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Ben's Blog

“ There's no sense in being precise when you don't even know what you're talking about. — JOHN VON NEUMANN ”

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Is it OK to Hire People from Your Friend's Company?

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Girlies with boyfriends are the kinds I like,
I'll steal your honey like I stole your bike.
—Beastie Boys, *The New Style*

Every good technology company needs great people. The best companies invest time, money, and sweat equity into becoming world-class recruiting machines. But how far should you take your quest to build the world's greatest team? Is it fair game to hire employees from your friend's company? Will you still be friends?

First, what do I mean by “friends?” There are two relevant categories:

- Important business partners
- Friends

For this discussion, friends and important business partners are roughly the same.

Most CEOs would never target a friend's company as a source of talent. As CEO, one generally doesn't have many true friends in business and raiding your friend's company is a sure way to lose one. Nevertheless, almost every CEO will be faced with the decision on whether or not to hire an employee out of her friend's company. How does it happen? When is it OK? When will it cost you a friend?

But they were already looking

It always starts in the same way. Your friend Cathy has a great engineer working for her named Fred. Fred

happens to be friends with one of your top engineers. Your engineer brings Fred in for an interview unbeknownst to you and he naturally sails through the process. The final step is the interview with you, the CEO. You immediately notice that Fred currently works at your good friend Cathy's company. You check with your people to make sure that they did not approach Fred first and they assure you that Fred was already looking and will go to another company if not yours. Now what?

At this point, you might be thinking: "if Fred is leaving, then logically my friend Cathy should want him to go to my company rather than to a competitor or a company with a CEO who she doesn't like." Maybe Cathy will see it that way, but probably not.

People generally leave companies when things are not going well, so you should assume that Cathy is fighting for her company's life. When in this situation, nothing will cut her deeper than losing a great employee, because she knows that the other employees will see that as a leading indicator of the company's demise. Even more damaging for Cathy, her employees will perceive that her friend is raiding her company. In this way, a logical issue quickly becomes an emotional one.

You don't want to lose Cathy as a friend, so you assure her that Fred is the exception and that he came to you and that he will be the first and only one of her employees that joins your company. Generally, this will work and Cathy will understand and appreciate the gesture. She will forgive, but rest assured, she will not forget.

Her memory of Fred will be important, because Fred joining will just be the first step. Since Fred is stellar, Cathy's other strong employees will likely call Fred to understand why he left and where he is going. He will explain his reasoning and he will be compelling. And they will want to join too. By the time you become aware, promises will have been made and offers may be out.

In each case, your employees will assure you that they were approached by Cathy's employees and not vice-versa. They will point out that the candidates have offers from other companies as well, so they will definitely leave and you might as well benefit. Cathy's managers will almost certainly tell a different story. They will plead with her to get her friend to stop raiding their employees or they will never be able to meet their commitments. This will embarrass and enrage Cathy. In the end, the social pressure will trump all your brilliant countervailing logic.

Here's an easy way to think about the dynamic. If your husband left you, would you want your best friend to date him? He's going to date somebody, so wouldn't you want your friend to have him? It seems logical, but this situation is far from logical and you just lost one friend.

So what should you do?

First, keep in mind that the employees are either extremely good or you probably won't want them in your company any way. So, you will either be recruiting top-notch employees from your friend's company or you will be adding mediocre people. Do not assume the people you are taking will not be missed.

A good rule of thumb is the reflexive principle of employee raiding which states: "if you would be shocked and horrified if company X hired several of your employees, then you should not hire any of theirs." The number of such companies should be small and may very well be zero.

In order to avoid these sticky situations, many companies employ written or unwritten policies that name companies where it is not OK to hire without CEO (or senior executive) approval. With such a policy in place, you will be able to give your friend one last chance to save their employee or object prior to you hiring them.

It is important to note that just about all of these kinds of policies violate the Right to Work laws in California.

Specifically, if you block a hire based on this kind of policy and the employee loses their job and cannot find work, your company is liable for his wages. As a result, the business relationship with the other company must be extremely important for you to employ any kind of “hands off” policy.

With that in mind, the best way to deal with these situations is openly and transparently. Once the you become aware of the conflict between hiring the superstar employee and double-crossing your valued friend, you should get the issue onto the table by informing the employee that you have an important business relationship with his existing company and you will have to complete a reference check with the CEO prior to extending the offer. Let him know that if he does not want that to happen, then you will stop the process now and keep the process to date confidential. By speaking with your friend before making the hire, you will be able to better judge the relationship impact of hiring her employee. In addition, you may avoid making a bad hire as often candidates who do well in interviews turn out to be bad employees.

Closing thoughts

In the classic movie, *The Good, The Bad and The Ugly*, Clint Eastwood “The Good” and Eli Wallach “The Ugly” are partners in crime. Wallach, a known criminal, has a bounty on his head and the two of them run a scam to collect the reward money. Eastwood turns Wallach in and collects the reward. Then, Wallach is sentenced to death by hanging. As Wallach sits on a horse, hands tied behind his back and about to be hanged with a rope around his neck, Eastwood shoots the rope from a distance and frees Wallach and they split the reward money. This scheme works brilliantly until one day Eastwood frees Wallach, but informs Wallach: “I don’t think you’ll ever be worth more than \$3,000.” Wallach retorts: “What do you mean?” Eastwood informs him “I mean, our partnership is untied. Oh no, not you. You remain tied. I’ll keep the money, and you can have the rope.” What follows is one of the great revenge pursuits in motion picture history.

So, when you tell your CEO friend that you don’t think she’ll ever be worth more than this employee, don’t expect to stay friends.

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