Acquihiring for Monopsony Power
Discussion

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My Comments

- Great paper! Simple model, neat/compelling intuitions.
- Main takeaway
  - Acquihires kill competition in the labour market, not just the product market
  - Acquihires are socially inefficient (even when no product market effect).
- My comments:
  - Acquihires and Non Compete Agreements

Labour as an essential input

In many industries, skilled human capital is an essential input. Companies may benefit from:

1. Foreclosure: secure exclusive access to skilled human capital to deter entry/induce exit/reduce expansion of rivals in the product market
2. Monopsony vis-à-vis suppliers of human capital (the "knowledge workers") in the labour market to extract rents from them

Key feature: human capital as an input is not "owned" by the employer and is free to move across firms (but more on this later).

This paper

Large firm willing to absorb human capital from other firm ("startup") can turn to:

- The labour market: make an offer to workers to hire them
- The market for corporate control: make an offer to the startup to buy its human capital stock alongside its other assets (an "acquihire")

With acquihire:

- Employee expropriated: gets reservation wage and no private benefit
- Startup S appropriates part of the monopsony rent via acquisition price p
- Bargaining game on p between S and potential Acquirer determines whether the latter prefers direct hiring versus acquihire
- If A poses a serious competitive threat to S on labour market $\Longrightarrow$ lower price p in the market for corporate control!

Enter Non Compete Agreements . . .

- Acquihire versus direct hiring decisions do not happen in a contractual vacuum.
- Many knowledge workers are bound by contractual covenants restricting labour mobility, e.g. NCAs. Ubiquitous in the tech industry.
- How do NCAs (and their enforceability) affect acquihire incentives?
  - My prior and why we need economic models . . .
- How do NCAs (and their enforceability) affect outcomes for startups and their employees?

How do NCAs fit in the model

Baseline model

- Direct hiring never happens at equilibrium if $v_a > v_s$
- Possibility of direct hiring makes no difference to equilibrium payoffs (as by assumption, ruled out after acquihire fails)

Assume now NCA completely shuts down direct hiring:

- If $v_a > v_s$ acquihiring takes place at $p = v_s - \underline{w}$, employee gets paid $\underline{w}$ and loses private benefit b.
  - Presence of NCA makes no difference to Startup or employee
- If $v_a < v_s$, the employee is stuck with the Startup whether NCA or not, earns $\underline{w}$ and gets private benefit b

How do NCAs fit in the model

Model with bargaining

- Better NCA enforceability translates into lower δ (less competition on labour market if acquihire fails) $\implies$ higher acquisition price p
  - Do NCAs discourage acquihires?

Richer model

- NCAs also make direct hiring – as an alternative to launch an acquihire – more costly/less likely to succeed (need a cost or again probability of success $\delta < 1$)
- Impact of NCA enforceability on acquihire incentives not obvious:
  - Direct hiring in labour market more costly/less successful
  - Acquihire price higher

Who benefits from NCAs?

Startup gains in two ways:

- NCA reduces competition in labour market
- NCA increases the acquisition price in market for corporate control

Employee

- Can a paradox arise where *some degree* of NCA enforceability makes employee with high private benefit better off?

Great model! Lends itself to more work!