

Transformational leadership and technological disruption: the case of Blockbuster and Netflix

Liderazgo transformacional y disrupción tecnológica: el caso de Blockbuster y Netflix

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ABSTRACT

Objective. Analyze the evolution of the entertainment industry from Blockbuster's business model to Netflix's leadership, contrasting transformational and charismatic leadership approaches, in relation to three key technology trends in the digital era: experiential marketing through immersive technologies, the circular economy and distributed cloud computing. **Methods.** For the analysis of the documentation, we used a methodology based on qualitative analysis of an inductive nature, but with a descriptive and analytical approach supported by the review of scientific articles and historical chronology. The study covers the period from 1984 to 2024, with academic sources from indexed journals, business books and business reports. In order to corroborate the data, a triangulation process was applied to contrast leadership theories with technological trends and verify the results of the companies involved. **Conclusions.** The case study is a mandatory frame of reference for companies globally, as it demonstrates that innovation and adaptation to disruptive technologies is "not optional" but "essential" for economic sustainability. Thus, while Blockbuster clung to transactional leadership and resistance to change, Netflix progressed under transformational and charismatic leadership, adapting to disruptive technologies. This case is striking, as only companies with strategic vision and innovation capacity manage to remain relevant and sustainable.

Keywords: transformational leadership; technological disruption; experiential marketing; circular economy; digitization.

RESUMEN

Objetivo. Analizar la evolución de la industria del entretenimiento desde el modelo de negocio de Blockbuster hasta el liderazgo de Netflix, contrastando los enfoques de liderazgo transformacional y carismático, en relación con tres tendencias tecnológicas clave en la era digital: el *marketing* experiencial mediante tecnologías inmersivas, la economía circular y la informática en la nube distribuida. **Métodos.** Para el análisis de la documentación acudimos a una metodología fundamentada en el análisis cualitativo de carácter inductivo, pero con un enfoque descriptivo y analítico soportado en la revisión de artículos científicos y la cronología histórica. El estudio recorre el período que va de 1984 hasta 2024, con fuentes académicas de revistas indexadas, libros de negocios y reportes empresariales. A fin de corroborar los datos, se aplicó un proceso de triangulación para contrastar teorías de liderazgo, con las tendencias tecnológicas y verificar los resultados de las empresas involucradas. **Conclusiones.** El caso en estudio es un marco de referencia obligatorio para las empresas a nivel global, ya que demuestra que la innovación y adaptación a las tecnologías disruptivas "no es opcional", sino "esencial" para la sostenibilidad económica. Así las cosas, mientras Blockbuster se aferró a un liderazgo transaccional y resistencia al cambio, Netflix progresó bajo un liderazgo transformacional y carismático, adaptándose a las tecnologías disruptivas. Este caso llama la atención, ya que solo las empresas con visión estratégica y capacidad de innovación logran mantenerse relevantes y sostenibles.

Palabras clave: liderazgo transformacional; disrupción tecnológica; marketing experiencial; economía circular; digitalización.

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INTRODUCTION

Context and relevance of the Blockbuster case

In the 1980s, a technological revolution in the entertainment sector emerged in the United States with the advent of VHS videocassette players, which allowed many households to access home entertainment, leading to the proliferation of thousands of movie rental stores in the VHS format (Cusumano et al., 1992).

However, despite this great advancement, these stores suffered from manual management and inefficient inventory control, resulting in long waiting times. This very experience motivated David Cook, founder of the first Blockbuster Video, to innovate using his knowledge of databases to transform the business model. In this process, he managed to streamline delivery times and improve delinquency control, giving rise to Blockbuster (Cangemi & Lopez, 1997).

Role of Transformational and Charismatic Leadership in Business Evolution

Blockbuster stores were highly successful in the 1990s in VHS movie rentals, but their late-fee system led one of their users to devise a new business model—Netflix—which revolutionized the entertainment industry in unprecedented ways. First, it replaced the VHS format with DVDs (Pitman, 2003); second, it used postal delivery; third, did not use points of sale; fourth, it embraced digital platforms; and fifth, it invested in implementing a streaming model. These innovations led to profits reaching unprecedented levels.

Blockbuster was characterized by a transactional leadership model (Asgari et al., 2020), heavily focused on controlling late fees. In contrast, Netflix adopted a transformational leadership model (Bass & Riggio, 2006), promoting employee participation and innovation, with collaborators actively believing in the project and participating in decision-making (Barrera Arguello & Castellanos, 2017). In practice, an unprecedented level of charisma was evident (Hemmen et al., 2013), enabling disruptive change, where employees fully embraced and made the project their own.

Introduction to Key Technological Trends

The Gartner report identifies at least ten emerging technological trends (Willemsen, 2023) in the global economy, of which three are particularly relevant to the case study: 1) experiential *marketing* through immersive technologies (Pine II & Gilmore, 1998), 2) circular economy technologies (Tambovceva & Titko, 2024), and 3) distributed cloud computing (Willemsen, 2023).

Netflix serves as a global benchmark for management and business success, demonstrating the importance of leadership in strategic decision-making and resilience in the face of disruptive environments, ensuring business sustainability (Salvador et al., 2019). The

objective of this research was to analyze the evolution of the entertainment industry from Blockbuster's business model to Netflix's leadership, contrasting transformational and charismatic leadership approaches in relation to three key technological trends in the digital era: experiential *marketing* through immersive technologies, the circular economy, and distributed cloud computing.

METHODS

For the document analysis, we employed a methodology based on qualitative inductive analysis, with a descriptive and analytical approach, supported by a review of scientific articles and historical chronology.

The research focuses on studying disruptive emerging technologies from conceptual pillars: a) the charisma of transformational leadership (Bass & Riggio, 2006), where human capital is the central driver of innovation; b) sustainable and circular economy (Tambovceva & Titko, 2024), which shifts from disposable physical resources to virtual and reusable ones (Torres, 2016); and c) digital technological disruption (Jiménez-Montecinos, 2020), which demands that business models adapt or die in the attempt.

This global process began, in this specific case, in the United States, transforming the entertainment market, surpassing traditional models from Europe, China, and Russia, and giving rise to transnational corporations (Ortiz, 2001) that invested in resilient technological change models, combined with strategic leadership that provided them with a competitive advantage.

In this context, the research was developed with the following objectives: a) to establish the relationship between the leadership model and business success; b) to determine the relationship between business success and emerging, disruptive technological trends in the reconfiguration of the entertainment industry; and c) to identify the strategic decisions that determined business success.

The main resource for the study was access to documents and scientific articles, among others; therefore, the methodological approach was qualitative and inductive (Taylor & Bogdan, 2011), chosen for its capacity to analyze complex phenomena and generate theories based on the analysis of case studies at the documentary level.

The work was divided into three stages: a) collection of historical data and relevant documentation (1984–2024); b) identification of themes and emerging patterns regarding leadership theories; and c) triangulation to identify core patterns that could be extrapolated to business management in the three proposed emerging and digitally disruptive environments, aiming to identify findings in an objective and quantifiable manner.

Thus, the methodology used in this study proved useful for clarifying the achievement of the proposed objectives, making it possible to triangulate information sources with the theoretical framework of leadership and technological disruption, thereby providing access to an understanding of the factors that explain the divergent results between Blockbuster (transactional) and Netflix (transformational).

CASE ANALYSIS

In 1985, David Cook, an entrepreneur with experience in computer science, innovated by launching a VHS movie rental business and founded Blockbuster in Dallas, Texas. It was the first time a database-based computer system was used for inventory control, which led to a late-fee system for overdue returns (Cangemi & Lopez, 1997).

The growth was meteoric, and in 1987, Wayne Huizenga acquired the company and initiated an aggressive expansion with a multimillion-dollar investment (Sexton, 2001). By 1992, the company had 1,800 franchises, and in 1994 it was sold for USD 8.4 million. However, behind this success was a dependence on physical inventory linked to a transactional leadership model, which would eventually become obsolete in the face of digital disruption.

In 1997, Reed Hastings and Marc Randolph, dissatisfied with the service they received, decided to innovate and create competition for Blockbuster with a completely unprecedented system (Haselhuhn et al., 2012). This led to the birth of Netflix, implementing a disruptive model with three key aspects: 1) a disruptive technological change, transitioning from VHS to DVD (Pitman, 2003); 2) the implementation of postal delivery, eliminating stores, late fees, and delivery deadlines; and 3) innovation in social responsibility, circular economy, and carbon footprint reduction by removing physical points of sale and the associated logistics.

In 1999, Netflix became the first company worldwide to implement this business model, putting into practice what no one had dared to do before. However, no one believed in the project until it became a global success. In 2000, Netflix innovated again by implementing an algorithmic system to identify user preferences through streaming (Hagener, 2020).

Leadership Contrast

From the data analysis, the findings indicate that Blockbuster applied a transactional leadership model (Asgari et al., 2020) (fines and rewards), while that Hastings implemented in Netflix a transformational leadership model (Bass & Riggio, 2006), promoting autonomy, creativity, and the generation of disruptive digital ideas grounded in charisma (Hemmen et al., 2013).

In 2000, Blockbuster demonstrated strategic myopia, a lack of vision and opportunity, by rejecting the acquisition of Netflix for 50 million US dollars, constituting the largest mistake in commercial history (Christensen, 2008).

Period from 2003 to 2007

Under the visionary leadership of Reed Hastings, in 2003 Netflix positioned itself as a global benchmark due to its divergence. Its acceptance led it to reach its first one million subscribers worldwide, which enabled it to go public, granting unprecedented financial growth. In contrast, Blockbuster began to show clear signs of financial and organizational decline. By 2007, Netflix had reached five million subscribers.

Period from 2010 to 2013

In 2010, Netflix innovated again by investing millions in research and development to provide the streaming service (Nguyen et al., 2014), thus managing to reach every corner of the world via the Internet. By 2013, Netflix had reached 20 million subscribers, establishing itself as the absolute leader in the digital entertainment business. In contrast, Blockbuster was entering definitive bankruptcy.

That same year, by expanding its market to Latin America, Netflix reached 25 million subscribers. In the following table, we contrast the two leadership models, as evidenced in the Netflix case versus Blockbuster, and their consequences for business sustainability.

Table 1
Contrast of leadership models

Netflix	Blockbuster
Transformational leadership	Transactional leadership
Culture of innovation and risk-taking	Resistance to change
Commitment to digital (streaming, algorithms)	Attachment to the physical model

This case demonstrates how technological adaptation and visionary leadership determine business survival in disruptive environments.

Disruptive leadership

Reed Hastings, with his highly original style, left all competitors behind, materializing a dream that resulted in an empire reaching unprecedented levels of innovation (Chown & Nascimento, 2023). The fresh resources allowed him to create his own film studios, with creative independence and control over the value chain, to produce original movies and series. In 2014, Netflix reached 50 million subscribers, and its shares were traded on the market at over 400 dollars each.

Disruptive technologies and resilience

In 2016, unknowingly, Netflix prepared for a period of COVID-19 pandemic lockdowns, allowing people worldwide to access sustainable and safe entertainment. On November 15, 2024, it live-streamed the fight between Jake Paul and Mike Tyson, reaching an audience of 60 million people—an event that reaffirmed its position as a leader in the entertainment industry.

Resilience

By observing the emergence of Blockbuster in contrast to Netflix, it is evident that any business can start with a great innovative idea and achieve significant success. However, success is not permanent; it requires strategic decisions that adapt to the disruptive changes of digital technology in order to remain relevant to users. Otherwise, a company can go from success to failure in an instant (Jiménez-Montecinos, 2020).

Critical analysis

It is clear that contemporary companies must make strategic decisions and invest in research and development, enabling them to anticipate market changes and thus survive through continuous innovation (Economic Commission for Latin America and the Caribbean [ECLAC]).

The findings indicate that Netflix's success fits perfectly within the following triad, giving unprecedented value to technology in the digital era and enabling a model that constantly reinvents itself, making adjustments according to user needs:

1) Customer experience–focused *marketing*: Netflix originated from an entrepreneurial initiative and the originality of a dissatisfied Blockbuster user, who sought to solve a problem and followed a chain of organic recommendations based on intuition (Hagener, 2020), thereby generating engagement through original content.

2) Circular economy: The creation of a company without physical points of sale allowed for significant operational cost savings (Torres, 2016); consequently, it resulted in an 89% reduction of the carbon footprint (Tambovceva & Titko, 2024). Thus, Netflix became a sustainable company, not only economically but also ecologically.

3) Cloud architecture: This disruptive technological leap allowed Netflix to transcend physical boundaries and reach users globally (Willemsen, 2023), and through algorithms, it enabled simultaneous 24/7 personalization and access to its inventory for users.

RESULT AND DISCUSSION

1. Netflix switched from VHS to DVD and promoted novelty for the user, something unthinkable at Blockbuster due to its strategic myopia (Asgari et al.,

2020). Consequently, Reed Hastings' transformational leadership and marketing were so innovative and disruptive that they placed the user in an immersive virtual experience, providing a competitive advantage in the entertainment industry (Bass & Riggio, 2006).

1.1. Benefits

The use of disruptive technologies allowed Netflix to operate without physical stores, promoting environmental sustainability and reducing inventory costs by 92% (Torres, 2016). Additionally, it fostered social responsibility by cutting the carbon footprint by 82% (Tambovceva & Titko, 2024), which strengthened user loyalty through emotional connection (Hagener, 2020).

1.2. Risks

High implementation costs create a technological gap, limiting universal access (Willemsen, 2023).

2. Gradual shift from physical format to cloud streaming radically changed the traditional model by promoting the infinite and sustainable reuse of the product.

2.1. Benefits

By 2013, Netflix eliminated 100% of physical points of sale (Bass & Riggio, 2006), saving USD 120 million annually (Torres, 2016). This transition reduced energy consumption in data centers by 35% (Willemsen, 2023) and decreased plastic usage while saving 2.1 million tons of CO₂ annually (Tambovceva & Titko, 2024), leading to carbon-neutral certification in 2020.

Geographical scalability ensures resilience and availability, with 24/7 service and 99.95% redundancy (Willemsen, 2023), anticipating failures (Calderón-Torres & Arroyo-Mata, 2024). This allows access for over 200 million users simultaneously worldwide, democratizing entertainment and reducing response times by 40% compared to local servers (Nguyen et al., 2014) while decreasing energy consumption by 30%.

2.2. Risks

A learning curve of approximately 18 months, combined with high implementation costs of up to USD 80 million. Data security and privacy present challenges, especially with globally distributed servers operated by third parties, and compliance with international data protection regulations.

Netflix demonstrates three key technological innovations in commerce, highlighting sustainability and efficiency benefits, while also presenting risks, particularly for small businesses facing economic and technological barriers (see Table 2).

The convergence presented in Table 1 constitutes a sustainable model at the global level (ECLAC, 2022); however, it is essential to recall that these are tools rather than an end in themselves, since their effectiveness

Table 2
Technological innovations and their impact on commerce

Technological trend	Benefits	Risks
1.Experiential marketing with immersive technologies	<ul style="list-style-type: none">- Personalized digital and emotional experiences.- Reusable virtual product.- Environmental awareness and loyalty.	<ul style="list-style-type: none">- High costs in research and development, <i>hardware</i>, and <i>software</i>.- Increased energy bills.
2. Circular economy	<ul style="list-style-type: none">- Replacement of disposal with digital reuse.- Optimization and efficiency of resources.- Increase in profitability.	<ul style="list-style-type: none">- Confidence in short- and long-term return on investment.- High venture capital requirements and implementation challenges for small entrepreneurial sectors.
3.Distributed cloud computing technologies.	<ul style="list-style-type: none">- Latent memory.- Software applications that allow immediate access.- Cross-border backup storage databases.	<ul style="list-style-type: none">- Complexity in managing data security and privacy.- Storage sources managed by third parties.- Legal framework and international data protection.

depends on strong and charismatic leadership. In this regard, designing and implementing policies that facilitate the development of such ventures in the digital era remains a challenge. All these approaches provide significant competitive advantages, although they also entail challenges related to investment, technology, and infrastructure (see Figure 1).

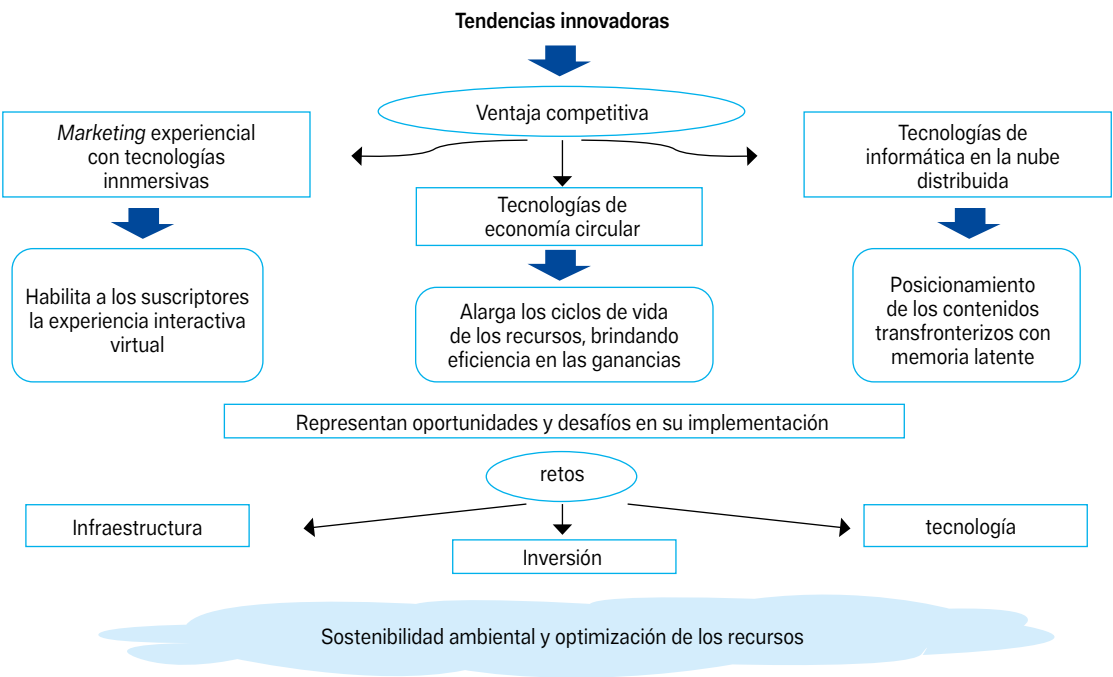
The inductive analysis made it possible to derive cross-cutting lessons, such as the critical role of transformational leadership in disruptive environments,

based on the contrasting trajectories of Blockbuster and Netflix. These findings not only explain the case under study but also provide insights for companies in industries subject to accelerated technological change.

CONCLUSIONS

At the conclusion of this entire study on the confrontation between Blockbuster's and Netflix's leadership models, five fundamental lessons emerge for business management in disruptive digital environments:

Figure 1
Innovative trends: experiential marketing, circular economy, and cloud computing



1) Leadership, innovation in management, and resilience in the face of challenges posed by new disruptive digital technologies show a clear and evident relationship with Netflix's success. Thanks to the charisma of its founders, the company achieved effective adaptation to the entertainment market (Hemmen et al., 2013), whereas Blockbuster, unable to replicate its competitor, went bankrupt and disappeared.

2) David Cook founded a pioneering business model based on franchising, which attracted the attention of other investors. However, this business model was not an instant formula for sustainable long-term success, as the entertainment market underwent considerable changes during the COVID-19 pandemic, requiring adaptation that demanded research and development for business survival. Consequently, those who failed to adapt to this new environment of pandemic lockdown were forced to shut down their businesses.

3) The founder of Blockbuster gave in to the offers from investors who saw great future market value in the company. However, it seems that at times, the essence of a business leaves with its founder, leaving the business model adrift and without the philosophical foundations needed to sustain its credibility before its human capital. From this perspective, selling the company at such an early stage could be interpreted as a strategic mistake; in such cases, it is more advisable to preserve the spirit of the business within the company to provide it with support and long-term durability.

4) The Austrian economist Joseph A. Schumpeter (1942) recognized that disruptive digital technologies have forced both new and long-standing companies to adapt in order to survive. Along the way, this has entailed creative destruction, as innovative businesses like Netflix succeed in adapting to change while simultaneously dismantling traditional economic, social, and cultural structures such as those of Blockbuster, thereby constructing new industrial paradigms more closely aligned with the philosophy of a sustainable circular economy. The moral is that businesses require adaptation and innovation; otherwise, there is a high risk of being eliminated.

5) The case of Netflix demonstrates that market changes are unpredictable, meaning that companies must invest in research and development in order to be prepared and anticipate these shifts, ensuring their survival and long-term sustainability; otherwise, they may disappear.

Business models have an expiration date. The most sustainable competitive advantage is the ability to reinvent oneself periodically (Christensen, 2008).

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