

# ***Analyzing the Construction of Human Resource Management Model for Netflix in the Context of Multiculturalism***

**Ningxuan Murong<sup>1,a,\*</sup>**

<sup>1</sup>*Zhixin High School, 152 Zhixin S Rd, Guangzhou, Guangdong, China*

*a. walterm3@nwfsc.edu*

*\*corresponding author*

**Abstract:** Netflix, originating from the United States, is an OTT service company providing online video streaming globally. It offers subscription-based services for movies and TV shows, delivering media to subscribers via internet streaming and the U.S. postal service. By market capitalization, Netflix is one of the world's largest media and entertainment companies. Establishing a scientifically sound human resource management model that aligns with a multicultural backdrop is fundamental to Netflix's operations. The dual factors of Netflix's expanding scale and the rapid development under a multicultural context in current years present challenges in constructing a more comprehensive and complete human resource management model. This paper explores and analyzes how Netflix constructs its human resource management model under a multicultural context and, designs a unique model based on practical management needs, analyzes the characteristics of Netflix's human resource management model, and provides insights for other enterprises. The human resource management model of Netflix is a comprehensive and complete system developed specifically to adapt to the unique and rapidly changing content industry, enabling the entire company to have creative and innovative capabilities, which is not universally applicable to enterprises in other industries.

**Keywords:** Netflix, Human Resources Management, Multicultural Context, Corporate Culture, Corporate Governance.

## **1. Introduction**

As times change, the emphasis and development of multiculturalism have become key to business growth, especially for new internet media companies like Netflix. In human resource management, the demand for multiculturalism has also become an increasingly important direction for development. In the past, human resource management often relied on subjective experiences and traditional methods. However, these methods had many shortcomings and could not provide personalized resources and assistance based on the needs of each employee, limiting employee development and management effectiveness. Today, the development and application of multiculturalism bring new strategies to human resource management. By collecting, analyzing, and applying data, companies can better understand employee needs and behaviors, optimize recruitment, training, and performance management, and enhance management capabilities and effectiveness. Building a scientific human

resource management model within a multicultural context not only helps managers to gain a comprehensive understanding of employee information but also allows them to provide more extensive assistance tailored to actual employee needs, facilitating significant employee progress and development. Additionally, such a model can predict future talent demands and allocations, providing support for business growth. In a multicultural environment, companies must realize the importance of integrating multiculturalism into their human resource management models. Through this model, businesses can better identify employee needs, improve recruitment efficiency, optimize talent development, enhance employee performance and satisfaction, and gain a competitive advantage for sustained growth in the rapidly changing recent years. This paper analyzes how Netflix constructs its human resource management model within a multicultural context by using the literature review method. It explores the characteristics of Netflix's unique human resource management approaches and draws insights for other companies.

## **2. Overview of Netflix**

Netflix was founded on August 29, 1997, by Marc Randolph and Reed Hastings, with its headquarters located in Scotts Valley, California, USA. Netflix primarily operates in various sectors including streaming, entertainment, and gaming, providing services across numerous fields such as online film and television, video-on-demand, DVD rentals, OTT services, digital distribution, film production, film distribution, television production, and television distribution.

### **2.1. Development Stage of Netflix**

Since its founding, Netflix has gone through three developmental phases: DVD subscription services, a shift to streaming, and the inception of original content. With a forward-looking strategic vision seizing opportunities of the era and fostering high-quality content through an open corporate culture, Netflix has ultimately grown into a global streaming leader [1]. According to Netflix's Q1 2024 financial report, it achieved first-quarter revenue of \$9.37 billion, a year-over-year increase of 14.8%, with net profit of \$2.33 billion, a year-over-year increase of 79%, and a total global subscriber count of 269.6 million [2]. It can be said that Netflix has become an international membership-based subscription streaming platform.

#### **2.1.1. DVD Rental**

Netflix has offered a flat-rate rental service for DVDs and Blu-rays in the United States since its inception, and this service continued until September 2023 [3]. Subscribers can create a wishlist of films they wish to rent. The DVD discs are mailed from regional warehouses using the U.S. Postal Service. After the launch of the instant streaming service, most Netflix subscribers have moved away from relying on mail delivery of physical discs to using the more instantaneous and stable streaming services.

#### **2.1.2. Streaming Services**

In January 2007, Netflix was the first to launch the online streaming subscription service, which gradually expanded to various devices such as televisions, set-top boxes, and game consoles [4]. Providing online video streaming services has become one of Netflix's primary offerings. By 2013, Netflix held the largest market share in the U.S. online viewing market, reaching 63%, with over 33 million subscribers, resulting in significant valuation growth.

### **2.1.3. Original Content**

Starting in March 2011, Netflix began planning original content for its popular streaming services. This original content not only enriched the platform's programming variety but also provided viewers with unique viewing experiences, making original content a core competitive advantage for Netflix as a streaming platform. Original content also carries significant strategic importance for the company, as it gives Netflix greater control and authority over the content provided through streaming services, reducing potential risks associated with content creators and broadening the company's business scope, offering more possibilities [5].

## **3. Factors Influencing Human Resource Management Model Selection**

### **3.1. Corporate Strategy**

#### **3.1.1. Business Model**

Netflix's business model can be summarized as acquiring incremental users through high-quality content and then supporting the next round of content investment with subscription revenue and financial leverage. In the long run, once the content library reaches a certain threshold, the existing content can meet most of the users' needs, allowing the company to invest fewer resources to acquire more users. Thus, the marginal cost of content required per user decreases, enhancing profitability and revealing economies of scale.

#### **3.1.2. Global Expansion**

Netflix was an early entrant into overseas markets, launching its streaming service in Canada in 2010. Between 2011 and 2015, Netflix expanded into Latin America, Europe, Australia, New Zealand, and East Asia. After 2015, as the penetration of streaming users in North America became saturated, Netflix accelerated its global expansion starting in 2017, opening a second curve of user growth. Currently, Netflix's streaming service covers over 190 countries and regions. This global layout has broken the limits of user scale, becoming a new growth point for Netflix. On one hand, with Netflix's global expansion, the scale of overseas subscribers has quickly grown, along with a steady increase in ARPPU values across different regions, driving rapid revenue growth in overseas markets. In 2019, Netflix's international streaming business revenue surpassed that of North America. In 2021, Netflix's North American revenue was \$12.97 billion (up 13.2% month-on-month), European revenue was \$9.7 billion (up 24.8% month-on-month), Latin American revenue was \$3.58 billion (up 13.3% month-on-month), and Asia-Pacific revenue was \$3.26 billion (up 37.7% month-on-month), indicating that the globalization strategy had reached maturity. Furthermore, global expansion has emphasized economies of scale, continuously decreasing marginal costs and enhancing profitability.

#### **3.1.3. Emphasizing Technology**

As a streaming platform, Netflix places great importance on technological innovation to ensure the "usability" of its services. In promoting its services to the global market, Netflix not only focuses on enhancing its technical capabilities but also emphasizes partnerships with technology collaborators. Firstly, regarding technology research and development, Netflix is committed to resolving compatibility issues for viewing videos on different devices by enhancing its video transcoding capabilities. Netflix stores various formats of video copies in the cloud, enabling users to watch videos seamlessly across multiple devices. Additionally, based on a massive database, Netflix developed the Cinematch algorithm recommendation system, which can predict and recommend content users are likely to enjoy. To enhance the accuracy of recommendations, they introduced micro-tagging

functionality to improve the specificity of content descriptions, such as tagging Turkish sci-fi films or 20th-century western children's movies. Secondly, in terms of technological collaboration, Netflix effectively leverages external technological power; for example, they partnered with Amazon to migrate data to Amazon Web Services (AWS), which not only effectively reduces fixed costs but also improves data stability, providing users with a consistently reliable viewing experience [6].

### **3.2. Development Stage of the Enterprise**

In less than twenty years, Netflix began as a DVD rental business, first defeating the then-dominant rental company Blockbuster through a monthly subscription model, then abandoning its original DVD rental business to transform into a streaming service provider, ultimately becoming the largest streaming service provider in the world.

### **3.3. Employee Types**

One of Netflix's eight cultural principles is to only hire "adults" [7]. The concept of "adults" at Netflix implies not only maturity in age but also maturity in professional ethics. Each member knows where they are headed and is willing to exert effort to achieve their goals. Building great teams does not rely on motivation, processes, or benefits, it relies on recruiting "adults" who seek challenges and then communicating them clearly and consistently about the challenges they face. Adults also have many other qualities. For instance, they do not merely complain about problems but rather solve them independently, and understand the importance of discipline, among others.

## **4. Netflix's Unique Human Resource Management Model**

The unique nature of Netflix's business necessitates that it attracts every demographic group across different ages and cultures. This requirement emphasizes creativity. To fulfill this task, Netflix needs a highly creative team with a strong sense of ownership rather than mere executors who follow procedures. Therefore, Netflix aims to stimulate employee thinking, recruit exceptional talent, and provide a work environment that fully inspires creativity.

### **4.1. Corporate Culture**

Corporate culture serves as a management tool that influences employee behavior in areas where regulations cannot reach. Netflix's corporate culture consists of eight core principles, with "freedom and responsibility" at the center [7]. Each principle brings a paradigm shift to business development. Here are a few highlights of the core principles.

#### **4.1.1. Only "Adults"**

Hiring Only "Adults", hiring adults forms the foundation and prerequisite for Netflix's unique corporate culture. Without this prerequisite, the principles advocating freedom and responsibility would lead to chaos and disorder.

#### **4.1.2. Understanding the Business**

Understanding the Business, Employees are informed of all pertinent information in their work environment, allowing them to determine the most rational actions, rather than only being told the information management believes they need, and do exactly as instructed. Issues discussed and researched by management are not confidential; they are repeatedly and patiently communicated throughout the company to ensure everyone understands the broader company goals. Knowing these

goals enables employees to better define their problems and assess if their teammates' actions align with the company's objectives [8].

#### **4.1.3.No Fixed Rules**

No Fixed Rules, Netflix employees enjoy a significant degree of freedom and authority, such as deciding when to take time off and having almost no limits on expense reimbursements, as long as it serves "Netflix's best interests" [9]. Employees can decide whether to take a week off or a month off, they can arrange it entirely by themselves, just by telling their colleagues directly, without anyone's approval. If employees feel the need for a new computer, they can order it themselves, and they can arrange business trips independently. The company will reimburse all expenses, and employees can even represent the company in signing contracts worth millions of dollars. Netflix trusts that employees will be responsible for their time and company property, provided that Netflix has a high talent density, as noted in their principle of hiring only "adults." While such freedom may lead to higher operational costs than many companies, Netflix believes that the benefits of allowing employees to manage their work flexibly far outweigh any additional costs incurred.

#### **4.1.4.Absolute Honesty**

Absolute honesty, a core pillar of Netflix's culture is openness. If someone has an issue with a colleague, the best approach is to communicate directly. Since employees are expected to be adults, they should possess the ability to handle the truth. As long as the intention behind any suggestions is constructive—for the benefit of the colleague or to improve the company's business—employees should feel free to voice disagreements, regardless of how they are worded.

#### **4.1.5.Information Transparency**

Implementing an honest and transparent communication policy ensures the transparency of information. Except for matters related to personal privacy, all other information within Netflix is transparent, exposing all employees' behaviors to one another. If an employee misuses company funds or takes excessive leave that hampers business progress, such behavior becomes evident to everyone. Under this unreserved feedback mechanism, irresponsible employees face criticism from their peers, and if moral issues are identified, they may be terminated. The principle of information transparency requires the company to communicate the reasons for any employee's termination to all employees, making all information public. In addition to making the dismissed employee reprimanded, this may frustrate him later in his career. This mechanism ensures that while employees have high freedom, their behaviors are still effectively managed.

### **4.2. Employee Compensation**

Netflix believes that paying the highest market salaries is core to its high-performance corporate culture. If employees are exceptional, they should be compensated according to the value they bring [10]. At Netflix, negotiations over salary are unnecessary; the company sets compensation at the highest standards in the industry. If other companies attempt to recruit their employees, Netflix encourages them to interview elsewhere. Upon their return, employees can disclose any competing offers, and Netflix will adjust their salary accordingly. For example, if an employee receives an offer with a \$200,000 increase in annual salary, Netflix will raise their salary by the same amount. Moreover, Netflix regularly re-evaluates employee salaries according to market trends to ensure compensation remains at the industry's highest level.

### **4.3. Employee Code of Conduct**

Unquestionably, a company without rules is a disorganized collective, and Netflix has not abandoned rules but instead has opted for a flexible corporate culture in lieu of rigid regulations. New employees learn not from a manual of "what to do" and "what not to do," but from a set of core values that serve as standards for judgment. Armed with these standards, employees can use the values to address various issues in alignment with the company's expectations, as policies alone cannot account for the complex nature of human behavior. Each Netflix employee holds the autonomy to make decisions that align with these principles without needing to refer to a lengthy codified document [11]. This lack of rigid rules effectively supports Netflix's capacity for ongoing self-iteration and renewal.

### **4.4. Performance Management**

Netflix does not implement a forced ranking system because this approach encourages employees to prioritize self-interest over collaboration. The high-caliber talent Netflix hires is intended to foster cooperation rather than rivalry among employees. To expel underperforming employees, Netflix employs a distinctive retention test known as the "Employee Retention Test." This requires management to regularly consider whether they would make a significant effort to retain an employee if that individual expressed a desire to resign. If managers would not fight to keep someone, it is advisable for that individual to depart, thereby making room for more capable talent [12]. While this system is inherently subjective, Netflix's transparency policy ensures that the reasons for an employee's dismissal are known to all colleagues, requiring managers to provide reasonable explanations for their decisions. If a manager's supervisor discovers poor utilization of personnel, they may also conduct a retention test for the manager to evaluate whether the manager possesses the capability to lead effectively.

## **5. Insights and Recommendations**

### **5.1. Difficulty in Uniting Corporate Strength**

Netflix's corporate culture is designed to leverage collective intelligence, but it struggles to consolidate corporate strength. The company finds it challenging to create plans that extend beyond 90 days because employees are constantly learning new ideas, and each employee has different and evolving thoughts. Netflix attempts to establish a long-term mission each year, but they find that the mission changes annually as new ideas emerge to replace old ones. The corporate strategy at Netflix emerges from the bottom up rather than being designed and driven from the top down. This results in high tactical flexibility but strategic sluggishness, making it difficult to concentrate efforts in response to sudden and unexpected market changes. The reliance on collective intelligence to learn and develop strategies requires time, and it is challenging to consolidate corporate strength when everyone has different ideas, potentially causing Netflix to miss critical windows of opportunity.

### **5.2. Efficiency Paradox**

Netflix encourages all employees to actively learn from users, suppliers, competitors, corporate strategy, and necessary professional skills. However, the sheer volume of learning can be overwhelming and time-consuming. To enhance efficiency, employees need to focus on valuable learning that directly benefits the business and avoid unnecessary learning. This focus allows employees sufficient time to apply what they have learned in their work. The problem arises when employees cannot allocate enough time for random learning, making it difficult to determine what is genuinely valuable.



### 5.3. A Degree of Chaos

Netflix's corporate culture permits a controllable degree of chaos within the organization. This higher level of chaos than what is typically found in most companies means that Netflix can only choose relatively straightforward business operations and models. The organization must streamline its operations to consolidate this chaotic energy effectively. If Netflix's cultural principles are applied indiscriminately to manage complex and diverse business scenarios, it may risk going out of control.

## 6. Conclusion

Netflix's human resource management model is a cohesive system. It is not advisable for other companies to adopt parts of it. For instance, if managers do not offer industry-leading salaries but attempt to implement Netflix's employee retention tests, it could lead to the termination of numerous employees and halt business operations. Even if a company offers competitive salaries, without a transparent information system, all hiring and firing decisions would rely solely on managers, making it difficult to ensure normal operations. Additionally, it is not advisable for other companies to fully replicate Netflix's human resource management model, as doing so would entail abandoning the company's previous processes and values. Such foundational elements may be crucial to its survival, and the risk of undermining this foundation is substantial. Moreover, variations across industries result in different demands for organizational capabilities. Netflix's corporate culture was designed to harness collective intelligence and foster employee creativity and learning, which are essential in the rapidly changing content industry. However, this method may not be transferable to other sectors.

Netflix's human resource management model is a system in which every rule and value is interconnected. Whether employees can learn and apply Netflix's corporate culture in their work is related to attracting talent with curiosity and the ability to learn. Employee competence is linked to employee retention testing, which is associated with the high salary system. This high salary system is connected to the elimination of complex and rigid controls, which in turn is related to a straightforward feedback mechanism. The feedback mechanism is tied to information transparency, and information transparency is relevant to all of the preceding factors.

For Netflix, the greatest risk is not financial waste or a certain degree of internal chaos, but rather the inability to keep pace with market changes. Over 20 years, Netflix has developed a highly interdependent and intricately functioning corporate culture that equips the organization with creative and innovative capabilities, allowing it to continuously meet the fast-evolving demands of consumers in the content industry.

This paper explores the characteristics of Netflix's human resource management model, indicating that its unique approach to managing people within the content industry is difficult to apply in other sectors. However, understanding the distinctive features of Netflix's model offers significant insights for the construction of human resource management practices in other enterprises, helping them develop a deeper understanding of the relationship between implemented strategies and observable outcomes. For companies in the content industry, Netflix's human resource management model proves particularly advantageous, aiding them in building a resilient framework that fosters creativity and innovation in response to rapid industry changes.

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