

REED HASTINGS – ACTIVE COPER

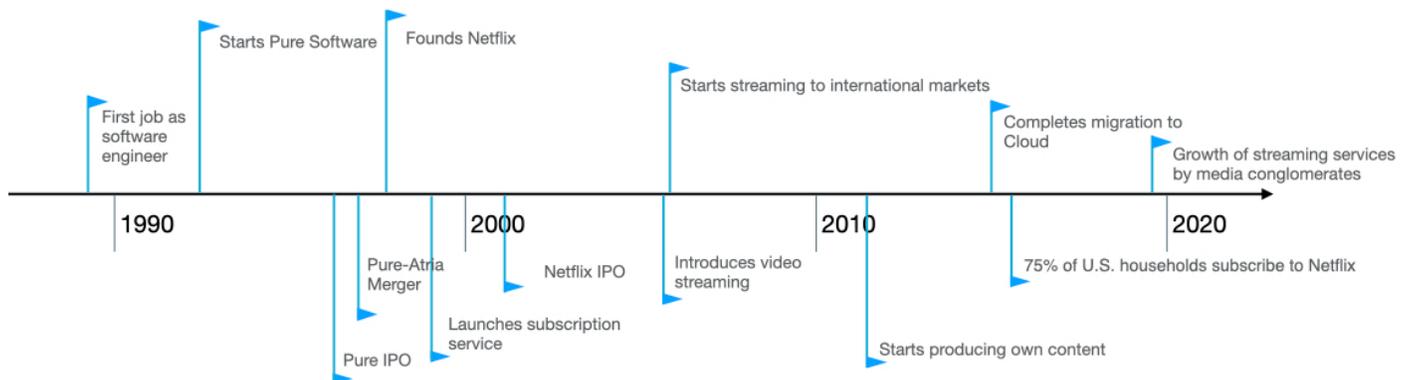
By Leslie Pratch

I've written a lot about active coping as a crucial determinant of leadership effectiveness. This is the third of a series of newsletters that provide a case study of what active coping looks like, drawing on the careers of some well-known executives. Reed Hastings is a good example of what active coping looks like. Active coping is being able—emotionally, intellectually, and behaviorally—to successfully confront unforeseen challenges and capitalize on emergent opportunities. Active coping is an attribute of a healthy personality. It is baked into who the person is. If you are an active coper, you adapt resourcefully and effectively to novelty and change, repeatedly. You learn from experience. When you fail, you seek to learn why, and you respond more effectively the next time. Rather than hide from constructive criticism, you seek it out as a source of insight. You take into account the interests of others, as well as your own, and the interests of society.

When you pick people to run your companies, you'd like to find someone who has the active coping style of Hastings, who can lead an organization through tumultuous times. The best leaders combine active coping, intelligence sufficient to think through the level of complexity they will face in the job (which might vary from organization to organization or even over time) and a motivation to lead.

Reed Hastings started Netflix in 1997 and has successfully led it through several maneuvers, from an efficient DVD shipping operation, to an internet streaming business, to a content developer. Netflix is now the 36th most valuable companies in the world producing its own original content and streaming entertainment to more than 100 million subscribers around the world.

Reed Hasting's Career



Active copers have characteristic behaviors that reflect their underlying psychological makeup. They:

- face problems rather than avoiding them,
- overcome obstacles rather than giving up or blaming others,
- take into account the interests of others, as well as their own and interests of society,
- take advantage of opportunities that others might have failed to capitalize on,
- seek to understand multiple perspectives, so as to avoid own blind spots, and
- learn from experience.

Face problems

In 2018, Hastings fired his Chief Communications Officer, Jonathan Friedland, after two incidents of Friedland's using the N-word. In a memo sent to employees, he explained, "Jonathan contributed greatly in many areas, but his descriptive use of the N-word on at least two occasions at work showed unacceptably low racial awareness and sensitivity and is not in line with our values as a company. Going forward, we are going to find ways to educate and help our employees broadly understand the many difficult ways that race, nationality, gender identity and privilege play out in society and our organization. We seek to be great at inclusion, across many dimensions, and these incidents show we are uneven at best." He added that, looking back, he should "have done more to use it as a learning moment for everyone at Netflix about how painful and ugly that word is, and that it should not be used."

Overcome obstacles rather than giving up or blaming others

Netflix has overcome many obstacles in its growth journey and continues to do so.

- **Subscriber Growth.** Netflix stock rises and falls with subscription growth, which has flattened in the U.S., yet the company's valuation remains high. Hastings justified its current valuation by anticipated growth in Asian countries. Hastings anticipates that the next 100 million subscribers will come from places like India and Southeast Asia – areas with large populations and high mobile internet penetration. Netflix can only achieve that target by cutting its price in those countries, where potential subscribers have a fraction of the purchasing power of U.S. and European subscribers. In 2020, Netflix introduced mobile-only plans for about \$3 a month in India, Malaysia, Singapore, and Indonesia. Disney's Hotstar, the leading online streaming service in India, has only 7.5 million subscribers who pay less than \$1 a month. For Netflix to pick up 100 million subscribers Asia (it cannot operate in China), it must win all the remaining streaming video subscribers in India and the eight major Southeast Asian countries and continue to grow in wealthier nations like Japan.

Added to Asian consumers' price sensitivity are regulatory challenges. Indonesia's largest internet provider blocked Netflix in 2016, citing objectionable content. Netflix had to raise prices in Singapore and Malaysia after their governments levied higher taxes on popular foreign internet services. The governments of Japan, Australia and India passed similar laws once Netflix became popular. Indonesia, Thailand and the Philippines are now considering similar legislation, which adds to their tax basis.

- **Explosion of Streaming Services by Media Conglomerates.** Hastings is continuing to focus Netflix on developing its own content to overcome the ongoing loss of content from its platform to potential streaming competitors. Netflix has invested in local production more aggressively than any other U.S. streaming services. In November, Hastings told investors that Netflix had invested in over 180 originals from

Asia and was sponsoring writing and filming workshops in South Korea, Vietnam, Malaysia, Indonesia and Thailand to help promote local production. He also said that Netflix planned to spend \$423 million over two years on local content for the Indian market. The Indonesian government said last week (December 3, 2020) it would partner with Netflix to host writing workshops for Indonesian scriptwriters in both Los Angeles and Jakarta. Netflix also recently launched a local-language interface in Vietnam, where online video is quickly replacing broadcast TV.

Take into account the interests of others and of society as well as their own

Allegations of sexual misconduct associated with Kevin Spacey in 2017 cost Netflix around \$39 million as Hastings fired the star of its hit *House of Cards*, during the filming of the final season.

Take advantage of opportunities that others might have failed to capitalize on

In 1997, Hastings co-founded Netflix, offering flat rate movie rental-by-mail to customers in the U.S. by combining DVDs, which were easier to mail than VHS tapes, and an online website for ordering them, instead of a paper catalogue. He got the idea after he left Pure Software. He had misplaced a cassette of a movie he'd rented and had a steep late fee. Later, on his way to the gym, he realized his gym had a better business model. "You could pay \$30 or \$40 a month and work out as little or as much as you wanted." How many other people were gym subscribers with big late video fees but didn't start a flat rate movie rental service?

Hastings has led Netflix through several adaptations including shifting from CD's to streaming at Netflix and shifting from buying content to producing content.

In 2000, Hastings proposed a partnership to Blockbuster's CEO: Netflix would run Blockbuster's brand online and Blockbuster would promote Netflix in its stores. Blockbuster rejected the idea. Blockbuster went bankrupt in 2010.

Seek to understand multiple perspectives, so as to avoid own blind spots

Hastings created a culture where employees treat others with respect and try to understand the other's point of view. "We say we're not like prosecutor and defense where they're extremist in the search of truth. We're more like the Supreme Court where you try to take both sides of every issue and understand it, and that's the model, the behavior we have."

Hastings didn't like the idea of *House of Cards* and the idea of moving into original content. But he listened to Ted Sarandos, who loved both ideas. Ted told Hastings, "Trust me, it's only a hundred million dollars." Hastings said, "And so I did, and he was worth it. And out of that, the world got *House of Cards*."

Learn from experience

In 1991, 31-year-old Reed Hastings founded Pure Software. He struggled to manage a growing number of employees as the company grew through acquisitions. Pure went public then merged with Atria Software. In 1997, the combined company was acquired, and Hastings left shortly thereafter. Hastings quipped, "Life is about not making the same mistakes," based on his experience with the growth-through-acquisition path Pure took.

When he started Netflix, Hastings reflected on mistakes he made at Pure and learned from them. One mistake he saw had made at Pure was to put in place processes to ensure errors would not occur. But “by dummy proofing” the systems, he realized, “we created a system where only dummies wanted to work.” The average level of intellect fell. When the market changed, Pure could not adapt because its very average employees couldn’t adapt to the changes. Hastings saw that his solution to an easy problem made it harder to solve the more important problem. Not many people would see that and decide to take a different route the next time

Anticipating that online streaming would eclipse DVDs, he concluded Netflix needed to hire resourceful problem-solvers who could evolve new skills to adapt to change. He set out to build a company culture with and for such problem solvers, who are consistently working to further the company’s innovative environment. He decided to hire “first principle” thinkers who could shed old business models and devise new ways to deliver entertainment.

Next Steps for you?

Reed Hastings is an active copier. When you are hiring executives to lead your portfolio companies (or people to work within your private equity firm) you may want to find people who are active copiers, sufficiently intelligent and with the motivation to lead. If you would like to discuss how to do that, please give me a call. That’s what I do and have done with PE firms and companies for many years.

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