

They must use special moments to convey a sincere passion for and delight in the work of the company they lead. These observations by and about Ryanair CEO Michael O'Leary about competing in the increasingly competitive European airline industry and archrival easyJet provide a useful example:

It was vintage Michael O'Leary. On May 13, the 42-year-old CEO of Dublin-based discount airline Ryanair outfitted his staff in full combat gear, drove an old World War II tank to England's Luton airport, an hour north of London, then demanded access to the base of archrival easyJet Airline Co. With the theme to the old television series *The A-Team* blaring, O'Leary declared he was "liberating the public from easyJet's high fares." When security—surprise!—refused to let the Ryanair armor roll in, O'Leary led the troops in his own rendition of a platoon march song: "I've been told and it's no lie. EasyJet's fares are way too high!" So it is that there are new rivals for O'Leary to conquer. "When we were a much smaller company, we compared ourselves to British Airways. But they are such a mess, most people just feel sorry for them," O'Leary says. "Now we're turning the guns on easyJet."¹⁰

It was readily apparent to anyone on this scene that O'Leary was passionate about Ryanair, and that example sent a clear message that he wanted an organizational culture that was aggressive, competitive, and somewhat freewheeling in order to take advantage of change in the European airline industry. He did this by passionate example, by expectations felt by his managers, and in the way decision making is approached within Ryanair.

Sam Walton used to lead cheers at every Wal-Mart store he visited each year before and long after Wal-Mart was an overwhelming success. Kathy Mulhany at Xerox, a 28-year company veteran when she assumed the presidency with Xerox close to bankruptcy, started and continues to travel to every Xerox location worldwide twice annually just to convey her passion for Xerox as a way of rallying veteran Xerox employees to continue to buy into her vision and continue its extraordinary turnaround. GE's Jeff Immelt is described by a board member as a natural salesman who still happily recounts the days when he drove around his territory in a Ford Taurus while at GE Plastics. "He knows the world looks to GE as a harbinger of future trends," says Ogilvy & Mather Worldwide CEO Rochelle Lazarus, who sits on the board. "He really feels GE has a responsibility to the world to get out in front and play a leadership role." Immelt, it would seem, is passionate about GE and its future opportunities. Indeed, at a recent gathering of GE's top 650 executives, amidst a situation where GE stock price is down more than 70 percent since he became CEO, Immelt insisted that "there's never been a better day, a better time, or a better place to be," meaning than GE. That's passion.

Leaders also use reward systems, symbols, and structure among other means to shape the organization's culture. Travelers' Insurance Co.'s notable turnaround was accomplished in part by changing its "hidebound" culture through a change in its agent reward system. Employees previously on salary with occasional bonuses were given rewards that involved substantial cash bonuses and stock options. A major Travelers' customer and risk management director at drug-maker Becton Dickinson said: "They're hungrier now. They want to make deals. They're different than the old, hidebound Travelers' culture." Jeff Immelt is doing something similar to reshape the ingrained GE culture—tying executive compensation to their ability to come up with new ideas that show improved customer service, generate cash growth, and boost sales instead of simply meeting bottom-line targets.¹¹

As leaders clarify strategic intent, build an organization, and shape their organization's culture, they look to one key element to help—their management team throughout their

¹⁰ "Ryanair Rising," *BusinessWeek*, June 2, 2003.

¹¹ "Jeff Immelt on Pay, His AAA Rating, and Taking the Train," *BusinessWeek*, February 1, 2009.

organization. As Honeywell's chairman Larry Bossidy candidly observed when asked about how after 42 years at General Electric, Allied Signal, and now Honeywell, with seemingly drab businesses, he could expect exciting growth: "There's no such thing as a mature market. What we need is mature executives who can find ways to grow."¹² Leaders look to managers they need to execute strategy as another source of leadership to accept risk and cope with the complexity that change brings about. So selection and development of key managers become major leadership roles.

Recruiting and Developing Talented Operational Leadership

Fundamental to a leader's responsibility in developing operational talent is to serve as a role model to younger managers. The purpose of doing so is to model behaviors and habits that become instinctive ways those younger managers address issues and make decisions. This has been particularly critical in the dramatic global economic downturn—which virtually every business has been dealing with the past few years. It has required leadership that is lean and focused at every level, and particularly at operating levels of the organization.

Modeling behavior and desired habits is particularly relevant in the depressed economic times most companies have been facing for the past few years and that many still face today. In many cases, their very survival may be at stake. Thus, modeling and ensuring these specific leadership habits can be absolutely critical.

As we noted at the beginning of this section on organizational leadership, the accelerated pace and complexity of business beyond the immediate economic contraction will also increase pressure on corporations to push authority down in their organizations, ultimately meaning that every line manager will have to exercise leadership's prerogatives to an extent unthinkable a generation earlier. We also defined one of the key roles of good organizational leadership as building the organization by educating and developing new leaders. They will each be global managers, change agents, strategists, motivators, strategic decision makers, innovators, and collaborators if the business is to survive and prosper. So we want to examine this more completely by looking at key competencies these future managers need to possess or develop. Exhibit 12.4, Strategy in Action provides an interesting interview with IBMer Helen Cheng about her introduction to the *World of Warcraft* online game and how it is now a key way IBM is using online multiplayer games to develop its young managers of global teams into better team leaders and future global leaders for the reality of today's fast-paced, global marketplace.

Today's need for fluid learning organizations capable of rapid response, sharing, and cross-cultural synergy place incredible demands on young managers to bring important competencies to the organization. Exhibit 12.5 describes the needs organizations look to managers to meet and then identifies the corresponding competencies managers would need to do so. Ruth Williams and Joseph Cothrel drew this conclusion in their research about competencies needed from managers in today's fast-changing business environment.

Today's competitive environment requires a different set of management competencies than we traditionally associate with the role. The balance has clearly shifted from attributes traditionally thought of as masculine (strong decision making, leading the troops, driving strategy, waging competitive battle) to more feminine qualities (listening, relationship-building, and nurturing). The model today is not so much "take it on your shoulders" as it is to "create the environment that will enable others to carry part of the burden." The focus is on unlocking the organization's human asset potential.¹³

¹² Diane Brady, "The Immelt Revolution," *BusinessWeek Online*, October 18, 2005.

¹³ Ruth Williams and Joseph Cothrel, *Current Trends in Strategic Management* (New York: Blackwell Publishing, 2007).

Helen Cheng and MMORPG—IBM's Setting for Twenty-First-Century New Leaders, Skill Development

MMORPGs (massively multiplayer online role-playing games) like *World of Warcraft* are perhaps the most realistic setting for leadership training and development in our new "wiki" world, according to IBM leadership development researchers. "It's not a stretch to think that résumés that include detailed gaming experience will be landing on the desks of *Fortune* 500 executives in the very near future. Those hiring managers would do well to look closely at that experience, and not disregard it as a mere hobby. After all, that gamer may just be your next CEO."* Reading the experience of Helen Cheng helps explain why IBM is moving aggressively into the use of MMORPGs as a basis for leadership selection and development at IBM, as well as at client businesses worldwide. Helen Cheng got her first taste of online gaming three years ago, when a friend got her to join up with *Star Wars Galaxies*™. "I was pretty skeptical," she recalled. "I mean, fighting dragons in a fantasy world? Sounds kinda nerdy." Three days later Cheng was hooked. She soon moved on to *World of Warcraft*™, an online game that counts more than 8 million members. She moved quickly up the ranks and spent six months as a level-60 guild leader, the highest level of leadership in the game. Here are some of her leadership lessons gleaned from the game:

Q: Do you consider yourself a natural leader?

A: I'm pretty quiet. The first time I thought I could be a leader was during a raid that involved 40 people. The raid went bad, and everybody died. The designated raid leader went silent. Everyone was waiting for instruction. I pushed my button to talk and rallied the troops. It was me, a girl, talking to 39 guys. To my surprise, everyone complied, and

we got going. That was a defining moment for me, eventually leading to me becoming a guild leader.

Q: What was it about the environment that made it easy for you to try a leader role?

A: The speed at which things happens contributes to that. You don't have a lot of time, and decisions have to be made. Also, there are different forms of communication. You can send instant messages, use a chat channel, speak over VOIP [Voice Over Internet Protocol], even leave messages on the Web site. These different communications mediums afford opportunities to lead.

Q: What is it like managing people you never see in person?

A: Not that different from real life. I've had my share of personality conflicts that I had to mediate. In my last guild, we had a raid officer who was extremely capable. He was great leading 40-man raids in real time. But he was extremely practical and did not care about other guild members' feelings, or guild unity. On the other hand, we had a recruiting officer who was very friendly and gung ho about building relationships. They often went head-to-head on issues. I found it difficult to mediate between them. So eventually I left to go raid with another guild that was more advanced.

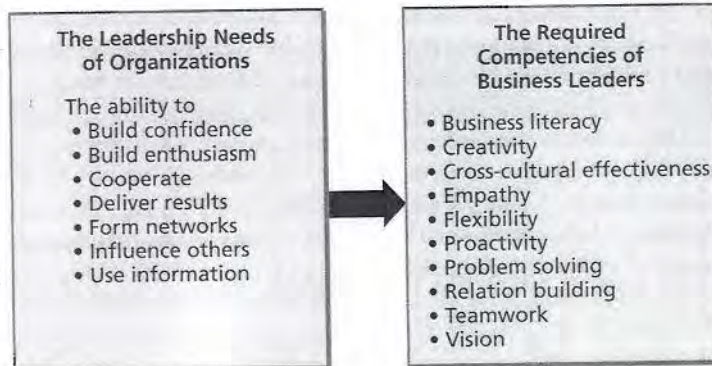
Q: Kind of like climbing the corporate ladder?

A: Something like that.

*"Virtual World, Real Leaders: Online Games Put the Future of Business Leadership on Display," IBM Corporation, [http://domino.research.ibm.com/comm/www_innovate.nsf/images/gio-gaming/\\$FILE/ibm_gio_gaming_report.pdf](http://domino.research.ibm.com/comm/www_innovate.nsf/images/gio-gaming/$FILE/ibm_gio_gaming_report.pdf), 2008.

EXHIBIT 12.5
What Competencies
Should Managers
Possess?

Source: From Ruth L. Williams and Joseph P. Cothrel, "Building Tomorrow's Leaders Today," *Strategy and Leadership* 26, October 1997. Reprinted with permission of Emerald Group Publishing Limited.



position power

The ability and right to influence and direct others based on the power associated with your formal position in the organization.

reward power

The ability to influence and direct others that comes from being able to confer rewards in return for desired actions or outcomes.

information power

The ability to influence others based on your access to information and your control of dissemination of information that is important to subordinates and others yet not otherwise easily obtained.

punitive power

Ability to direct and influence others based on your ability to coerce and deliver punishment for mistakes or undesired actions by others, particularly subordinates.

expert influence

The ability to direct and influence others because they defer to you based on your expertise or specialized knowledge that is related to the task, undertaking, or assignment in which they are involved.

referent influence

The ability to influence others derived from their strong desire to be associated with you, usually because they admire you, gain prestige or a sense of purpose by that association, or believe in your motivations.

Researcher David Goleman addressed the question of what types of personality attributes generate the type of competencies described in Exhibit 12.5. His research suggested that a set of four characteristics commonly referred to as emotional intelligence play a key role in bringing the competencies needed from today's desirable manager:¹⁴

- *Self-awareness* in terms of the ability to read and understand one's emotions and assess one's strengths and weaknesses, underlain by the confidence that stems from positive self-worth.
- *Self-management* in terms of control, integrity, conscientiousness, initiative, and achievement orientation.
- *Social awareness* in relation to sensing others' emotions (empathy), reading the organization (organizational awareness), and recognizing customers' needs (service orientation).
- *Social skills* in relation to influencing and inspiring others; communicating, collaborating, and building relationships with others; and managing change and conflict.

A key way these characteristics manifest themselves in a manager's routine activities is found in the way they seek to get the work of their unit or group done over time. How do they use power and influence to get others to get things done? Effective leaders seek to develop managers who understand they have many sources of power and influence, and that relying on the power associated with their position in an organization is often the least effective means to influence people to do what is needed. Managers have available seven sources of power and influence:

| Organizational Power | Personal Influence |
|----------------------|--------------------|
| Position power | Expert influence |
| Reward power | Referent influence |
| Information power | Peer influence |
| Punitive power | |

Organizational sources of power are derived from a manager's role in the organization. **Position power** is formally established based on the manager's position in the organization. By virtue of holding that position, certain decision-making authorities and responsibilities are conferred that the manager is entitled to use to get things done. It is the source of power many new managers expect to be able to rely on, but often the least useful. **Reward power** is available when the manager confers rewards in return for desired actions and outcomes. This is often a power source. **Information power** can be particularly effective and is derived from a manager's access to and control over the dissemination of information that is important to subordinates yet not easily available in the organization. **Punitive power** is the power exercised via coercion or fear of punishment for mistakes or undesired actions by a manager's subordinates.

Leaders today increasingly rely on their personal ability to influence others perhaps as much, if not more so, than organizational sources of power. Personal influence, a form of "power," comes mainly from three sources. **Expert influence** is derived from a leader's knowledge and expertise in a particular area or situation. This can be a very important source of power in influencing others. **Referent influence** comes from having others want

¹⁴ D. Goleman "What Makes a Leader?" *Harvard Business Review* (November–December 1998), pp. 93–102.

EXHIBIT 12.6 Management Processes and Levels of Management

SOURCES: C. A. Bartlett and S. Ghoshal, "The Myth of the General Manager: New Personal Competencies for New Management Roles," *California Management Review* 40 (Fall, 1997); R. M. Grant, *Contemporary Strategy Analysis* (Oxford: Blackwell, 2001), p. 329.

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|--|--|---|
| Attracting resources and capabilities and developing the business | RENEWAL PROCESS Developing operating managers and supporting their activities; maintaining organizational trust | Providing institutional leadership through shaping and embedding corporate purpose and challenging embedded assumptions |
| Managing operational interdependencies and personal networks | INTEGRATION PROCESS Linking skills, knowledge, and resources across units; reconciling short-term performance and long-term ambition | Creating corporate direction; developing and nurturing organizational values |
| Creating and pursuing opportunities; managing continuous performance improvement | ENTREPRENEURIAL PROCESS Reviewing, developing, and supporting initiatives | Establishing performance standards |
| Front-Line Management | Middle Management | Top Management |

peer influence

The ability to influence individual behavior among members of a group based on group norms, a group sense of what is the right thing or right way to do things, and the need to be valued and accepted by the group.

to identify with the leader. We have all seen or worked for leaders who have major influence over others based simply on their charisma, personality, empathy, and other personal attributes. And finally, **peer influence** can be a very effective way for leaders to influence the behavior of others. Most people in organizations and across an organization find themselves put in groups to solve problems, serve customers, develop innovations, and perform a host of other tasks. Leaders can use the assignment of team members and the charge to the team as a way to enable peer-based influence to work on key managers and the outcomes they produce.

Effective leaders make use of all seven sources of power and influence, very often in combination, to deal with the myriad situations they face and need others to handle. The exact best source(s) of power and influence are often shaped by the nature of the task, project, urgency of an assignment, or the unique characteristics of specific personnel, among myriad factors. Organizational leaders such as Jeff Immelt at GE draw on all these sources and, equally important, seek to develop their organizations around subordinate leaders and managers who insightfully and effectively make use of all their sources of power and influence.

One final perspective on the role of organizational leadership and management selection is found in the work of Bartlett and Ghoshal. Their study of several of the most successful global companies in the 1990s suggests that combining flexible responsiveness with integration and innovation requires rethinking the management role and the distribution of management roles within a twenty-first-century company. They see three critical management roles: the *entrepreneurial process* (decisions about opportunities to pursue and resource deployment), the *integration process* (building and deploying organizational capabilities), and the *renewal process* (shaping organizational purpose and enabling change). Traditionally viewed as the domain of top management, their research suggests that these functions need to be shared and distributed across three management levels as suggested in Exhibit 12.6.¹⁵

¹⁵ C. A. Bartlett and S. Ghoshal, "The Myth of the General Manager: New Personal Competencies for New Management Roles," *California Management Review* 40 (Fall 1997), pp. 92-116; "Beyond Structure to Process," *Harvard Business Review* (January-February 1995).

ORGANIZATIONAL CULTURE

organizational culture

The set of important assumptions and beliefs (often unstated) that members of an organization share in common.

Organizational culture is the set of important assumptions (often unstated) that members of an organization share in common. Every organization has its own culture. An organization's culture is similar to an individual's personality—an intangible yet ever-present theme that provides meaning, direction, and the basis for action. In much the same way as personality influences the behavior of an individual, the shared assumptions (beliefs and values) among a firm's members influence opinions and actions within that firm. Exhibit 12.7, Strategy in Action, shows the results of a *BusinessWeek* survey conducted by Staffing.org to identify how employees view their company's culture in the context of various TV shows or cartoon characters.

A member of an organization can simply be aware of the organization's beliefs and values without sharing them in a personally significant way. Those beliefs and values have more personal meaning if the member views them as a guide to appropriate behavior in the organization and, therefore, complies with them. The member becomes fundamentally committed to the beliefs and values when he or she internalizes them; that is, comes to hold them as personal beliefs and values. In this case, the corresponding behavior is *intrinsically rewarding* for the member—the member derives personal satisfaction from his or her actions in the organization because those actions are congruent with corresponding personal beliefs and values. *Assumptions become shared assumptions through internalization among an organization's individual members.* And those shared, internalized beliefs and values shape the content and account for the strength of an organization's culture.

The Role of the Organizational Leader in Organizational Culture

The previous section of this chapter covered organizational leadership in detail. Part of that coverage discussed the role of the organizational leader in shaping organizational culture. Several points in that discussion apply here. We will not repeat them, but it is important to emphasize that the leader and the culture of the organization s/he leads are inextricably intertwined. The leader is the standard bearer, the personification, the ongoing embodiment of the culture (Steve Jobs, Anne Mulcahy) or the new example (Alan Mulally, Mike Bloomberg) of what it should become. As such, several of the aspects of what a leader does or should do represent influences on the organization's culture, either to reinforce it or to exemplify the standards and nature of what it needs to become. How the leader behaves and emphasizes those aspects of being a leader become what all the organization sees are “the important things to do and value.”

Build Time in the Organization

Some leaders have been with the organization for a long time. If they have been in the leader role for an extended time, then their association with the organization is usually strongly entrenched. They continue to reinforce the current culture, are empowered by it, and understandably go to considerable lengths to reinforce it as a key element in sustaining continued success. The problematic long-time leaders are those who have built a successful enterprise that also sustains a culture that appears unethical or worse. Either type of long-time leader is often a widely known figure in today's media-intense business world. And in their setting, while the culture may be exceptionally strong, their role in creating it usually means they seemingly hold sway over the culture rather than the other way around.

Many leaders in recent years, and inevitably in any organization, are new to the top post of the organization. Their relationship with the organization's culture is perhaps more

What Is Your Workplace Culture Most Like?

BusinessWeek

THE BIG PICTURE**THINK YOUR WORKPLACE** is like a sitcom?

In an online survey, Staffing.org, a performance research firm, asked 300 people to describe their company's culture using one of four fictional touchstones. The results:

| | | | |
|---|--|--|--|
| <p>"A lot like The Office" 57%</p> | <p>"More like Dilbert than I'd like to admit" 24%</p> | <p>"M*A*S*H, on a good day" 14%</p> | <p>"Like Leave It to Beaver" 5%</p> |
|---|--|--|--|

Source: From "The Big Picture," *BusinessWeek*. Reprinted from May 25, 2007 issue of *BusinessWeek* by special permission. Copyright © 2007 by The McGraw-Hill Companies, Inc.

complex. Those who built a management career within that culture—Jeff Immelt at GE, Anne Mulcahy at Xerox, Alan Lafley at P&G—have the benefit of knowledge of the culture and credibility as an "initiated" member of that culture. This may be quite useful in helping engender confidence as they take on the task of leader of that culture or, perhaps more difficult (as with these three), as change agent for parts of that culture as the company moves forward.

In the other situation, a new leader who is not an "initiated" member of the culture or tribe faces a much more challenging task. Quite logically, they must earn credibility with the "tribe," which is usually somewhat resistant to change. And, very often, they are being brought in with a board of directors desiring change in the strategy, company, and usually culture. That becomes a substantial challenge for these new leaders to face. Some make it happen, others find the strength of the organization's culture far more powerful than their ability to change it.

"Cultural awareness is one of the most neglected and yet most powerful predictors of executive success and it's also one of the things [incoming new] executives know the least about," says Kenneth Siegel, a managerial psychologist with Beverly Hills-based Impact Group, who works with boards and executive teams to improve performance.¹⁶ And just because an executive worked in a high-performance company does not necessarily mean they are the right person to lead somewhere else. Siegel suggests that board members and

¹⁶ "Culture Club," *BusinessWeek*, March 3, 2008.

others engaged in hiring senior management ask themselves a simple question before hiring their next executive: "Will this person enhance the culture we have here or be devoured by it?"¹⁷ Why? Because a cultural mismatch could disrupt organizational performance for years to come as well as have a major impact on that executive's future career options. That makes the decision of bringing in an outsider, as a new leader, as important to the executive as it is to the hiring organization.¹⁸

Exhibit 12.8, *Strategy in Action*, provides an interesting example of these two perspectives as viewed through the experience of the same founder/CEO of successful companies with two very different cultures. It explains how Netflix founder and CEO Reed Hastings sought to dramatically change the culture and way of doing things at Netflix, his second company, after his experience with the nature of the culture that his first start-up, Pure Software, grew into as it became a part of IBM through a series of acquisitions and mergers. Hastings said of Pure, "We got more bureaucratic as we grew," and that it went from being a place that was fast-paced and the "where-everybody-wanted-to-be" place to a "dronish, when-does-the-day-end" software factory. After leaving Pure, Hastings spent about two years thinking about how to build a culture in his next start-up that would not have "big company creep."

At Netflix, Hastings has instilled a very unique "freedom and responsibility" culture that seeks to revolutionize both the way people rent movies and, perhaps more important to Hastings, how his managers work. In the face of Blockbuster, Wal-Mart, Amazon, the cable companies, and Apple, Hastings is attempting to create a culture so unique at Netflix that it is an "A" talent magnet, ensuring the best players in the business line up to help Netflix outsmart these very sizable competitors. And in doing so, Hastings is a "new" leader of a new company with a different business model that is trying to outlast and outcompete other, well established, major players in selling movie rentals. So in a sense, Hastings is a new leader, but with solid experience as a successful entrepreneur and innovator in similarly competitive, large, firmly entrenched, industry niches.

It may suggest that one way new leaders coming to established cultures can improve their chances of succeeding (where changing that culture is desired) is if they bring a similar background such that they establish credibility quicker, lower resistance easier, or simply have a better basis for understanding the situation. At the same time, examples such as former R. J. Reynolds executive Lou Gerstner, who took over and pulled a declining IBM from the ashes, suggest that it can also be done if you come from an entirely different industry. So it may be that the skills of the leader and other relevant experience in the strategic dynamics at previous assignments are both critical to new leaders facing established cultures they must change.

Ethical standards are a person's basis for differentiating right from wrong. An earlier section of this chapter emphasized the importance of "principles" in defining what a leader needs to incorporate in his or her recipe to become an effective leader. We need not repeat those points in the context of being a leader, but it is critical to recognize that the culture of an organization, and particularly the link between the leader and the culture's very nature, is inextricably tied to the ethical standards of behavior, actions, decisions, and norms that leader personifies. Enron, Merrill Lynch, WorldCom, Ken Lay, Jeff Skilling, Bernie Ebbers, and Martha Stewart are companies, people, and situations we discussed in Chapter 3—they are all imprinted in each of our minds. They speak volumes about this very point: leaders, and their key associates, play a key role in shaping and defining the ethical standards that become absorbed into and shape the culture of the organizations.

ethical standards

A person's basis for differentiating right from wrong.

¹⁷ Ibid.

¹⁸ Ibid.

Hastings Builds a Revolutionary, Unique Culture

BusinessWeek

"I had the great fortune of doing a mediocre job at my first company," says Netflix Inc. founder Reed Hastings. He's talking about his 1990s start-up Pure Software, a wildly successful maker of debugging programs that, through a series of mergers, became part of IBM. Hastings says Pure, like many other outfits, went from being a heat-filled, everybody-wants-to-be-here place to a dronish, when-does-the-day-end sausage factory. "We got more bureaucratic as we grew," says Hastings.

After Pure, the Stanford-trained engineer spent two years thinking about how to ensure his next endeavor wouldn't suffer the same big-company creep.

The resulting sequel is Netflix, where Hastings is trying to revolutionize not only the way people rent movies but also how his managers work. Hastings pays his people lavishly, gives them unlimited vacations, and lets them structure their own compensation packages. In return, he expects ultra-high performance. His 400 salaried employees are expected to do the jobs of three or four people. Netflix is no frat party with beer bashes and foosball tables. Nor does the company want to play cruise director to its employees. Rather, Netflix is a tough, fulfilling, "fully formed adult" culture, says marketing manager Heather McIlhany. "There's no place to hide at Netflix."

Hastings calls his approach "freedom and responsibility." And as one might expect, employees get all cinematic when describing the vibe. Netflix is the workplace equivalent of *Ocean's 11*, says Todd S. Yellin, hired to perfect the site's movie-rating system. Hastings is Danny Ocean, the bright, charismatic leader who recruits the best in class, gives them a generous cut, and provides the flexibility to do what they do best, all while uniting them on a focused goal. The near-impossible mission, in this case, is trying to outmaneuver Blockbuster, Amazon, the cable companies, and Apple in the race to become the leading purveyor of online movies.

Today, Netflix is embroiled in an even tougher, two-front war: competing with Blockbuster for online supremacy in DVD rentals while also inaugurating a digital streaming service to compete with the likes of Apple. That's one mighty gang of entrenched competitors. "There's usually room in a marketplace for more than one," says Wedbush Morgan Securities analyst Michael Pachter. "But in this case there really isn't."

Hastings is betting on Netflix's *culture* to get the company out of this corner. The plan includes continuing to increase what Hastings calls "talent density." Most companies go to great scientific lengths to ensure they are paying just enough to attract talent but not a dollar more than they need to. Netflix, which hands out salaries that are typically much higher than what is customary in Silicon Valley, is unabashed in its we-pay-above-market swagger. "We're unafraid to pay high," says Hastings.

To ensure that the company is constantly nabbing A players, company talent hunters are told that money is no object. Each business group has what amounts to an internal boutique headhunting firm. Employees often recommend people they bonded with at work before (that *Ocean's 11* effect again).

Gibson Biddle, who runs the Web site, knew that Yellin, who had both deep tech and film expertise, was the perfect guy to help Netflix improve how it recommends movies to customers on its site. Yellin had worked for Biddle at a family entertainment site during the boom. The snag was that Yellin, also a filmmaker, was finishing up his first feature film, *Brother's Shadow*, in Los Angeles. He also was allergic to anything corporate or publicly traded.

Impossible sell, right? But Netflix threw so much cash and flexibility at Yellin that he couldn't turn it down. During his first three months he flew back and forth between L.A. and San Francisco doing his Netflix job and finishing his movie. "This company is *über-flexible*," says Yellin. "I'm given the freedom to do what I do well without being micromanaged."

NO GOLDEN HANDCUFFS

Pay is not tied to performance reviews, nor to some predetermined raise pool, but to the job market. Netflix bosses are constantly gleaning market compensation data from new hires and then amping up salaries when needed. And what happens when someone doesn't live up to expectations? "At most companies, average performers get an average raise," says Hastings. "At Netflix, they get a generous severance package." Why? Because Hastings believes that otherwise managers feel too guilty to let someone go.

Source: From "Netflix Flees to the Max," *BusinessWeek*. Reprinted from September 24, 2007 issue of *BusinessWeek* by special permission. Copyright © 2007 by The McGraw-Hill Companies, Inc.