MGMT 5120 Organizational Analysis

How Netflix has Revolutionized Television and Movies

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Module 1: Organizations and Organizational Effectiveness

Founded in 1997 by Reed Hastings and Marc Rudolph, Netflix, Inc. (Netflix or “the company”) is the pioneer and, arguably, global leader, of streaming television and movies today. But this is a far cry from Netflix’s original business model.

At its origin, Netflix was in the business of selling DVDs. At the time, the VHS tape was the dominant technology in video. While Hastings and Rudolph knew they had a potentially groundbreaking idea in using e-commerce to sell movies to the public, the logistics just weren’t feasible due to the high purchasing and shipping costs of VHS tapes. Months later, according to Rudolph, the pair learned of a new format that was being tested, the DVD. After testing the ease and cost of delivering a DVD, they realized that their idea, which had been shelved months earlier, could possibly be brought back to life (Xavier, 2014).

Since 1997, Netflix has evolved into a DVD rental service, to adding its streaming service in 2007, to what it is today – an online, global, streaming empire with over 75 million customers in over 190 countries (Netflix, Inc. 10-K, 2016, About Us section). Today, customers can view TV shows, documentaries, and feature films, much of which includes the company’s own original, award-winning programming. According to Netflix’s Company Profile, the benefits of watching shows and movies in this format, as opposed to traditional, linear TV formatting, is that “Members can play, pause and resume watching, all without commercials or commitments” (Company Profile, n.d.).

In order to continue being at the forefront of the streaming programming industry, Netflix is closely focused on the ability to be viewed on as many Internet-connected screens as possible. To make this possible, according to the company’s 2015 Annual Report, Netflix has adapted a core strategy which is to “grow our streaming membership business globally…”, and are continuing to advance the services provided to its members by “expanding our streaming content with a focus on a programming mix of content that delights our members. In addition, we are perpetually enhancing our user interface and extending our streaming service to more Internet-connected screens” (Netflix, Inc. 10-K, 2016, About Us section).

In a society ruled by instant gratification and busy schedules, Netflix creates value for its members by having content readily available on multiple devices at any given time, and by giving each member the ability to watch, re-watch, pause, and resume watching at any time of his or her choosing. Additionally, the company still provides DVD rentals delivered to U.S. customers’ mailboxes, if they so choose.

In *Appendix A*, you will find a model of the four processes – inputs, throughputs, outputs, and environment – through which Netflix creates this value for its members.

Inputs. Though most of Netflix’s services are web-based and, therefore, require much less in raw materials than many companies, DVDs are needed for the U.S. customers who still utilize this service. The company continues to build upon the services offered and requires more specialized professionals as the complexity grows. For example, with the debut of their first original programming in 2013, Netflix became the employer of Hollywood stars, producers, directors, and crews, which is far from the Silicon Valley elite and content experts that formerly made up the majority of the payroll.

Throughputs. As of January 2016, Netflix closed all of its data centers that were used for the streaming content and moved everything to the “cloud”, specifically to Amazon Web Services (AWS) (Darrow, 2016). During the throughput process, many things are happening. Negotiations between Netflix and owners of viewing material are taking place, those thousands of hours of programming are being stored and accessed from web services, and employees are constantly being trained in computer technology, acting, producing, talent search, etc.

Outputs. Assuming that everything runs smoothly in the throughput process, the result that is available to the public is countless hours of programming to stream at each member's desire, and thousands of DVDs from which to choose to rent.

Environment. Netflix's major suppliers are AWS, as well as those who supply DVDs. The population from which Netflix can choose its employees has changed drastically. While most of the talent was previously found from sources such as Silicon Valley and various tech-related companies, that population has grown to include Hollywood and other sources of actors, directors, camera operators, etc. While the company sees its customers and potential customers as largely being a population of viewers who like the "freedom of on-demand and the fun of binge viewing" ("Netflix's View", n.d., Netflix Focus section), it is necessary to broaden that to what is referred to as cord-cutters, those who do away with traditional cable or satellite TV. One study, conducted by Jan Dawson of MarketWatch.com, found that, from Q2 2015 to Q2 2016, an astounding 834,000 pay-TV customers did away with their subscriptions (Dawson, 2016, para. 4). This provides a large market of potential Netflix members. In direct competition with Netflix are Hulu, Amazon, network streaming apps, and even piracy ("Netflix's View", n.d., Competition section).

As with any company, Netflix does face potential risks, and has outlined many of these in the 2015 Annual Report. One risk the company sees as one that is very hard to combat is piracy. Because the "free content" of pirated material is attractive to members or potential members, it is especially difficult for the company to tackle (Netflix, Inc. 10-K, 2016, Changes in competitive… section). Additionally, there are potential issues with the way in which Netflix enters into contracts with content providers in conjunction with the structure of the membership process. That is, the company enters into multi-year contracts with content providers, but this is exclusive of any membership numbers at a given point in time, and those memberships are on a no-commitment basis and can be cancelled at any time. Therefore, the company could possibly see a decline in memberships while still being held to commitments with content providers during that time (Netflix, Inc. 10-K, 2016, The long-term and fixed cost… section). One more risk that Netflix sees as a possibility is with its international business. Because the company is very new to the global market, there are still many unknowns. There are needs to adapt to cultures and languages, to consider potential tax consequences and new competition sources, and to have a complete understanding of regulatory laws and censorship requirements in each country in which the company operates and, finally, to keep a strong focus on currency and exchange rate risks (Netflix, Inc. 10-K, 2016, We could be subject to economic… section).

When asked about long-term goals for streaming in the U.S., Netflix explained that its target is to reach 40% contribution by 2020 and that it would evaluate the success of this goal at that time (Top Investor Questions, n.d., What are your long-term margins section).

Netflix is continuously looking for ways to increase efficiency, as with the move to AWS. According to Darrow’s report on Forbes.com, cloud providers can do a much more efficient job of storing and delivering data than most companies can, and Netflix has been able to use this to its advantage by being able to deliver its content faster and more efficiently to its members (Darrow, 2016).

Module 2: Stakeholders, Managers, and Ethics

Reed Hastings, CEO and co-founder of Netflix, also serves as President and Chairman of the Board for the company. Mr. Hastings also serves on the board of Facebook and several educational non-profit organizations.

To get a visual of the organizational chart of the entire top management team, please refer to *Appendix B.* In addition to Hastings, the nine members of the board of directors consist of executives and former executives of companies such as Zillow Group, Microsoft, MGM, 21st Century Fox, Viacom and Disney.

Netflix's Code of Ethics, which is available on its website, outlines what the company feels is appropriate conduct in order to deter wrongdoing. These behaviors include, but are not limited to, honest and ethical conduct, full and accurate disclosures in reporting, acting in accordance to government laws, prompt internal reporting, and individual accountability for behaving by the Code. Additionally, managers and employees are expected to act with integrity, and must not use their employment with the company to obtain personal benefits (Code of Ethics, n.d.).

While the company strives to uphold these standards of behavior, this has not always been the case with every employee. In 2014, a lawsuit was filed by Netflix against its former VP of IT operations, Mike Kail. Court documents cited Breach of Fiduciary Duty, among other claims (Norton, 2015). The lawsuit is ongoing at this time.

Module 3: Organizing in a Changing Global Environment

At its current state of operations, the products Netflix provides to its customers can be broken down into four broad categories: DVD rental service, licensed content, Netflix-original programming, and international/foreign language programming. Because of the overwhelming success of original content such as *House of Cards* and *Orange is the New Black*, the company expects to invest an increasing amount of money on developing more of its original content, and expects the percentage of overall money spent on originals to increase as well in the near future (Top Investor Questions, n.d., What percent of your content spend… section). If this trend continues, Netflix could very well set itself apart from its competition once again by providing a quality product that others have not yet been able to replicate with equal success.

Netflix's customer base, as well as potential customer base, is rapidly growing. Originally popular amongst mostly millennials, the number of internet TV viewers is increasing across all demographics. In a study conducted by Deloitte, and published on *Forbes.com*, the percentage of viewers who now include internet TV in their normal viewing schedule increased from 10% in 2011 to 37% in 2013. Within those viewers, the percentage of "boomers" increased from 6% to 22% within the same time period, and "matures" (67+) increased from 2% to 11% (Hughes, 2015, para. 6).

Netflix faces numerous forces in its general and specific environments, as modeled in *Appendix C*. Of these, the forces that likely have the most impact on the company's operations are their competitors, technological forces, and international forces.

Because Netflix is considered to be the leader of the Internet TV industry, the company is likely to face fierce competition with every move it makes. To illustrate, Jeff Bezos, Amazon CEO, stated in July of this year that the company planned to double its original programming budget in order to be more competitive with Netflix (Geddes, 2016).

Additionally, due to the nature of the business, technological forces in the general environment should not be ignored. One major technological challenge Netflix constantly faces is making sure that their millions of members, many of whom have multiple devices with streaming capability, are able to view programming without connection issues or interruptions (Jacobson, 2016).

Finally, because of the company's emerging presence and rapid growth in the global market, international forces play a key role in its business. Operating in 190 countries means 190 governments whose laws and regulations can directly affect the manner in which the company does business, what programs are allowed to be viewed, and/or how much and what kind of censorship is required (Netflix, Inc. 10-K, 2016, We could be subject to economic… section).

At its inception, Netflix had a relatively non-complex environment. There was one type of product that was provided, virtually no direct competition, and the complexity came from the various content owners with which the company signed licensing agreements, as well as from the uncertainty of creating a new type of industry. Today, the environment is much more complex. The number of streaming content providers grows each year, and companies such as Hulu and Amazon had added original content of their own in order to compete with Netflix. The United States has, as of September 30, 2016, given up control of the Internet which has many wondering what type of censorship or other effects may be on the horizon, leading to further uncertainty for web-based companies such as Netflix (Crovitz, 2016). Finally, global expansion contributes greatly to the environmental complexity by adding more governmental regulations, possible political unrest in certain areas, and possibilities for new competitors (Netflix, Inc. 10-K, 2016, We could be subject to economic… section).

Environmental dynamism, "the degree to which forces in the specific and general environments change quickly over time and thus contribute to the uncertainty an organization faces" (Jones, 2013, p. 67), is extremely high in the environment in which Netflix operates. Not only has the company seen numerous changes in its relatively young existence, but one could argue that it has *created* much of the dynamism. As of 2016, some of the largest names in cable, programming, and entertainment are making efforts to enter into the streaming TV whirlwind. Companies such as Dish Network, Sony PlayStation Vue, Amazon, Apple, YouTube (Google), and AT&T's DirecTV are all trying to enter into, or further their presence in, this rapidly changing industry (Molla & Ovide, 2016).

Though competition continues to grow for Netflix, its environmental richness, "the amount of resources available to support an organization's domain" (Jones, 2013, p. 67) is still very high. With the company's continued desire to invest more funding into original programming, there is a wide array of available resources from which to choose. The Motion Picture Association of America (MPAA) states that there are 108,000 businesses in the movie and TV industry in the U.S. alone (Motion Pictures Association of America, n.d.), and the Screen Actors Guild-American Federation of Television and Radio Artists (SAG-AFTRA) has a membership of approximately 160,000 actors and other entertainers (Screen Actors Guild, n.d., para. 1).

When combining the possible effects of complexity, dynamism, and richness, and considering the relative newness of the streaming TV industry, the uncertainty in Netflix's environment is considerably high. It seems, however, that the company currently has an advantage over others in the market in the sense that it continues to lead the way, while competitors following in the Netflix footsteps.

Module 4: Basic Challenges of Organizational Design

Netflix has responded to design challenges throughout its organizational life by putting its value in the actual behaviors of its people. The company makes hiring and promotion decisions based on nine values that it feels are most integral to the success of the company:

Judgment, Communication, Impact, Curiosity, Innovation, Courage, Passion, Honesty, and Selflessness (Life at Netflix, n.d., slides 9-17). Netflix boasts a decentralized structure, noting that, when a company is centralized, reaction time is very slow, and that slowness only increases as the size of the company increases (Life at Netflix, n.d., slide 90).

According to the textbook, the integrating mechanism of Direct Contact occurs when "Managers meet face to face to coordinate activities" (Jones, 2013, p. 99) which is exactly what Netflix does when it has department meetings on a regular basis in order to talk openly throughout the organization about strategies and results (Life at Netflix, n.d., slide 86).

At Netflix, employees' judgment is a key factor in being successful, and those who show great leadership and makes decisions on their own by not waiting to be told what to do are rewarded (Life at Netflix, n.d., slide 40). The company culture is one where rules are minimized in order to enable and attract creativity (Life at Netflix, n.d., slide 54). Therefore, mutual adjustment, not standardization, plays a key role in the organizational structure, and formalization is very low.

When an organization has very few rules, a decentralized structure, and decision-making is done through the process of mutual adjustment, as in the case with Netflix, then the overall organizational structure is much more organic than mechanistic (Jones, 2013, p. 109).

Module 5: Designing Organizational Structure: Authority and Control

Netflix structures its organization to respond effectively to shifting customer needs. To effectively manage this complex environment, the company motivates its personnel to work in an organic way that promotes innovation and results. As such, Netflix strategically chooses to utilize the principle of minimum chain of command in terms of its organic organizational structure. This organic structure generates a unique type of vertical differentiation. There are minimal levels of reporting authority within Netflix. The company highly decentralizes its distribution of authority. Netflix's personnel enjoy unlimited vacation, the ability to expense items that do not require approval from their superiors, and no formal performance reviews (Stenovec, 2015, p.1). In this way, Netflix distributes the freedom and authority to make decisions at all levels within its flat hierarchy. Because Netflix empowers its employees to make impactful decisions to the business, motivation is high among employees. As a result, employees buy into the norm that the company generates. That is, to always act in the best interest of Netflix. Moreover, mutual adjustment guides employee decisions, rather than rules and standard operating procedures at the company. McCord (2014), former Chief Talent Officer at Netflix, writes, "Over the years we learned that if we asked people to rely on logic and common sense instead of on formal policies, most of the time we would get better results, and at lower cost" (p.4). The company's flat hierarchy minimizes bureaucratic costs associated with tall hierarchies. A key problem that Netflix does experience, however, is communication breakdown, the hallmark problem of tall hierarchies with many levels of managerial authority. Netflix's culture of "freedom and responsibility" stresses that employees have the freedom to make decisions that benefit stakeholders of the company. Even with this cultural norm internalized, the high degree of freedom and authority Netflix personnel possess can cause coordination problems, which lead to communication problems. According to McCord (2014), a key communication problem at Netflix was balancing consumer development with budgeting expenses. The company's capital resources were being spent on DVDs, distribution centers, and exclusive video content, before subscribers joined (p. 10). In other words, expenses were rising before sales revenue was generated.

The span of control of Reed Hastings is wide. There are eight complex and distinct functions under the control of eight top executives (please reference *Appendix A*) that report to Hastings. To put this wide span of control in perspective, eight top executives under Hastings equals 28 subordinate relationships ("[8(*7)/2]") that he has to manage (Jones, 2013, p. 129). Such a wide span of control may lead to key control problems of subordinates acting in their own interests, rather than the interest of Netflix and its stakeholders (Jones, 2013, p. 130). In this way, Hastings' span of control could be too wide. Thus, a narrow and small span of control may help Hastings retain control of Netflix more effectively.

Module 6: Designing Organizational Structure: Specialization and Coordination

The company utilizes a multidivisional structure. According to its 10K, Netflix's core business has three distinct self-contained divisions: domestic streaming, international streaming, and domestic DVD (Netflix, Inc. 10-K, 2016). U.S. and International areas focus on streaming content in different locations. Domestic DVD, on the other hand, focuses only on "DVD-by-mail" within the US (Netflix, Inc. 10-K, 2015). Each group acts independently and contains its own support functions. At the same, Netflix's corporate management team acts as an integrating role to promote harmony. Please reference *(Appendix D)*.

Netflix chooses to utilize a multidivisional structure in order to effectively manage its complex and evolving business. To keep its organizational hierarchy flat, the company focuses on horizontal differentiation to construct concentrated subunits or divisions (Jones, 2013, p. 156). Netflix's multidivisional structure fosters an organic organizational structure that relies on mutual adjustment and decentralization of authority to make decisions. The company has three key advantages in utilizing a multidivisional structure. First, through a multidivisional structure, Netflix has a clear division of labor that increases its organizational effectiveness. The company's corporate management team can focus on long-term strategy, while its three divisional units can focus on day-to-day business tasks. Second, through a multidivisional structure, Netflix exercises greater control over its organization. Corporate managers oversee divisional managers through direct reporting relationships. Third, through a multidivisional structure, the company can better distribute its organizational resources. Since each division within Netflix is self-contained and independent, each division acts as its own profit center. As such, the company can easily see which division is generating the most sales. According to its 10K, Netflix's domestic streaming division is outperforming international streaming and domestic DVD by miles. For fiscal year 2015, the company's contribution profit for domestic streaming is $1,375,500,000. In comparison, Netflix's contribution profit for international streaming is down ($333,386,000), and contribution profit for domestic DVD is $321,829,000 (Netflix, Inc. 10K, 2016). Therefore, the company's multidivisional structure can allow Netflix to allocate more resources to its best performing division, domestic streaming. These three advantages allow the company to adapt and respond swiftly to its customers (Jones, 2013, p. 160). Netflix experiences two disadvantages in utilizing a multidivisional structure. First, coordination problems arise, since competition between the company's three divisions decrease harmony. Second, managing a large and complex multidivisional structure causes an increase in bureaucratic costs. Activities can be unproductively duplicated across divisions and retaining a large corporate management team can be very expensive (Jones, 2013, p. 160).

Module 7: Creating and Managing Organizational Culture

Results define Netflix's organizational culture. As such, generating results is the key terminal value that personnel utilize to achieve instrumental values of innovation and risk taking. Promotion tournaments are thus won by employees that best produce. Since managers focus on results, employees have the freedom and authority to achieve results by any means necessary. In other words, employee performance is transparent at the company. This aggressive culture guides the behavior of employees at Netflix. According to Fairchild (2016), the company offers "top pay for top performance and generous severance for those who don't make the cut" (p. 1). At the end of the day, it is the responsibility of the employee to utilize the right creative methods and brainstorming tactics to produce. Managers encourage subordinates to act proactively in order get the job done through empowerment and mutual adjustment. Netflix coined the phrase "fully formed adults" as the key trait that guides the behavior of all of its managers and employees (Fairchild, 2016, p.1). Successful personnel at the company are self-reliant, acting in a way that always is in the best interest of its stakeholders (McCord, 2014, p. 5). As Netflix's organizational culture is based on the expectation of excellent performance, skills of employees often become outdated that no longer align with long-term strategy and goals. There are two events that describe how the company's competitive culture works. First, a former Netflix employee whose name is Laura is an excellent and hardworking accountant. As the company grew, top management needed the skills of certified CPAs. Laura, unfortunately, did not hold a CPA degree and was let go by the company with severance (McCord, 2014, p. 4). Second, a former Netflix employee whose name is Maria is bright and hardworking. Maria's engineering role at the company was to prevent breakdowns in Netflix's online streaming services. As the company adapted to its complex environment, new technology and automated services were developed to provide continuous, high quality streaming. Maria's skills were no longer needed. Maria, unfortunately, was subsequently let go with severance by Netflix as well (McCord, 2014, p. 6).

Netflix's values of results and innovation shape its stance on corporate social responsibility. The Board of Directions of the company implements a Code of Ethics that guides all internal organizational behavior. The goal of The Code is to prevent misconduct and to encourage honest and ethical behavior in private and work relationships, as well as full cooperation with U.S. laws and policies (Code of Ethics, n.d.). Moreover, Reed Hastings' proactive commitment to help society through education translates to Netflix utilizing a proactive approach to corporate social responsibility. In January 2012, Hastings pledged half of his family's capital to The Giving Pledge, a philanthropy started by Warren Buffett and Bill and Melinda Gates. Hastings, former president of the California Department of Education, will focus his philanthropic donations to education, specifically charter schools (Pepitone, 2012, p. 1). More recently, in January 2016, Hastings introduced an innovative $100 million charity, The Hastings Fund, that focuses on children's education (Rubin, 2016, p.1). The Hastings Fund partners with the Hispanic Foundation of Silicon Valley and UNCF scholarship funds. Together the partnership helps black and Latino students with greater access to excellent post-secondary education (The Hastings Fund, n.d.).

Module 8: Organizational Design and Strategy in a Changing Global Environment

Netflix's organizational domain focuses on providing the best content, TV shows and movies, to its customers. The company also has the organizational capability to create original and exclusive TV series, such as *House of Cards*, and movies, such as *Special Correspondents* ("Netflix's View", n.d., Content People Love section). Because its standard membership allows for two users to watch at the same time, Netflix builds its current customer groups via referrals through family and friends.

The company's core competences are its organic structure and competitive culture. Netflix’s organic structure empowers its employees to make decisions on the spot. Decentralizing decision-making authority down its organizational chart allows the company’s corporate management team to focus on the big picture and long-term strategy. Likewise, Netflix’s results driven culture empowers its personnel to utilize any creative and innovative methods necessary to produce. Both the company’s structure and culture builds the skills and capabilities of its personnel to adapt and respond to customers quickly. Since Netflix’ structure and culture are so ingrained at all levels of its organization, the company cannot be easily imitated by competitors. As such, Netflix has a competitive advantage over its competitors. As an example, in 2014, the company recognized and responded quickly to its complex technological environment. Internet speeds were rapidly improving. Netflix capitalized by capturing the momentum of its successful DVD business to online streaming to gain first-mover advantage. Once competitors, such as Hulu and Amazon Prime caught up, the company had already established a loyal customer base (Bariso, 2015, p. 1). Netflix’s functional level strategy balances differentiation and low cost. The company specializes its video streaming content through exclusive movies and TV shows that are commercial free. Netflix encourages binge watching. However, in terms of member price, the company does not charge a maximum. Netflix attracts more customers by offering membership at lower prices. Standard membership is a flat fee of $9.99 per month with the option to cancel anytime. This standard membership includes unlimited access for two streaming devices that can watch at the same time with HD quality.

Module 9: Organizational Design, Competences, and Technology

Amongst the goods and services that Netflix produces are a product mix of video-on-demand, DVDs by mail, 3D & Blu Ray movies, game rentals and original shows. Initially much of Netflix's success was due to the popularity and convenience of their DVD by mail subscription base. However, the rise of online streaming led to increase in their on-demand services while their DVD service has remained stagnant.

> "Today, the company offers DVD services only in the U.S., where it has 5.8 million customers. Meanwhile, Netflix boasts 39 million domestic streaming customers and 57.4 million accounts worldwide. In other words, the formerly be-all, end-all DVD business now accounts for just around 9% of Netflix's total subscriber base." (Bylund, 2015)

In 2011, Netflix attempted to create a secondary company upon realizing the popularity of on-demand video streaming. However, the company, called Qwikster for its fast mail service, failed almost instantaneously.

Netflix's greatest source of uncertainty has been at the input level of activities, primarily due to negotiating contract terms with partners and obtaining content licensing. Netflix's management team must secure exclusive licensing rights for media for a specified time frame from the owner of the content. In some instances, Netflix is able to eliminate the cost of licensing by producing shows themselves, such as *Orange is the New Black* & *House of Cards*. The exclusive licensing rights are costlier for Netflix but guarantee subscribers will continue to return over time. In order to guarantee competitiveness, Netflix has had to make large investments in their content acquisition spending. According to RBC Capital, Netflix spent approximately 3.3 billion, nearly double their spending in 2012 (Leung, 2012).

Technology plays a paramount role and is imperative to the success of Netflix. In order to be successful, the company must use data analytics such as recent consumer preferences to predict which movies & TV shows will be successful. The algorithms provide the knowledge needed to choose the correct programming and bid for future licensing rights from studios. Data from algorithms that provide consumer preferences give information to predict future successes. Netflix has used technology to improve consumers' quality of experience (QoE) which begins when a subscriber starts a new movie or series.

Module 10: Types and Forms of Organizational Change

Changes in the business environment have forced Netflix to adapt to its environment in order to continue being an industry leader over the years, quickly and continuously. In 1997, Netflix began their revolution of the television industry with their dramatic attempt to change how movies were rented. The revolutionary attempt not only killed well-established video stores such as Blockbuster and Hollywood Video, but gave consumers the ability to have unlimited movie rentals delivered to their door. At its core, the company provided a very basic service reliant on the U.S. Postal Service for movie delivery. However, with time and consumers' demand for portability, the company has had to create evolutionary changes in order to ensure survival. A decade after its founding in 2007, Netflix added online streaming, available in the U.S, as the next step into their media empire. Gradually, new countries were added to their online streaming queue. In 2010, an app was developed for mobile devices which enabled consumers to have movies and TV shows at the touch of their fingers. In 2013, the company added their first show series, *House of Cards*, which further solidified their status in the industry.

Netflix has been most involved with change in regards to total quality management, e-engineering, innovation, and restructuring. The changes have been imperative for the company's dominance of the market. The company has had to continually evolved by using TQM to determine consumer preferences. Licensing is costly and the business must control business expenses with ongoing efforts to improve the selection of movies, films, and series available. E-engineering has played a role by ensuring that Netflix's infrastructure has improved to process the numerous member requests.

> "With more than 83 million members, each with multiple connected devices, this is a massive scale challenge. By having a persistent connection to our cloud infrastructure, we can enable lots of interesting product features and innovations, reduce overall device requests, improve device performance, and understand and debug the customer experience better." (Jacobson, 2016)

Restructuring has been essential in retaining the talent needed for e-engineering. Netflix is based out of Los Gatos, California which means talent has the opportunity to shift within Silicon Valley and find new opportunities. Due to the environment, Netflix has had to reinvent their HR department and employee expectations to improve their organizational structure and culture.

Module 11: Birth, Growth, Decline & Death

Netflix was founded in 1997 by Reed Hastings and Marc Rudolph. Both men were originally software engineers who wanted to rent movies in a new way. Instead of the traditional brick and mortar, the men wanted to use the convenience of the internet and mail to rent movies that could be directly delivered to consumers' home. The Netflix website was officially made available for use in 1998. Founder Hastings attempted to sell the start up early on in its founding to Amazon but declined their offer of $12 million.

Netflix is presently at the Growth through Collaboration life cycle of Greiner's Model. In order to manage the crisis of red tape, Netflix has opted to create a structure with minimal levels of authority. The management team has opted to have a product team structure. By doing so, the company is able to focus on customer needs and determine what areas of interest are most relevant to subscribers. Netflix's biggest external problem has been its inability to focus only on streaming as customers have demanded that DVD by mail option still be made available. Internally, Netflix has ensured they obtain and retain top talent by ensuring that talent knows the company has trust in them by not developing a vacation policy. Netflix trusts talent to take as much vacation time as they see fit as long as job performance is not affected.

Module 12: Decision Making, Learning, Knowledge Management, and IT

Netflix has followed the Carnegie Model during its decision-making process regarding their competitive strategy and structure. The management team has engaged in satisficing by using the information available on consumer preferences and creating historical data analysis. By using the limited information searches available to them, company teams are able to move forth in confidence of licensing deals and prospective new series projects. Netflix trusts management to make proper decisions despite bounded rationality. "'I take pride in making as few decisions as possible, as opposed to making as many as possible', Hastings says." (Snyder, 2014). Hastings trusts management to make the best decisions that will lead to the success of the company. By using the Carnegie Model, Netflix is able to bring management together to make decisions by valuing all managers input regarding the direction of the firm.

Some of the cognitive biases that have affected decision making of Netflix's strategy and structure are frequency and representativeness and escalation of commitment. Frequency and representativeness have the potential to affect the success of Netflix. Management's data analysis and interpretation are key in successful decision making. If consumer preferences are overestimated or underestimated, it could lead to Netflix's investment in content acquisition that will not generate new subscribers/business. Some good examples of failed content acquisition would be Bad Samaritans and Lilyhammer. Escalation of commitment led to Netflix's adaption of *Arrested Development*, which was to transitioning from regular television to Netflix streaming. While the show was a success on regular TV for its first three reasons, the fourth season did not succeed on Netflix. Managers remained committed to the show despite their flawed decision and the lack of acceptance from subscribers.

Module 13: Innovation, Intrapreneurship, and Creativity

At its inception, Netflix was a DVD rental company, and it was in this segment of the entertainment industry where it first started to upset the established order. Once ruled by video retail stores such as Blockbuster, Netflix burst onto the scene by offering DVD rentals through the mail. This unique service allowed customers to rent movies without ever leaving their homes. Netflix was able to offer a new, unique service that customers valued which forced established competitors to either adapt or become extinct. Blockbuster, for example, was unable to adapt to the new marketplace and is now bankrupt.

As Netflix showed when they disrupted the DVD rental sector, technological advances, changing consumer preferences, fierce competition, and an emerging global marketplace are forcing change in the entertainment video industry. In order to stay relevant, players in this industry need to be flexible and innovative, or else they will become irrelevant. “The market for entertainment video is intensely competitive and subject to rapid change” (Netflix, Inc. 10-K, 2015).

Quantum technological change (Jones, 2013, p. 367) was originally used by Netflix when the company introduced their mail order DVD service. This service used the new technology of the internet to create a brand new service offering that customers quickly realized they loved. This major innovation increased the uncertainty in the market and changed the competitive landscape. Netflix forced competing organizations to change the way in which they operated.

Competitors now had to learn to utilize new technologies and ideas to create better products in order to keep up.

But Netflix was not going to sit still and let their competitors catch up. The second quantum change that helped propel the company to the forefront of the entertainment video industry was the shift to streaming videos on demand. From that point, the company has used a series of incremental changes to fine tune its products and adjust to customer preferences by adding offerings such as original programming and movie/TV recommendations. According to Reed Hastings, “We knew there was no long-term business in being a rerun company, just as we knew there was no long-term business in being a DVD-rental company” (Nocera, 2016). By realizing the need to innovate, Netflix has been able to become a global leader in its industry through a “series of incremental steps” by first changing its focus to streaming, then learning to analyze consumer watching habits and offer suggestion, and then expanding internationally (The Economist, 2016).

In order to keep up with the changing marketplace, the leaders at Netflix have taken steps to breed a culture of high performance and innovation. According to the textbook (Jones, 2013, p. 371), organizations can promote and reinforce “innovative values and norms” by “providing financial rewards for good ideas”. Netflix pays top of the market salaries to its employees, and employees are rewarded with higher salaries if they consistently produce superior ideas and results (Netflix Culture: Freedom & Responsibility, 2009). In a rapidly changing environment, companies need to keep their levels of innovation high, which gets harder over time because “it is difficult for people to remain entrepreneurial throughout their careers” (Jones, 2013, p. 381). To combat this problem, “the company seeks out and rewards star performers while unapologetically pushing out the rest” (McCord, 2014). Netflix has developed a culture that continually evaluates and reevaluates employees and only keeps those who are still contributing in a significant way. Past performance is not used as an indicator of future success, so only high functioning members are kept aboard (McCord, 2014).

Module 14: Managing Conflict, Power, and Politics

Because Netflix is in a highly competitive, high growth industry that is beginning to require constant innovation to stay relevant, a certain amount of internal conflict is needed and healthy. As Jones (2013, p. 392) puts it, “conflict can be beneficial because it can overcome organizational inertia and lead to organizational learning and change”. In order to build a culture that was focused on producing only the highest quality of work, dissent and argument within Netflix are encouraged, and even demanded from employees (McCord, 2014). Though Netflix has been able to use a healthy amount of internal conflict to its advantage, the company has also had to deal with conflict that had negative consequences, most of which has come about due to the ever shifting nature of the company.

Negative conflict first started to affect Netflix as the company shifted its focus away from DVDs and towards streaming video, and gained increasing popularity. In 2011, Netflix split its DVD operations apart from the rest of the company with little notice, and moved some key executives over to the new business unit. Those leaders then stopped appearing at Netflix management meetings. The company had decided that the new focus on streaming videos meant that “obtaining web rights for movies and DVDs” (Sandoval, 2012) was priority number one. Certain members of the senior management team, such as Ted Sarandos, Chief Content Officer, were more valuable than ever and saw their compensation jump. Others, such as then-CFO Barry McCarthy, were deemed as more substitutable.

At the same time, the company was achieving higher and higher levels of success, which drove Reed Hastings to become less receptive to ideas of his senior management team (Sandoval, 2012). This turn of events, along with the shifting of power between subunits within the company, led to the exit of many powerful senior level managers. This left very few people in the company who could "persuade Hastings or tell him he was making a mistake" (Sandoval, 2012). All of these factors contributed to the biggest mistake Netflix has made – a 2011 price hike which cost the company 800,000 subscribers and caused its stock price to drop by 77% over a span of four months (Sandoval, 2012).

Because of issues like these, Netflix has made a concerted effort to prevent further negative conflict within the organization. Because of the ever changing environment in which Netflix operates, the company must constantly adapt and innovate, which means that different teams within the company must be able to work well with each other. The company realizes this and states in their company culture document that employees who are not team players will not be tolerated will not last within the company. Effective teamwork is necessary to compete in a rapidly changing environment and behavior that is counterproductive will not be tolerated (Netflix Culture: Freedom & Responsibility). Though Netflix has encountered problems in the past with conflict, the company is actively working to encourage healthy conflict and eliminate the rest, which should lead to sustained success in the future.

In Conclusion

After a careful organizational analysis of Netflix, it is evident that the company has been able to reach its high level of success by constantly innovating and changing the environmental landscape in which it competes. By having lofty goals and always keeping an eye towards the future, Netflix has positioned itself for continued success in the future. However, the media giant still has some room for improvement in a couple of key areas.

Currently, Netflix has three subscription options for consumers, and each option allows the user to watch all media programs that are available on Netflix. These plans may be too pricey for some consumers, especially since many people subscribe to other services such as HBO as well. So in order to reach a new market segment, Netflix should offer a discounted service offering that limits the options available for viewing. For example, Netflix should offer a streaming plan that only gives users access to movies, another plan that only gives access to television programs, and price these plans below their most basic plan offering. This would help further differentiate the company’s product offerings and allow Netflix to reach price conscious consumers who would otherwise be turned off by Netflix’s fees.

Another area where Netflix is struggling is in the new movie category. Most of the movies on Netflix are produced by Netflix, b-list movies, or movies that have not been recently released. Netflix gets a hold of very few top new releases, unlike Redbox and on-demand services from cable providers. These movies are more expensive to license, so Netflix could create a premium plan which is more expensive than its other plans, but allows users access to top new releases.

By following these suggestions, Netflix will be able to penetrate new markets within the next year which will allow the company to continue to grow its brand. This will make it more difficult for competitors to survive tougher for new entrants to enter the market. This will give Netflix additional advantages that will help the company continue to thrive in the future.

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Appendix A

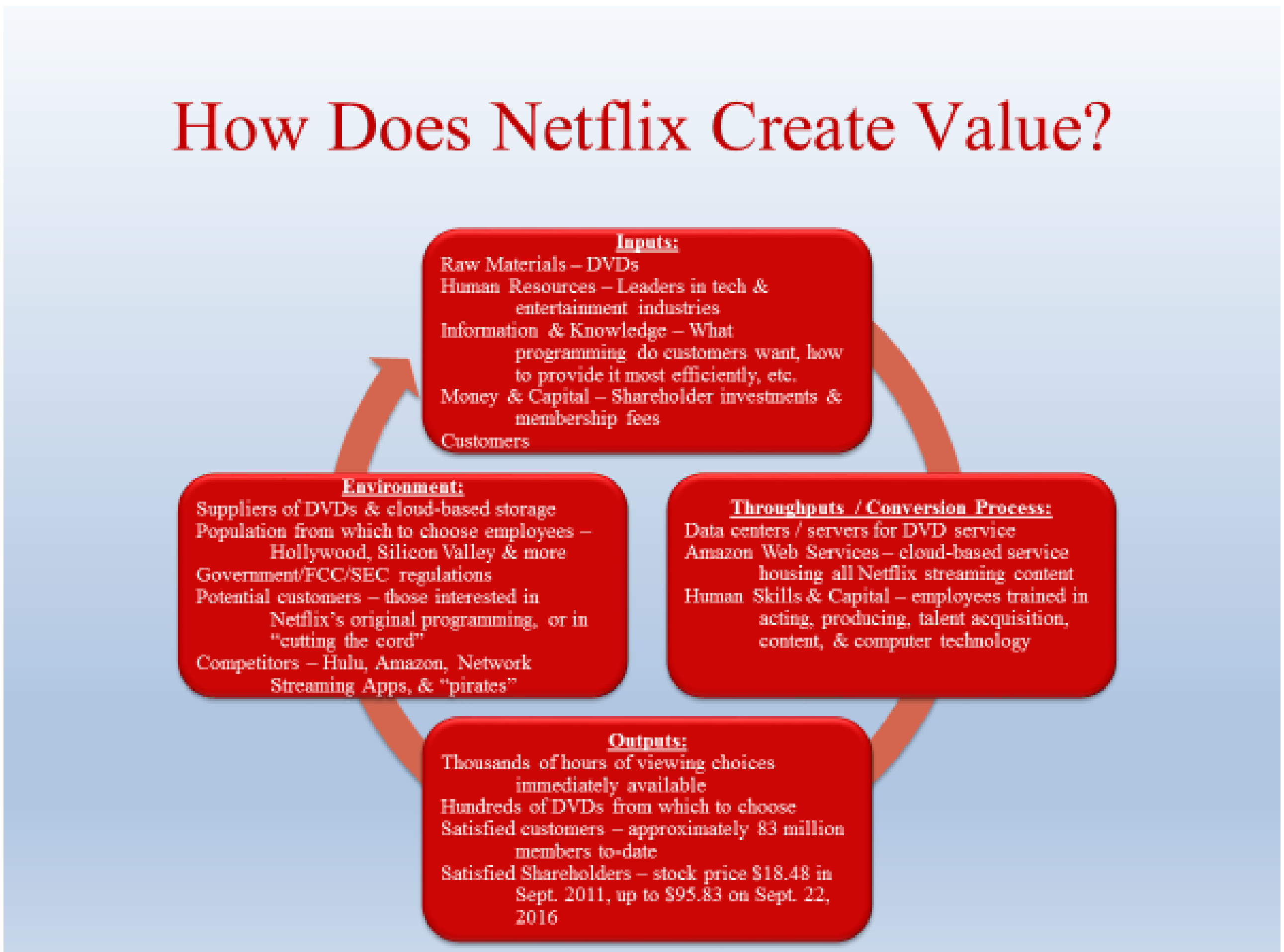
Netflix, Inc. Top Management Organizational Chart

The top management team of Netflix includes the CEO, Reed Hastings, who also serves as the Board president and chair, and eight executives who are each responsible for their specific areas of business functions.

Appendix B

Netflix's Value Creation Stages

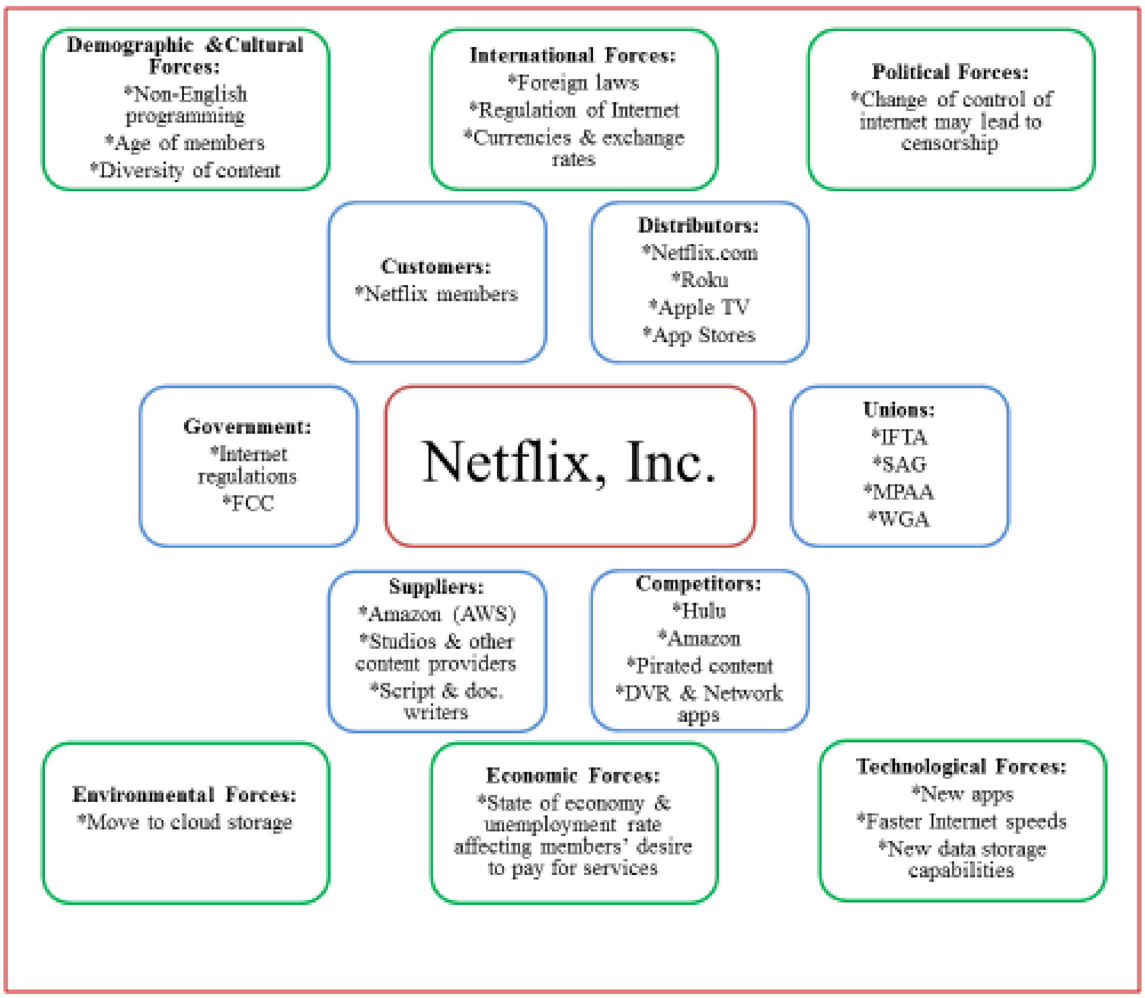
The four forces in an organization's value creation process include inputs, outputs, throughputs, and organization's environment.



Appendix C

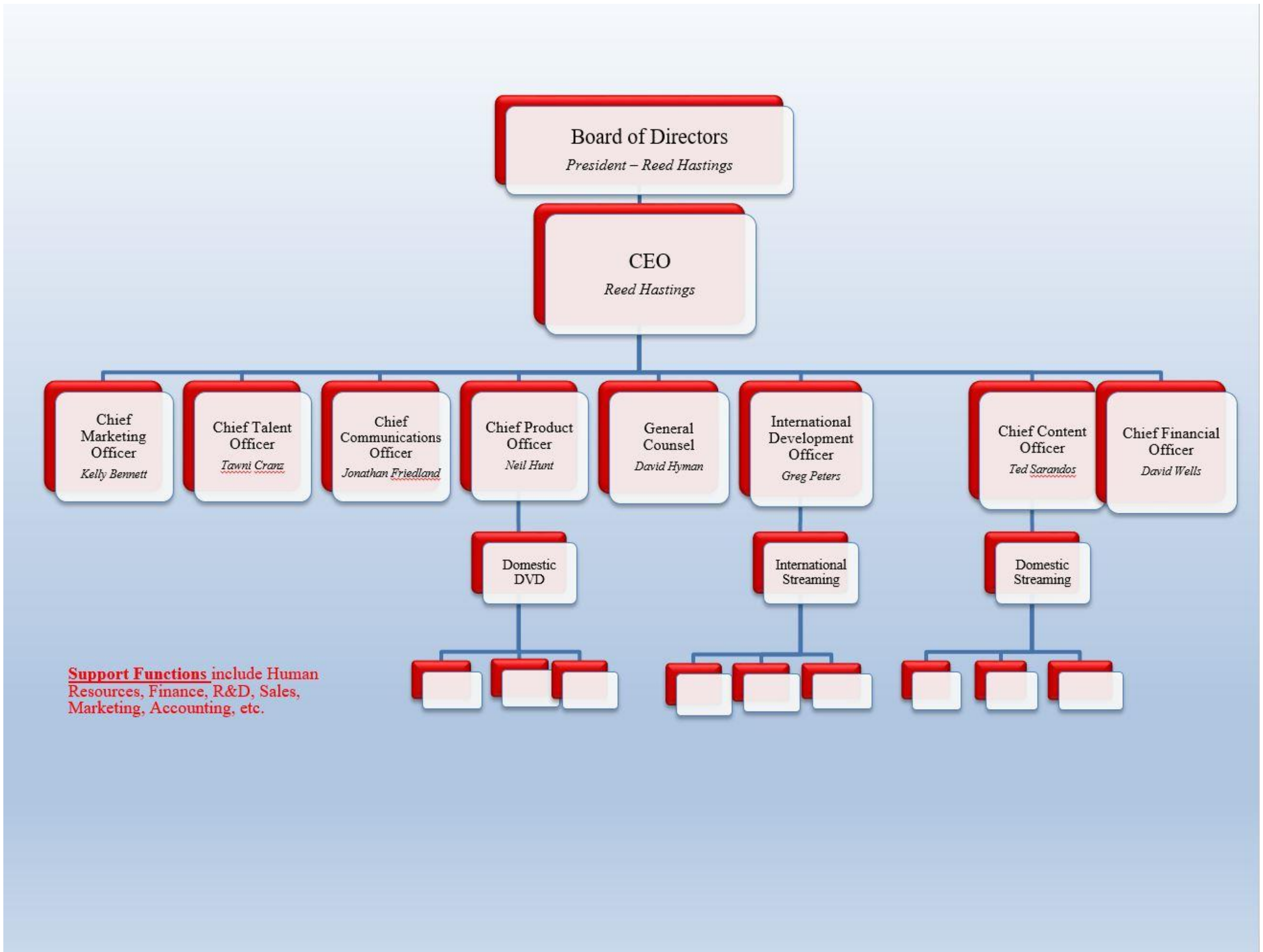
The Specific and General Environments of Netflix

The organization's specific environment includes those forces (outlined in blue) that affect Netflix's ability to secure resources needed to create value. The general environment includes the forces (outlined in green) that affect the ability of all companies in the overall environment, including Netflix and its competitors, to secure resources.



Appendix D

The Multi-divisional Structure of Netflix



Appendix E

Questions Addressed in Each Module

Module 1: Organizations and Organizational Effectiveness

1. What is the name of the organization? Give a short account of the history of the company. Describe the way it has grown and developed.

2. What does the organization do? What goods and services does it produce/provide? What kind of value does it create? If the company has an annual report, what does the report describe as the company's organizational mission?

3. Draw a model of the way the organization creates value. Briefly describe its inputs, throughputs, outputs, and environment.

4. Do an initial analysis of the organization's major problems or issues. What challenges confront the organization today - for example, in its efforts to attract customers, to lower costs, to increase operating efficiency? How does its organizational design relate to these problems?

5. Read its annual report and determine which kinds of goals, standards, or targets the organization is using to evaluate performance. How well is the organization doing when judged by the criteria of control, innovation, and efficiency?

Module 2: Stakeholders, Managers, and Ethics

2.Using the information on the company's website, draw a picture of its hierarchy of authority. Try to identify the members of the top-management team. Is the CEO also the chair of the board of directors?

4. Does the organization have a published code of ethics or ethical stance? What kinds of issues does it raise in this statement?

Module 3: Organizing in a Changing Global Environment

1. Draw a chart of your organization's domain. List the organization's products and customers and the forces in the specific and general environments that have an effect on it. Which are the most important forces that the organization has to deal with?

2. Analyze the effect of the forces on the complexity, dynamism, and richness of the environment. From this analysis, how would you characterize the level of uncertainty in your organization's environment?

Module 4: Basic Challenges of Organizational Design

3. How has our organization responded to the design challenges? (a) Is it centralized or decentralized? How do you know? (b) Is it highly differentiated? Can you identify any integrating mechanisms used by your organization? What is the match between the complexity of differentiation and the complexity of the integrating mechanisms that are used? (c) Is behavior in the organization very standardized, or does mutual adjustment play an important role in coordinating people and activities? What can you tell us about the level of formalization by looking at the number and kinds of rules the organization uses? How important is socialization in your organization?

4. Does your analysis in item 3 lead you to think that your organization conforms more to the organic or mechanistic model of organizational structure? Briefly explain why you think it is organic or mechanistic.

Module 5: Designing Organizational Structure: Authority and Control

3. Is the organization tall or flat? Does the organization experience any of the problems associated with tall hierarchies? Which ones?

4. What is the span of control of the CEO? Is the span appropriate, or is it too wide or too narrow?

Module 6: Designing Organizational Structure: Specialization and Coordination

1. What kind of structure (e.g., functional, product division, multidivisional) does the organization have? Draw a diagram showing its structure, and identify the major subunits or divisions in the organization.

2. Why does your organization have this kind of structure? Provide a brief account of the advantages and disadvantages associated with this structure for your organization?

Module 7: Creating and Managing Organizational Culture

1. Do managers and employees use certain words and phrases to describe the behavior of people in the organization? Are any stories about events or people typically used to describe the way the organization works?

5. Can you find a written statement of the organization's stance on social responsibility? Are there stories in the press about the company? If there are, what do they say?

Module 8: Organizational Design and Strategy in a Changing Global Environment

1. Briefly describe your organization's domain – that is, the goods and services it produces and the customer groups it serves.

2. What core competences give the organization a competitive advantage? What are the organization's functional-level strategies?

Module 9: Organizational Design, Competences, and Technology

1. What kinds of goods or services does your organization produce? Are input conversion, or output activities the source of greatest uncertainty for your organization?

2. What role does technology in the form of knowledge play in the production of the organization's goods and services?

Module 10: Types and Forms of Organizational Change

1. Does revolutionary or evolutionary best describe the changes that have been taking place in your organization?

2. In what types of change (such as restructuring) has your organization been most involved? How successful have these change efforts been?

Module 11: Birth, Growth, Decline & Death

1. When was your organization founded? Who founded it? What opportunity was it founded to exploit?

2. *What stage of the organization life cycle is your organization in now? What internal and external problems is it currently encountering? How are managers trying to solve these problems?*

Module 12: Decision Making, Learning, Knowledge Management, and IT

1. Given the pattern of changes your organization has made to its strategy and structure over time, which of the decision-making models best characterizes the way it makes decisions?

2. Can you pinpoint any cognitive biases that may have affected the way managers made decisions or influenced their choice of strategy or structure? What was the effect of these cognitive biases?

Module 13: Innovation, Intrapreneurship, and Creativity

1. With the information that you have at your disposal, discuss (a) the forces for change, and (b) the obstacles to change in your company.

2. With what kind of innovation (quantum or incremental) has your organization been most involved?

3. In what ways, if any, has your organization sought to manage the innovation process and alter its structure or culture to increase its capacity to develop new products or services?

Module 14: Managing Conflict, Power, and Politics

1. What do you think are the likely sources of conflict that may arise in your organization? Is there a history of conflict between managers or between stakeholders?

2. To what degree are the organization's strategic and operational decisions affected by conflict and politics?