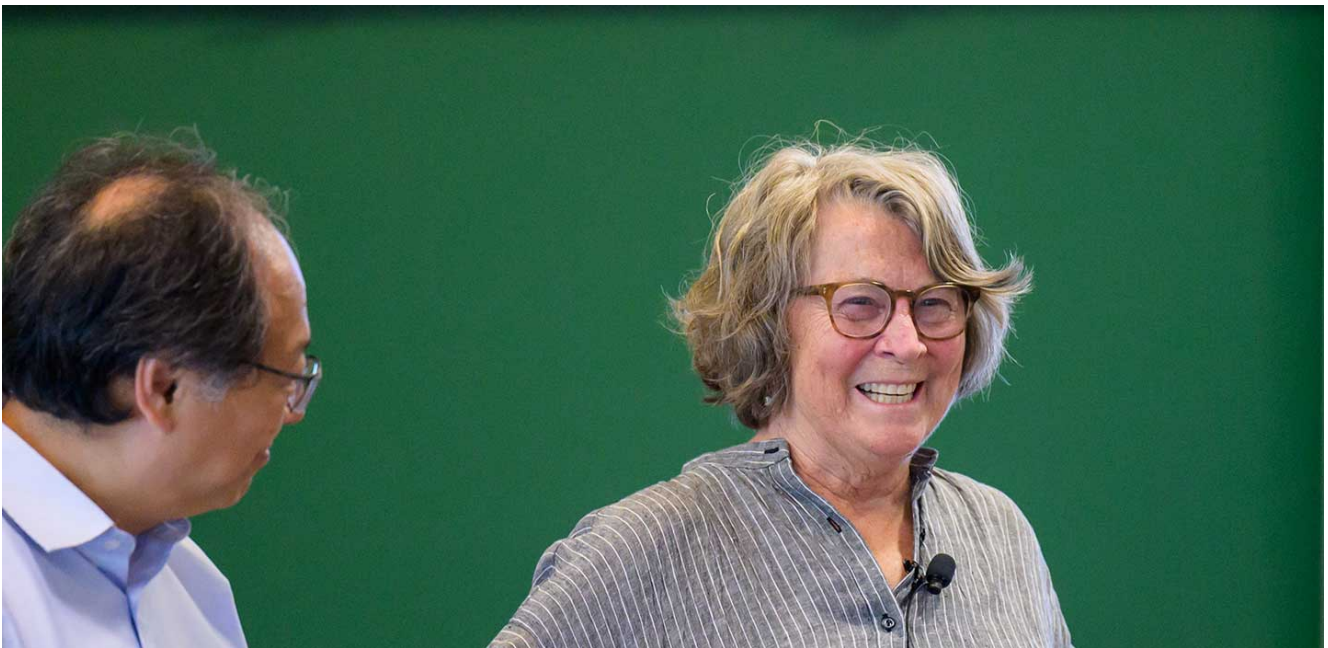


## “Stop doing dumb stuff!” Patty McCord on reinventing the rules of work at Netflix



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“If it ain’t broke, don’t fix it.” This maxim is so ingrained, we rarely think of doing things differently. Not so at Netflix. When founder Reed Hastings approached [Patty McCord](#) in 1997 about joining him “to build the company we always dreamed of,” the mandate was to do things differently.

“I had worked with Reed before at a software company that grew through merger and acquisition,” McCord told Prof. Yih-Teen Lee during [a session at IESE](#) in June 2025. “And every time we acquired a company, I would take their employee handbook and our employee handbook, and I would smush them together, and then we’d have a bigger employee handbook with processes to define the processes that would define the processes.”

As the key architect of Netflix’s organizational culture, McCord threw out the handbook — a process she describes in her aptly titled book, [\*Powerful: Building a Culture of Freedom and Responsibility\*](#). In this edited conversation, McCord shares her radical approach to talent management and organizational development, highlighting the principles and practices that contributed to building a high-performance work environment and industry-defining corporate culture. Her advice to managers is simple: “Stop doing dumb stuff.”

**Yih-Teen Lee: Tell us what prompted you to throw out the employee handbook?**

**Patty McCord:** Having been part of a startup and loving that energy, Reed and I really wanted to come up with a way of holding on to that energy for as long as possible. We realized speed was important because we had to move fast before somebody else copied us. And that demanded some tolerance for chaos rather than too much control.

We started by writing down the behaviors that we would expect to see. So, if we said we valued honesty, then we wanted to be able to have conversations like: “Tell me somebody on your team who demonstrated honesty last week. What did they say? What did they do? How did you know?” And we made these visible behavioral expectations part of how we did business, rather than just writing another rulebook.

**YTL: In 2001 you had to lay off a third of the company after the dot-com bubble burst, which led Netflix to focus on DVD rentals, just as DVD players took off. How did that period transform your thinking?**

**PM:** We were broke, so we couldn’t hire anybody, yet at the same time we were doing twice the work with a third fewer people and it was more fun! I remember saying to Reed, “I’m having a blast!” I had never worked like this before. I wasn’t spending my time dealing with people who were arguing or complaining. We were just getting things done. And Reed said to me, “Go figure out why.”

This got me thinking about what it takes to build a high-performance team. I realized we had what we came to call “talent density” — a really tight group of people who were absolutely clear about what they had to do.

During the layoffs, it became clear to me that we couldn’t retain anybody who was just going to complain about how awful everything was. We literally had no time for complainers, because if our business failed, we were all dead. And certain death is a real motivator. We had to be laser-focused.

Later, when things started to pick up and we were in a position to hire, we didn't do what most companies do, which is, "We have four engineers, so now we'll have eight." I stepped back and asked not how many but *what kind* of talent we needed to be successful. And when I looked at the people we had — wonderful, talented people — I realized that even if I put them on a 90-day performance improvement plan, they were never going to be able to do the jobs that we needed them to do by tomorrow. Instead, I said, "We love you, and we wouldn't be here today without you, but unfortunately we don't need you anymore." And rather than spending money on a performance improvement plan, we gave them three months' severance pay and replaced them with equally wonderful, talented people but with the skill set we needed.

We work with a lot of engineers, and this is something I learned from them: You start with the future you want and reverse-engineer it, working backward to create the systems and processes you need to get there.



Patty McCord (pictured at IESE) challenges HR managers to "throw something away; stop doing something that doesn't matter." And when the world doesn't end, "then you can be brave enough to think about the next thing."

# Sometimes the crazy stuff is the cleverest

**YTL:** Whenever I teach the Netflix case, people are astonished by this. They say, “This would never work in my company.” Your approach to pay, such as eliminating the performance bonus, is another example. For many people, it sounds crazy.

**PM:** Sometimes the crazy stuff is the cleverest. Think about it: If your salary is \$100,000 a year and you get an annual performance bonus of \$20,000, but I offer you \$140,000, you think, “Wow! That’s a 40% increase!” That’s because everybody thinks of their salary in terms of the \$100,000. But if you’re getting a performance bonus every year, that’s not a “bonus,” it’s what I would call “deferred compensation.” Does that incentivize you to work harder? Or does it just incentivize you to be employed at the end of the year? Here’s my thinking: If we already have performance, then we probably don’t need to incentivize it further. Don’t get me wrong: I am a huge fan of rewarding people for great performance. That’s why I would offer you \$140,000 and forget the “bonus.”

Here’s another story about pay: We had an employee who got an offer from Google to double his salary. At first I thought, he’s not worth it. But then it dawned on me: It didn’t matter what I thought he was worth; it was the fact that Google valued his worth coming from Netflix. We had not only created value for that particular worker, but we had created a company where it was valuable to be from.

To those of you out there managing people, I say this: Create CV-worthy activities for your people. Make your team a great team to be from. Imagine every accomplishment as something that people will be able to boast about to their next employer.

**YTL: Another “crazy” policy was unlimited vacation. How did that come about?**

**PM:** I asked myself: Have I ever fired a salaried employee for being tardy or absent? And the answer was no. But have I ever fired a salaried employee for not getting their work done? Absolutely. Is there a direct correlation between being present and getting your work done? Not necessarily. And if I can’t draw a line, then maybe it doesn’t need to be drawn.

So I stood up in front of everybody and announced we were going to try “no defined time off” for six months, just to see if it would be the disaster that everyone was telling me it would be. And do you know what? To this day, Netflix doesn’t dictate vacation time. People take the time they need, when they need it, so they can always bring their best to work.

# What does it mean to give employees freedom and responsibility?

**YTL: This would seem to represent what you call “freedom and responsibility.” Can you explain what you mean by this?**

**PM:** Getting rid of rules does not mean you can do anything you want. It means you have to be the owner of your decisions within the context of the business. We teach people how the business works and the part they play in it. For example, if your job is to listen to unhappy customers, and the cost to acquire a new customer is \$10, then if you make a customer so happy that when they hang up the phone, they stay with you and spread positive word-of-mouth, you’ve effectively added \$10 to the bottom line. That changes how you approach your job. And if you find yourself doing things that aren’t making a customer happy, then you probably shouldn’t be doing them.

**YTL: What impresses me about what you’re saying is how clearly and intentionally you link all these organizational principles and practices directly to the business.**

**PM:** My mindset was, every single thing we ask somebody to do that is not directly related to their job, making a customer happy or maintaining subscriber growth is something that maybe we shouldn’t do. Understanding how the business works is really critical for everybody in the company. And then the strategy has to be communicated right so it becomes everyone’s heartbeat. I would create lieutenants all across the organization who really understood the strategy, so when people asked how something worked or why we were doing this, I could always point them to the right people.

# Every employee must embody the culture to succeed

**YTL: What is the process for determining the capabilities you need to achieve the mission?**

**PM:** It depends. A lot has to do with time. If I need certain skills right now, sometimes it’s not possible to achieve that by developing someone internally: They’re never going to acquire 10 years of rich and varied experiences within, say, six months, no matter how hard they try. If, on the other hand, you do have time and the person has potential, then you can absolutely

help develop that person.

But the other thing is, they have to want it. You can't develop a reluctant employee. I can't tell you how many years I have spent saying, "You know, it's not my career, it's *yours*. It is not my responsibility to make sure that you have a great career. I mean, I hope you do. I hope you have a great life. I hope everything works out wonderfully. But our job is to make happy customers. And you have to want to do that, too."

The most important key to making your culture work is that your employees model it. No matter how great you are, at Netflix you cannot get promoted unless you embody the culture. There's the word *cult* in culture, and I have no problem with that.

You have to make sure that your people are capable of doing the work, on time, with quality, which serves the customer, *and that they love it*. I believe this in my bones: What motivates people is not money, but working with amazing people, accomplishing amazing things.

Here's my algorithm for success: It's doing what you love to do and you're extraordinarily good at, and that we need someone to be great at doing.

### **YTL: Is that why you encourage people to go interview elsewhere?**

**PM:** I'm adamant about it. I think it's healthy. Let people see what else is out there. If the grass really is greener on the other side, and if it's something the person really, really wants that we can't give them, then absolutely they should go for it. This is another form of giving your employees freedom.

I remember we had a marketing director who was really unhappy, so I encouraged her to go interview somewhere else. I sat down with her and asked, "Other than all of this complaining, if you could do anything, what would it be?" And she said, "I'm working on a novel. I really want to be a writer. I really hate this work. I'm good at it, so I keep doing it, but I don't love it." It was clear to me she was never going to be happy with us. It wasn't what she wanted to do. She was better off going somewhere else.

And when you go interview, ask: How do their internal systems work? How do you get promoted? How do you get a raise? Of those who got a raise or got promoted, why did they get it? What's the rhythm of that? Who gets fired? Why do they get fired? These are all perfectly reasonable questions to ask.

# Does the annual performance review make sense?

**YTL:** You recommend finding one thing you've always done and asking yourself why you do it. The annual performance review is a good example. Can you tell us more about that?

**PM:** The annual performance review is something that everyone does and that employees always roll their eyes about doing. If I said to you, "Hey, I've got an idea! Let's look back over the entire year and figure out whether you did or did not do something bad six or seven months ago, give you feedback about it, and then pay you based on that thing you did or did not do last year." If I wrote that on the whiteboard at Netflix, people would go, "Okay, there's Patty's idea. Anybody got a logical one?"

Feedback is most effective in the moment. So why wait six months to tell someone I'm upset about something they've been doing for the past six months? If the purpose is to give feedback, then the annual performance review is a pretty terrible system. It's backward looking. It's not in the moment. It's usually not actionable. It's full of corporate speak, so when you read it, you're like, "I guess I'm good?"

Often we are just repeating what has been done before or borrowing "best practices" from outside. But are we really thinking through these practices? Why are we doing this? What is the purpose? Annual performance reviews aren't necessarily wrong in the right context. That's the whole point: Does it make sense for you in your context?

**YTL:** Speaking of context, to what extent can these practices work outside the U.S.?

**PM:** When I say break the rules, I never said break the law. You've got to follow the labor laws in the context where you operate. But think about it: Why were labor laws written? So you don't exploit people or treat them unfairly, right? So if what you're doing is serving that purpose, then there's no reason why the law should represent a restriction, wherever you operate.

## Throw something away and see what happens

**YTL:** Any final words of advice?

**PM:** I have an assignment for everybody: Throw something away, just one little thing; stop doing something that doesn't matter. And when you do that, everybody will go, "Wow." Nobody dies; the world doesn't end. Then, you can be brave enough to think about the next thing.

I talk to HR teams all of the time and I got really fed up the last time: Why am I the goddess of HR? I'm tired of it. *You* go fix it. It's your job, right? It's simple: Stop doing dumb stuff that doesn't matter. When employees roll their eyes, there's a reason. Step back and think how you could do it better. And you don't have to think of everything yourself. Just ask anyone and they'll tell you, "If I were in charge, this is what I would do."

Find somebody in the company and ask them what they're doing, why they're doing it, how they're doing it, and use that inspiration. There's no need looking at what other companies are doing and trying to copy that. We don't say this is what everybody else should do; it was what worked for us. Just design something for yourself. You can do this, guys! You just have to start.

## How to create a high-performance team?

Build "talent density" — a close-knit group of people who are clear about the mission and embody the culture.

Teach people how the business works and the role they play in it.

Set behavioral expectations and then make sure those behaviors are visible.

Focus on productivity and output, not on presenteeism.

Make your team, and your company, a valuable place to be from.

Match the things you need someone to be great at doing with people who are extraordinarily good at those things and love doing them.

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WATCH: "Unveiling the Power of Netflix's Distinctive Culture" with Patty McCord is available for Members of the IESE Alumni Association to [watch on demand here](#).

The business case study "[Netflix: leading with a unique corporate culture](#)" is available from [IESE Publishing](#).

READ ALSO: [Netflix: Could its radical culture work in your organization?](#)

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