vice president who was instrumental in helping build Netflix's streaming library, was in the room for his "you're fired" postmortem meeting in front of some 40 to 50 people on the content team. Ted Sarandos, Netflix's chief content officer, explained to the team that the company's focus was shifting to original content and Mr. Carey wasn't suited for the increasingly creative role, according to people who attended.

"It was certainly awkward for some, but was also consistent with the culture—there is sometimes a cost to transparency," said Mr. Carey, who said he asked to attend the meeting so his exit would be less jarring for his team. "In the end, I felt it was beneficial."



Actor Gaten Matarazzo, Netflix chief content officer Ted Sarandos and actor Joe Keery attend Netflix's 'Stranger Things 2' in 2017. PHOTO: VALERIE MACON/AGENCE FRANCE-PRESSE/GETTY IMAGES

Usually, the fired person doesn't attend their own postmortem discussions. "Anything like that can definitely turn into a pile on," said Jibran Kutik, a product designer who left earlier this year. "But in my experience overall, I found them to be generally useful."

Theoretically, Netflixers shouldn't be caught off guard when they fail the keeper test, because of the voluminous feedback they get on anything from their work ethic to their tone of voice. Once a year, employees are expected to codify their feedback for one another through a software tool called "360." Anyone can review any other employee, from the administrative assistants all the way up to Mr. Hastings himself, and many senior executives choose to share the feedback they receive with everyone on their teams.

At some team dinners and lunches there are rounds of "real-time 360," executives say, where everyone goes around and gives feedback and criticism about others at the table. "It can be intense and awkward," said Brandon Welch, a Netflix talent executive who left in 2016, adding that the pressure to give and receive feedback was the "hardest part about the culture."

Netflix pushes back on the notion its culture is cutthroat, noting the company ranked second on Comparably's "Happiest Employees" list published in October 2018, which was based on anonymous feedback from employees over the prior year.

The company said the number of employees leaving voluntarily has remained steady at 4% annually, below the average of 13% for American companies cited in a 2017 report by the Society for Human Resource Management. Netflix's firing rate was slightly higher, at 8% last year compared with the 6% average. Netflix said its total turnover comes to 11% a year, which is below the 13% annual turnover for technology companies, according to a 2018 study by LinkedIn.

The streaming service appeals to people who want to work on the vanguard of media and technology. It pays rich salaries, sometimes offering to more than double pay for new recruits and giving six-figure raises in a year.

Mr. Welch, the former Netflix talent executive, said the company's hiring decisions are based 50% on cultural fit and 50% on hard skills, versus 80% on hard skills at other companies where he has worked.

Speaking Netflix

New employees soon learn to speak Netflix. The lingo includes phrases like "What is your north star," "highly aligned, loosely coupled," and "context, not control."

"If you don't use that lingo on a daily basis, you're not going to succeed," said one Netflix short-timer.

More than 100 Netflix top executives have taken a specially designed leadership course, in which executives acted out the ancient Greek play

“Antigone” and read about Lee Kuan Yew, a benevolent autocrat who turned Singapore into a developed nation and distrusted some elements of liberal democracies.

THE NETFLIX GLOSSARY

Here’s what you might hear in Netflix’s hallways and in meetings.

- Blast Radius: How far something goes inside the company when you say it to someone else, like “I’m a senior person in the company and my blast radius is greater than others and carries longer.”
- Meme: The “meme” on someone at Netflix is their current standing in the eyes of their bosses. If the “meme” on you is that your boss’s boss doesn’t like your tone or attitude, if you don’t change quickly that could mean you are out.
- Where is your North Star? An oft-used phrase in internal Netflix meetings to ask people to define their ultimate business goals.
- Context not control: A phrase Netflix uses to describe how executives should manage their teams. The idea is that managers should give their employees the right context to make decisions themselves rather than micromanage and seek to control decision-making.
- Highly aligned, loosely coupled: The adjectives Netflix uses to describe its organization as the opposite of a top-down company. Teams are meant to know broad company goals and work toward them without needing too many approvals.

The rapid growth and influx of new cultures, from Hollywood to Japan, has led to near-constant conversation about the culture, current and former employees say. “The best part was knowing that if someone is not working out, we’re going to let them go,” said Mr. Estep, the former engineer. “The worst part of it was just having to hear and talk about the culture so much. Talking about it constantly is just annoying and obnoxious.”

Exporting the “Netflix way” overseas has been a challenge. The firing culture ran into roadblocks in some countries such as the Netherlands, where labor laws make firing employees for cause more difficult.

When Netflix’s Singapore office opened in 2016, employees said they were shocked by the frequency of firings. A Korean employee who left earlier this year from the Singapore office said the culture encouraging harsh feedback at times reminded her of North Korea, where mothers are forced to criticize their sons in front of the public.

Belle Baldoza, a former public-relations manager in Singapore, got into trouble with human resources when she asked co-workers if they wanted to chip in to help out a receptionist who was fired during Chinese New Year and wasn’t eligible for severance because he worked on contract, people familiar with the incident said. Human resources officials told her such a collection was not the “Netflix way” and was “not in the best interest of the business,” the people said.

Ms. Baldoza left voluntarily last year, writing in an article in *Cosmopolitan* that constant work-related travel took a toll on her personal life. “I became anxious and irritable,” she wrote.

View of salaries

Mr. Hastings’ philosophy has been to share information in the company openly and widely, and involve everyone in debates about Netflix’s path, from price increases to its China strategy to the look of Netflix’s logo.

Several current and former executives said the company’s decision last year to let executives director-level and above see all employees’ salaries led to awkwardness—several described a bizarre feeling of seeing dollar figures over colleagues’ heads in the hallways.

“I was not a huge fan of that going into it,” said Bob Heldt, a former director of engineering who was let go last year. “It’s not necessarily how I wanted to view my peers.” Some current and former executives said it upset team dynamics. But others, including Mr. Heldt, became supporters of the initiative after it helped people who were underpaid make a case for raises.

An effort more recently by Mr. Hastings to allow Netflixers to see the salaries of any other employee, regardless of rank, was soundly defeated in a company poll of executives.

Some parts of the “freedom and responsibility” culture have become unsustainable. Netflix announced in 2015 that it would offer its employees maternity or paternity leave up to a year, trusting employees to use their discretion on whether to take full advantage. Following Netflix’s lead, other companies expanded their own leave policies. But in recent months, after many people construed the policy as an automatic full year, Netflix executives discussed reining it in, people familiar with the situation said. The company now instructs managers to tell their employees that it’s common to take four to eight months, Netflix executives said.

At times, transparency has been met with skepticism when it comes after the fact. Several years ago, Mr. Hastings “sunshined” in an executive meeting that he had authorized the company to give unusual, significant cash sums to a couple of senior executives, including Ms. Nazario-Cranz, the chief talent officer, to help buy houses in the Bay Area, people familiar with the matter said.

Several top executives were angry at perceived favoritism and that he hadn’t discussed the handouts in the first place. Mr. Hastings believed helping with house payments would allow “exceptional talents” to focus on work, one of the attendees said. Executives debated whether to extend

home financing help to employees more broadly and decided against it, but negative feelings continued to percolate.

Ms. Nazario-Cranz soon found herself in the cultural crosshairs again. Mr. Hastings was dubious when he found that the executive had taken some of her team to get their hair done and bought makeup on the company's dime ahead of a launch event in Milan a few years ago. Mr. Hastings asked her to "sunshine" what she did in front of dozens of top executives.

Ms. Nazario-Cranz argued that if a manager took two men out for a round of golf and expensed the outing, it wouldn't have been so controversial. "It spun into an issue of gender equity," an attendee said.

Ms. Nazario-Cranz confirmed the incident in an email and said such debates encouraged by Mr. Hastings helped improve "our collective judgment."

Ultimately, Mr. Hastings fired Ms. Nazario-Cranz last year, people familiar with the episode say. Ms. Nazario-Cranz depicted her departure as mutual, spurred in part by a heart condition and desire to spend more time with her children. "I love the culture; I helped develop it," she said.

The incident with Jonathan Friedland, Mr. Hastings' chief communications officer, was one of the culture's biggest tests.

N-word incident

Mr. Friedland in February convened his roughly 60-person publicity staff to discuss a Tom Segura stand-up comedy special on Netflix in which Mr. Segura spoke of nostalgia for a time when using the word "retarded" was acceptable. That sparked anger from some viewers.

Mr. Friedland, who worked as a reporter and editor at The Wall Street Journal for a decade until 2004, believed a big part of his and his team's job was defending the company against such a backlash. Like other veteran Netflixers, Mr. Friedland was used to a culture that encourages bluntness and speaking freely.

He felt some of his staff didn't appreciate how hurtful the word "retarded" could be. To drive his point home, Mr. Friedland said in a recent interview with the Journal, he told them the word would be a "gut punch" for parents of differently abled children, "as if an African-American person had heard the N-word." But in the meeting, he used the full epithet.

Complaints rolled in from employees offended by his use of the word. He apologized in writing to his staff, flagged Mr. Hastings about the incident and spent an hour discussing it with a broader group of his PR team. Mr. Friedland later arranged to meet with two black employees in human

resources and recounted what he had said, again using the full N-word and not the abbreviation.



Jonathan Friedland, former chief communications officer at Netflix. PHOTO: PEDRO SANCHEZ MUNIOZ/NOTIMEX/ZUMA PRESS

In April, Mr. Hastings' ring of top 90 executives VP-level and above, known as the E-staff, convened at an off-site in Rio de Janeiro. Mr. Friedland "sunshined" the episode and expressed remorse again.

When the controversy didn't blow over, a group of black employees at Netflix in May invited Mr. Friedland to talk to them and were upset when he didn't address the matter. The employees didn't explicitly ask him to speak about the incident, according to a list of questions the group sent Mr. Friedland, which was reviewed by the Journal, but it did ask him to discuss his or his team's "biggest miss."

Mr. Friedland "should have been fired right away, not months later," said Nishant Bhajaria, an engineer who quit in February. He said while he has respect for Mr. Hastings, the CEO failed to apply a key value in Netflix's culture manifesto—"no brilliant jerks."

Two prominent black executives in the Beverly Hills office, Tara Duncan and Layne Eskridge, left voluntarily in June, spurring more conversation internally about whether Netflix was supporting diversity.

When Mr. Hastings heard about Mr. Friedland's second use of the N-word in the months-earlier HR meeting, he became convinced the executive no longer could be an effective leader.

Mr. Friedland was in Japan on business when Mr. Hastings called to fire him. Mr. Friedland, who was constantly traveling as a cultural ambassador for Netflix and visited more than 20 countries last year, felt blindsided.

"I definitely made a mistake and I did my best to address it in the immediate aftermath, but I also neglected to keep an eye on any lingering hurt it may

have caused when I was moving at a million miles an hour,” he said.

Some people inside and outside Netflix thought Mr. Friedland’s treatment was harsh. Mr. Welch, the former Netflix talent executive, suggested it may be unfair to “almost weaponize” something that was said in the presumably safe HR environment.

When news of the firing leaked to the trade press, Mr. Hastings, irritated at a very un-Netflix breach of trust, fired off an email to his executive staff saying whoever leaked it should report themselves to HR.

“You’ll get a discreet quiet exit, and our generous severance package if you do it now,” he wrote.

He then sent the companywide memo with the introspective reflections on racism, praising Mr. Friedland nonetheless for building a “diverse global team” and “strengthening our reputation around the world.”

A few weeks later, Mr. Hastings apologized for his emails needling his executives over the leak.

“The lesson,” Mr. Hastings wrote in another note to staff, “is that crazy stuff happens in the fog of war.”

Write to Shalini Ramachandran at shalini.ramachandran@wsj.com and Joe Flint at joe.flint@wsj.com

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