

Case Study Analysis – Reed Hastings of Netflix

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“The difference between a good leader and a great leader is [the] ability to adapt to change...when the leadership plan is not working...a great leader will adjust his or her leadership plans accordingly” (Gregory-Mina, 2019, para. 1). Reed Hastings of Netflix is an excellent example of someone who models this description of outstanding leadership. This analysis discusses the creation of Netflix, the company’s culture, its motivational and organizational behavior, Hastings’ transformational leadership style and expert power, and the knowledge gained from the research.

Hastings’ Creation of Netflix

According to Chmielewski (2020), Reed Hastings has been in the software industry since 1991, when he started Pure Software. Pure was a company that created programs for developers of Unix software that helped them check for quality control (Chmielewski, 2020; Copeland, 2010). Pure went public after a few short years and was finally purchased in 1997 by Rational Software for \$750 million (Chmielewski, 2020; Copeland, 2010). After the merger, Hastings could see a sharp contrast in the working atmosphere. As Pure Software grew, the work environment was often hard and aggressive, and there was much turnaround in administration (Copeland, 2010).

On the other hand, the executive team at Rational had been with the company for nearly twenty years (Copeland, 2010). Hastings was able to see how an effective team functioned and discussed the impression it left on him in a 2010 interview in Fortune Magazine, saying, “[i]t was so different how they operated - the level of trust and the quality of interaction between them was impressive. That gave me a North Star, something I wanted to grow toward”

(Copeland, 2010, para. 15). Two people who worked at Pure Software with Hastings and are still with him today at Netflix are Marc Randolph and Patty McCord (Chmielewski, 2020). Randolph started Netflix along with Hastings, helping to develop the plan for the company when Reed had the idea after paying a \$40 late fee for a video rental (Chmielewski, 2020; Copeland, 2010).

Netflix's Culture

After some time, Hastings achieved a level of teamwork comparable to Rational Software. In 2010 Copeland painted a beautiful picture when he stated, “Today at Netflix the entire executive team has been with the company more than a decade, and the trust they have in one another is one of the keys to the company's success” (para. 11). However, within the next ten years, things seem to have changed. Chmielewski (2020) reported that a former executive referred to the environment at Netflix as a “culture of fear” where employees are rewarded for attacking and tearing each other down (para. 16). This description is certainly a stark contrast to just ten years before.

External factors may be part of why the culture at Netflix has changed. The company has had to adapt to global circumstances and the technical landscape. Situations may be difficult and can require harsh decisions. For example, in 2001, because of the “dot-com bust” and 9/11, Hastings had to fire one-third of his workforce to keep the business afloat (Chmielewski, 2020). Obviously, occurrences of this nature will shape the culture within the company.

Challenges

Accordingly, as part of the company's evolution, Hastings has faced his share of challenges. Netflix achieved initial success as a DVD rental company, with customers choosing their movies online and receiving them through the mail in red envelopes. This model proved

very lucrative, and in 2020, the company still has 2 million DVD customers (Shapiro, 2020). In 2007, the company offered customers the option to stream video online (Mahtani, 2022). Again, this new method gained popularity and was quite successful until 2011, when Hastings decided to divide the rental and streaming businesses into two companies (Mahtani, 2022). The split of offerings raised prices and created difficulty for customers who had to create different accounts for each service (Mahtani, 2022). Hastings' mistake caused the company to lose many customers, and the company's stock plummeted by over seventy-five percent (Chmielewski, 2020). Three months later, Hastings reverted the decision and re-joined the services under one umbrella. Recognizing when a mistake is made and having the courage to admit it publicly and rectify it is a mark of an effective leader

Profitability of Netflix

Another aspect of strong leadership is the ability to convert problems into solutions and capitalize on them. Hastings did just that when he was inspired to create a company that would not charge for late returns after having to pay the \$40 fee on his *Apollo 13* video rental (Chmielewski, 2020). Hastings has used his keen intelligence to guide Netflix to profitability. First, according to Copeland (2010), their customer service was top-notch: they would not charge late fees for overdue rentals or make subscribers pay for lost DVDs. The quality of service allowed their customers to know they were valued and helped increase the number of subscribers as the company grew. Netflix has also utilized technology to bring more subscribers to the company. Mahtani (2022) wrote that in the early years, the company designed its online platform to recommend older movies to subscribers. This helped save the company money by cutting down on the more expensive rentals of new DVDs. The practice continues with the streaming service: the algorithm suggests older titles to viewers along with newer options (Copeland,

2010). Finally, in more recent years, Netflix has generated more money by creating their own original content (Mahtani, 2022). Chmielewski (2020) reported that they have focused on attracting top talent and have dedicated large sums of money to these creative endeavors. Their hard work and innovation have paid off, and in 2018 their “market capitalization exceeded \$100 billion, making it one of the largest digital media companies in the world” (Mahtani, 2022, para. 11). Through the wise choices made by Hastings and the leadership at Netflix, the company is stronger than ever.

Motivational and Organizational Behaviors

It has not only been business maneuvers that have helped grow Netflix but also fundamental to the company’s performance are the motivational and organizational behaviors that have driven them to excel. First, motivation can be described as “a force within or outside of the body that energizes, directs, and sustains human behavior” (Rice University, 2019). One motivational behavior that has contributed to Hasting’s performance is the need for achievement. This stimulus is attributed to the Learned Needs Theory of David McClelland, a content theory of motivation (Rice University, 2019). McClelland based his work on Henry A. Murray’s Manifest Needs Theory, focusing on three needs that cause people to behave a certain way: need for achievement (nAch), need for affiliation (nAff), and need for power (nPow). The need for achievement refers to “how much people are motivated to excel at the tasks they are performing, especially tasks that are difficult” (Rice University, 2019). Reed Hastings has demonstrated this need time and time again when he and his team continually find solutions to considerable challenges. To illustrate, during the Covid-19 pandemic, when the entire world was shut down, Netflix was able to resume their operations and the creation of their original content by quickly transferring all operations to remote work (Chmielewski, 2020, para. 45). When the need for

achievement is expressed, people try hard to succeed at their task, and feel personally responsible for completing their assigned tasks (Rice University, 2019). The collective need for achievement motivated the people at Netflix to be resourceful and continue working despite the chaotic situation.

Consequently, this need for achievement has been instrumental in the success of Netflix. According to Rice University (2019), the need for achievement is significant to organizational behavior because the degree to which the employees exhibit this need dictates how successful the company will be. Organizational behavior can be defined as “[t]he study of the actions and attitudes of individuals and groups toward one another and toward the organization as a whole” (Rice University, 2019). It was the desire of the group at Netflix and the dedication they exhibited to maintaining operations during the pandemic that helped keep the world entertained with streaming content while everyone was stuck at home. Their collective commitment to achieving their shared goals has been vital to their overall success.

Hastings’ Leadership Style

Next, in learning about Hastings and what has contributed to his success with Netflix, it is crucial to examine his leadership style. Leadership can be described as “a social (interpersonal) influence relationship between two or more persons who depend on each other to attain certain mutual goals in a group situation” (Rice University, 2019). Four prominent theories address contemporary leadership: trait, behavioral, situational, and transformational (Gregory-Mina, 2009). Throughout the years, Hasting has demonstrated the theory of transformational leadership. According to Rice University (2019), a transformational leader is defined as someone whose actions make big changes and inspire followers to excel. Transformational leaders are often charismatic, attracting followers’ attention and admiration. Hastings’ movements are

tracked nationwide, and he has many fans. For example, John Doerr, partner at investing firm Kleiner Perkins, said of Hastings, “He’s a hero of mine, as a human and as a leader” (Copeland, 2010, para. 5).

Moreover, Hastings has openly stated that he sees himself as a transformational leader. “[M]y job is to inspire people, excite them...I’m sort of educating, coaching, cheerleading, guiding” (Shapiro, 2020, para. 10). This quote perfectly aligns with the description of a transformational leader according to Rice University (2019): “they inspire others to action through their personal values, vision, passion, and belief in and commitment to the mission” (para. 2). Hastings has used the transformational leadership style to encourage his team at Netflix to achieve greatness, as proven by their popularity and profitability.

Hastings’ Leadership Actions

Hastings further demonstrates his transformational leadership style through the actions he has taken and policies that have been implemented at Netflix. For example, Hastings encourages employees to be autonomous, giving them the liberty to do what they think is best for the company (Chmielewski, 2020). Correspondingly, “transformational leadership empowers others to become freethinking, independent individuals” (Kinkead, n.d., as cited in Gregory-Mina, 2009, para. 7).

Additionally, Hastings and his team are wisely focused on the importance of diversity and how it can benefit their company in the global market. Lev-Ram (2019) described the Netflix content development team: “[t]hey present a diverse range of ethnicities, races, and sexual orientations—an approach that reflects Netflix's strategy of continuing to build its user base by connecting with audience segments across geographies and categories” (p. 78). Promoting

diversity, equality, and inclusion within the company is an ethical practice, and another quality of transformational leadership (Kanungo, 2001, as cited in Gregory-Mina, 2009, para. 18). Thus, through their actions, Hastings and the leaders at Netflix have shown that they have thoroughly embraced the transformational leadership theory.

Hastings' Power

Equally important in the process of understanding Hastings is examining his power. Power, as defined by Rice University (2019) is “an interpersonal relationship in which one individual (or group) has the ability to cause another individual (or group) to take an action that would not be taken otherwise.” (para. 2). The base of power that is modeled in the working relationship Hastings has with his Netflix subordinates is expert power. Expert power can be explained as when a person’s experience and expertise give them power over others (Rice University, 2019). People willingly follow that person because of their credibility and “mastery over a particular subject matter” (Rice University, 2019).

Next, Hastings gained power by repeatedly proving that he is qualified to lead the company through any challenge. He displays his expert power by staying abreast of new technological advancements and steering the company in the right direction. In particular, he was “ahead on the technology curve with the DVD...[and] anticipated, virtually from the moment he started Netflix, that consumers would eventually prefer to get movies instantly delivered via the internet” (Copeland, 2010, paras. 5-6). Hastings’ keen sense for technology and his ability to tap into the future have given him the expert power worthy of a CEO.

Lastly, Hastings has used his power ethically over the years, acting confidently and decisively and maintaining credibility. For example, when he made the mistake of trying to

separate the DVD and streaming services, Hastings was willing to backtrack his decision and admitted his misstep publicly. Being honest with his company, investors, and customers has grown his integrity in the industry. Further, his approach with employees is straightforward and truthful, and he makes a point to gain a deeper understanding when he hears an idea that seems off base (Copeland, 2010). Thus, Hastings has used his expert power to steer the company in the right direction.

Gained Knowledge

Several elements of the Hastings and Netflix case study can provide helpful guidance for leaders in the field of online education and eLearning Center of Laredo College. First, it is important to realize the value being flexible. Hastings has demonstrated his adaptability repeatedly, bouncing back from obstacles and recognizing upcoming trends. In the world of technology, nothing is certain as things are constantly evolving. At the eLearning Center, the workday's schedule is continuously in flux, based on any support requests or issues that there may be with any of the instructional technologies used by the College. It is crucial for the team to be able to go with the flow to handle any new challenge. Being flexible is a trait that positions both leaders and organizations for success.

Next, Hastings has shown that keeping a global perspective is crucial in today's world. One of Netflix's main focuses is on developing original content that appeals internationally. "Netflix's goal is to appeal to an increasingly global audience with an increasingly global slate" (Lev-Ram, 2019, p. 82). Following this model would make perfect sense for Laredo College as the institution is right on the border with Mexico. Also, since the Covid-19 pandemic, there are more online students than ever before. By increasing online offerings and programs and

promoting them internationally, the College can tap into this market, increasing our student population and revenue.

The final nugget of wisdom gained from an analysis of Hastings and his leadership at Netflix is to admit mistakes, accept the consequences, and move on. He has shown humility in his actions and has refused to let his pride be the downfall of the company he has worked hard to bring to success. This is a valuable lesson that can benefit everyone on a personal and professional level. Missteps happen, but they do not have to be the end of the world; it is crucial to recognize them and take immediate action to rectify them.

Conclusion

To summarize, analyzing the case study of Netflix's Reed Hastings provides useful information to any leader today. Since 1997 when he started the company, he has demonstrated excellent leadership and vision. The company has evolved significantly through the years, from the beginning as a DVD rental service, then growing into streaming content online, to a prominent creative source of original content in the entertainment industry. Netflix's culture has also evolved and is a product of the challenges the company has weathered.

Additionally, despite the obstacles, Hastings has brought Netflix to profitability with his keen intelligence, by promoting excellent customer service, and by hiring talented team members. Additional contributors to the company's success are the motivational and organizational behavior demonstrated by the employees. A shared need for achievement drives the staff to accomplish their goals, and their commitment and dedication have been vital to their triumphs.

Another contributor to the success of Netflix is Hastings' leadership style. He embraces the transformational leadership theory, inspiring his employees to be and do their absolute best. As a leader, Hastings encourages his team to be independent thinkers. Also, he promotes diversity within the workforce, recognizing the value it brings to the company in the global arena.

Furthermore, Hastings has gained expert power through his excellent decision-making ability and the credibility he has demonstrated to the Netflix employees, investors, and customers. He uses this power ethically, by being honest, working to maintain his credibility, and acting confidently and decisively. Hastings has set the bar high as an example of great leadership.

Finally, following Hastings' model can be beneficial for leaders in any field, including higher education and online learning. Key elements learned are to be flexible, to keep a global perspective, and to recognize and admit mistakes. Reed Hastings and his work at Netflix have profoundly impacted the world, and hopefully, his example will inspire many great leaders to come.

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