

# strategy+business

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Organizations & People

## Connections with Integrity

**The venture capitalist who cofounded LinkedIn reveals the surefire system that he has used since high school for evaluating potential business relationships.**

by Reid Hoffman

As a venture capitalist, and the cofounder of the leading online professional networking site, I am keenly aware of the value of good alliances. Indeed, my interest in the nature of alliances began long ago, when I was a freshman in high school. Thinking about what I would do with my life, I came up with a perfect plan. My friends and I would all seek positions of power: One of us would be president of the United States; another would be president of IBM; another would run a powerful nonprofit. We'd coordinate our efforts and change the world together. Seems like a lofty ambition for a high schooler, I know, but we truly believed that if we joined forces, anything in life was possible.

Thinking now about the kinds of people who make good allies, I realize that over the years I've come to group the behavior of my friends and acquaintances into four categories based on the way they managed the relationships in their lives. These categories have become the clues, signs, and guideposts I look for when assessing whether I want a certain person in my corner — and if so, what that alliance should look like. The four categories also serve as a framework for me in deciding who to engage with in business partnerships and other professional relationships. They influence everything from the companies I choose to invest in, to the people I hire to work at LinkedIn, to the acquaintances I try to get to know better over lunch. Some leaders have difficulty with alliances, either because they do not understand the importance of alliances in a networked world, or because they do not understand the types of alliances that are possible with different people. Still others struggle because they fail to see that true alliances are not just a means to an end; they are authentic relationships built upon mutual respect and trust. This understanding has helped me adopt the right kind of alliance with each individual I encounter professionally.

In the course of their careers, people in professional life — who succeed at least in part because of the quality of their encounters with one another — meet a wide variety of other people. One could see these acquaintances, in effect, as standing on a continuum of trustworthiness and accountability. At one end are people who treat the world as transactional, judging each individual encounter by its benefits for them alone. People in the middle are moved and inspired by a higher order of sensibility; they perceive their effect on the world at large to matter more than the short-term benefits of any individual deal. And at the far end, some people are motivated primarily by the quality and impact of their relationships. For every individual you might do business with, it's essential to know where he or she stands on this continuum, to know how much you can trust him or her and how the relationship can be most beneficial — *to both of you*.

### Four Attitudes about Alliances

It can be difficult to see the character and motivations of other people clearly, because many of us keep those facets hidden. All successful professionals learn to interact reasonably well with others, even when some of them have little care or regard for other people. But the way people manage alliances is a powerful clue. It reveals not just how they approach business dealings, but how they will actually behave in an alliance with you. Here are the four basic categories.

**1. "I'll do something for you, if you'll do something for me."** These people limit themselves to deals in which their immediate benefit is at least as great as the benefits for others. If they're investors, they put their money in a company only when the deal is certain to reward them financially; they insist on either immediate payoff or some guaranteed terms for the future. They're generally unwilling to do something for other people without certainty that in the future they will be paid

back.

For example, I once met two partners in a startup software company who were negotiating a deal with a major company interested in licensing their technology. It was clearly in the startup's interest to participate, though they would have to wait some time before they saw a direct financial return. One of the partners immediately understood that this represented a valuable opportunity, with potential strategic importance. The second partner kept asking: "Why would we do this? We have no interest in what they want us to do." He saw no reason to take a risk without the iron-clad guarantee of a future payoff. In this way, the second partner revealed his own attitude about trust. He would extend himself for others only if compelled, and thus did not trust others to do the same for him.

If you do business with people who have this attitude, in which trust is limited and so are the kinds of alliances you can form with them, you need to ensure a stream of short-term rewards for them so they constantly feel they are getting something back. These kinds of alliances are inherently risky. The moment you run into problems and the rewards dry up, even temporarily, these people will seek an escape route. They are unwilling to share your pain. They will not invest in an authentic relationship with you, because they do not trust you to honor that relationship in the future — because they themselves would not. The moment your interests no longer align with theirs, you will have problems.

**2. "I'll do something for you, but I'm keeping track of what you owe me."** Some people approach life as if it works on a tally system. When they do you a favor, you owe them something in return. Maybe not today or this month or even this year, but before too long, they expect you to pay them back in some manner. This attitude can rear its head at the very beginning of a business discussion. A prospective investment partner might say: "I'll show you this deal, but I expect you to show me your next good deal."

This attitude, too, is highly correlated with a form of risk aversion. These individuals are no less focused on reward than those in the previous category. They are simply willing to wait a little longer for it. In a way, this makes them even less attractive candidates for a professional partnership, because they are too focused on their mental scorecard to invest in the relationship in a meaningful manner. Furthermore, if you give them something, they'll believe it's only because you want something at least as valuable in return. That's just the way their minds work.

This type of alliance can run into trouble when your allies' tally systems — their way of accounting for costs and benefits — are different from your own. This happens more than you might expect, because of a subtle aspect of human nature: Even when people are well intentioned, they tend to overvalue their own contributions and undervalue those of others. If there is tacit disagreement about the value that has been exchanged, or if stress prevents you from fulfilling your part of the bargain in good time, the alliance may not bear the load. These people are likely to get fairly hostile if they feel that the score is uneven or that they've done something for you and you're not giving them something that they specifically want in return.

**3. "I'll invest in this relationship, and I expect you to invest commensurately over time."** Unlike those who are always keeping score, tracking who did and gave what, these individuals often make alliances with the understanding that each side can be trusted to honor its commitments to the other. Each is expected to provide a reasonable level of return, at least in the long run. But these people don't expect you to explicitly say what form that reciprocation will take, or to offer a deadline by which it must be provided. There's a mutual understanding that the relationship itself is important — and that sometimes one party may do something very one-sided on behalf of the other, with the view that it helps the alliance and the relationship, and that all favors even out in the long run.

An alliance with this type of individual can be an excellent foundation for a long-term, trusting partnership, so the relationship should be nurtured. The key to this kind of relationship is communication, talking explicitly and respectfully about what the boundaries of the relationship are, and how you can invest in each other, professionally or otherwise. When there's a communication gap, or one of the parties is not quite sure of the signals, you will run into trouble. If one person believes that trust has been violated, or that the other has misrepresented what he or she intends to bring to the relationship in the long run, all bets are off.

**4. "I'll invest in this relationship because it is the right thing to do."** These individuals have no explicit expectation

of return. They are providing great value with only the knowledge that they are improving the relationship and the satisfaction of having helped another person as compensation. These people seek out relationships with others who share their values and goals, and they believe that helping the other person will advance those values and goals. Underlying these relationships is the assumption that when the right people are involved, an alliance is extremely valuable in its own right; we partner with each other to change the world. This type of alliance can ensure a successful, long-term, satisfying outcome even if the personal rewards are limited or curtailed. To reach this optimal level of exchange requires a very high level of trust. Once you have earned that kind of trust, the relationship can move mountains.

I have seen the value of this type of exchange many times in my career. For example, in my new book I tell the story of how, some years ago, I formed a partnership with Mark Pincus (now CEO of the game company Zynga) to buy a social networking patent called Six Degrees. About a year after that, I was presented with the extraordinary opportunity to invest in Facebook. My initial response, like that of any intelligent investor, was to make the entire investment personally. But on reflection, I realized that given my relationship with Mark, the right thing to do was to give him the option of taking half of it. Mark and I had no agreement to bring each other any investments. But because of our collaboration on Six Degrees, we were implicitly allied across our shared professional interest in social networking companies. I felt the only honorable thing I could possibly do in that circumstance was to present the opportunity to Mark. I'll admit, this wasn't purely selfless; I was also aware that if I opted not to do so, the deal would create a conflict of interest that could threaten the relationship, as Mark's interests and my interests in how to deploy the Six Degrees technology might sharply diverge. Mark's interests could even become fundamentally different from my own, and that would make it difficult to continue working together.

In the end, I communicated to Facebook that we needed to split my portion of the investment with Mark. Yes, I knew that decision would cut the investment's financial value in half for me, but I also knew the return on the investment of trust and mutual commitment would be infinitely more valuable in the long term. And it was. Later, when Mark formed Zynga, I invested and joined its board; we continue to work together in building huge companies, as deep allies.

I use this same framework whenever I am deciding whether to work with or hire new people. First of all, I listen closely not just to what people say, but also to the questions they ask; this can speak volumes about how they will behave in the relationship. For example, if the first question out of a job candidate's mouth is about the promotion schedule or compensation package, I know this is an untrusting individual who is unlikely to invest much effort without the explicit promise of immediate reward. On the other hand, if the candidate asks how his or her skill set can be deployed to complement those of colleagues, this is clearly someone who will make a trusted ally.

I also look for less-obvious signals. For example, I observe not only how people treat me, but also how they treat others. Are they dismissive and rude with waiters and clerks, or are they generous and willing to overlook relatively minor mistakes? Do they talk about others with respect in general conversation, or do they routinely disparage others behind their backs? Do they talk about what they like and trust in other people, or do they talk mainly about how other people are dangerous? These signs can indicate whether people see relationships as primarily transactional and the transactions as fleeting, or as strong candidates for future trusting alliances.

### **Moving toward Integrity**

This isn't to say that you should avoid dealing with all transactional people at all times. I regularly establish alliances with people who exhibit any of the four categories of behavior, but each category requires a different approach to the relationship. Working with someone in the first group — who is solely in it for him- or herself — can be tricky, fragile, and time-consuming. The alliance tends to be unstable and relatively brief. But if the ground rules are established correctly, such a person can be a valuable partner in the very short term — perhaps as an investor in a one-time deal, or as a bridge to an important introduction.

It's also possible to form good alliances with people in the tit-for-tat second group, but generally only if you create clear agreements and boundaries. If you're hiring or going into business with one of these people, my advice is to put all terms in writing.

People in the third group are for the most part great allies, since they will invest proactively in the relationship and will be

reliable, even when there is no immediate personal benefit. These two middle groups are the mainstays of most business transactions, as most professionals have varying needs for explicit signs of commitment to a partnership or deal.

Alliances with people in the final group are more rare in the business world, and they work only when you share values and goals. Generally, you both have to have a fair amount of self-knowledge about what you stand for, and you must believe in each other's mission in the world. Usually people in this fourth category have deep personal integrity, and they prize doing good for the sake of doing good. These are ideal partners for a long-term business relationship, but they may also demand a greater commitment from you, or a higher level of shared values, than a simple professional alliance requires.

Of course, these four types of attitudes aren't mutually exclusive; people vacillate among them. I know many people who tend to start their professional relationships with relatively high levels of trust. But under stress, they feel wronged, or when they see you doing something that they dislike, they revert to the more explicit, transactional alliances. On the other hand, some people can start by investing in the relationship with their eyes toward some future payoff, then ascend to the most altruistic level when they realize that they share significant trust with you, and a mission in the world.

When it comes to your career, although it may be tempting to forge lots of transactional alliances — after all, by their very nature, there is payoff for *both* parties — in the long run those alliances built on trust and integrity are most valuable. As I instinctively knew back in high school, these relationships open the door to more possibilities, and are more likely to lead to great accomplishments. I believe that the people who tend to become more effective in the world are those who build and nurture the best alliances.

One way to help nurture good alliances is to provide early and explicit signs of your own commitment, showing people that you actually care about helping them. My name for this practice is the “theory of small gifts.” There are many small ways to invest in a relationship and create more value for everyone, without expecting anything tangible in return. For example, you can offer to introduce people to others in your network; if the introduction is well chosen, it can be one of the most valuable things you can do for someone. When I introduce two people on LinkedIn, my expectation is that both people will appreciate the introduction, even if a specific business transaction does not happen.

In fact, I had the theory of small gifts in mind when we developed LinkedIn. At the most obvious level, LinkedIn is a system that helps members use their networks to find people with relevant knowledge, experience, and resources. If you're interested in open source programming and search LinkedIn for that phrase, you will see a list of experts connected to you through mutual acquaintances. You can easily ask for introductions without having to phone someone, ask them to do the hard work of thinking who would be the right match, and then manage the logistics of connection.

It seems counterintuitive, but the more altruistic your attitude, the more benefits you will gain from the relationship. If you insist on a quid pro quo every time you help others, you will have a much narrower network and a more limited set of opportunities. Conversely, if you set out to help others by introducing them to the right people, simply because you think it's the right thing to do, you will rapidly reinforce your own reputation and expand your universe of possibilities. For me, that is the greatest value of understanding alliances; it can help you build the kind of network on which great careers are built. **s+b**

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