

Acquihiring for Monopsony Power

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Background: Labor and Tech

- Very niche highly specialized, and highly compensated labor
- First-order concern for firms: enough that Eric Schmidt and Steve Jobs swap emails about recruitment activity and a case involving hundreds of millions of fines
- Last fall, threat of moving to another firm (Microsoft) gave workers at OpenAI enough leverage to overturn board decisions (and have board resign)

Date: March 9, 2007 10:05:26 AM PST
To: Danielle Lambert <jlambert@apple.com>
Subject: Fwd: Google recruiters calling into Apple - isolated incident

)
Steve



Begin forwarded message:

From: Eric Schmidt <eschmidt@google.com>
Date: March 9, 2007 8:21:25 AM PST
To: sjobs@apple.com
Subject: Google recruiters calling into Apple - isolated incident

Steve, as a followup we investigated the recruiter's actions and she violated our policies. Apologies again on this and I'm including a portion of the email I received from our head of recruiting. Should this ever happen again please let me know immediately and we will handle. Thanks !! Eric

From Google recruiting to me:
On this specific case, the sourcer who contacted this Apple employee should not have and will be terminated within the hour. We are scrubbing the sourcer's records to ensure she did not contact anyone else.

In general, we have a very clear 'do not call' policy (attached) that is given to every staffing professional and I reiterate this message in ongoing communications and staffing meetings. Unfortunately, every six months or so someone makes an error in judgment, and for this type of violation we terminate their relationship with Google.

What is Acquihring?

- Buying startup/small firm for the sake of getting the labor **but not pursuing its business or IP**
- Common enough to have a name (since at least 2005)!
 - even if not common enough for autocorrect
- Often contrasted to “killer acquisition”
- Mark Zuckerberg in 2010:
“Facebook has not once bought a company for the company itself. We buy companies to get excellent people.”
- Management literature (Chatterjee and Prato, 2014, Kim, 2020; Loh, Khashabi, Claussen, and Kretschmer, 2019; Ng and Stuart, 2022) that focuses on employee outcomes for direct hires vs acquihires

A Puzzle: Why Acquihring Rather than Hiring?

Acquihire involves payout to investors such as VCs: what does the acquirer gain by paying them?

Acquihiring for monopsony power

- Acquihiring removes a main labor market competitor (the startup) and so allows the acquirer to hire at lower wages
- That is, rather than “killer acquisition” to maintain monopoly power in the product market, acquihiring for monopsony power in labor market
- A story about thin specialized labor markets (cf. concentrated product markets)
- Inefficiency can arise with acquihiring even if no product market effect

OK...But Don't You Have to Pay Investors to Get this Power...

So why is acquihiring cheaper than direct hiring?

Two stories

- 1 Acqui hiring does not require the acquirer to compensate the employee for the loss of private benefit associated with startup
- 2 Potential for intense competition under direct hiring reduces the acquisition price, and so makes acquihiring more profitable than direct hiring

Our Approach: A Series of Related Models

- ① Baseline focused on acquirer and startup “colluding” against worker private benefits
 - Super simple
 - Gets some notation up
 - Gets you curious about all sorts of unrealistic restrictions
- ② More general bargaining
 - Highlights role of threatening a battle for talent
 - When does acquihiring arise? When direct hiring?
 - Highlights asymmetry between big firm and startup
- ③ Private information about private benefits
 - A natural reason for not extracting full private benefit
- ④ Multiple workers
 - Empirically relevant
 - Rationale for apparent growth in acquihiring?

Baseline Model

Role of Private Benefits

Baseline Model: Set-up

- Three players
 - employee (e) who is essential for the startup
 - startup (s) which generates v_s when employee there (think VC with control rights)
 - acquirer (a) who would generate v_a from employee
- In addition to any wages $w \geq \underline{w}$, employee enjoys benefit b from startup
- Convenient to assume $\min[v_a, v_s] > b + \underline{w}$
- Acquirer can engage in direct hiring or instead acquihiring

Timing: Acquire or Direct Hire?

- ① a decides whether to engage in direct hiring or acquiring
- ② Direct Hiring?
 - ① a and s simultaneously make wage offers w_a and w_s
 - ② e chooses which offer to accept

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 - ② e chooses which offer to accept
- ③ Acquiring?
 - ① a makes a bid to buy the startup at price p
 - ② if s accepts, then a makes a wage offer w_a
 - ③ otherwise, s makes a wage offer w_s

Direct Hiring

- a and s simultaneously make wage offers $w_a \geq \underline{w}$ and $w_s \geq \underline{w}$; then, e chooses which offer to accept

Lemma

*Under direct hiring, the **efficient outcome arises** where*

- *if $v_a > v_s + b$, the acquirer hires the employee at wage $w_a = v_s + b > \underline{w}$;*
- *if $v_a < v_s + b$, the startup retains the employee at wage $w_s = v_a - b > \underline{w}$*

The resulting outcome is efficient in that it maximizes total surplus.

Acquihiring

- a makes a takeover bid p for the startup, which s then accept or rejects; depending on whether takeover is successful, a (or s) then offers wage $w_a \geq \underline{w}$ (or $w_s \geq \underline{w}$) to e

Lemma

Under acquihiring,

- *if $v_a > v_s$, the acquirer offers $p = v_s - \underline{w}$ for the startup, the offer is accepted, and the employee is hired by the acquirer at wage \underline{w} .*
- *if $v_a < v_s$, the acquirer offers $p = v_a - \underline{w}$ for the startup, the offer is declined, and the employee is retained by the startup at wage \underline{w} .*

*The outcome is **inefficient** if $v_s < v_a < v_s + b$.*

Acquihiring and Worker Expropriation

Proposition

If the acquirer hires the employee, which happens when $v_a > v_s$, then it does so through acquihiring. However, the employee always prefers direct hiring.

- Under direct hiring, a has to compensate e for loss of b , but under acquihiring a becomes a monopsonist who pays \underline{w}
- Acquisition price does not incorporate b
- Potential inefficiency because e cannot promise to accept less than \underline{w} to remain at startup (or does not enjoy b if earning less than this)
- Employee worse off with acquihiring
 - Consistent with higher turnover rates following acquihiring rather than direct hiring (but Kim, 2020, excludes founders)
- Indeed, employee is better off *in the absence of the acquirer*, as she receives $\underline{w} + b$ rather than \underline{w}

Acquihiring: What is Required?

Discussion suggests that aquihiring rests on

- (i) private benefits and
- (ii) lower bound on wages

In fact, neither is key...but first...

Private Benefits Can Be Substantial?

WhatsApp

WhatsApp CEO Jan Koum quits over privacy disagreements with Facebook

WhatsApp was built with a focus on privacy and a disdain for ads, but the Facebook-owned service is now under pressure to make money

Olivia Solon in *San Francisco*

 @oliviasolon

Tue 1 May 2018 00:41 CEST

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A Story for Lower Bound on Wages

- \underline{w} reflects outside option for worker (at time of hiring)
- b learned while on the job
- Downward wage rigidity

Model 2: General Bargaining

Threat of a Battle for Talent Drives Down Acquisition Price

A Generalization with Bargaining

Make the following changes:

- The acquirer no longer makes a take-it-or-leave-it offer
 - Instead a has bargaining power $\alpha \in [0, 1]$
- If acquiring fails, the acquirer has a chance to directly hire
 - This happens with probability $\delta \in [0, 1]$

Bargaining over the Acquisition Price ($\delta = 1$)

When acquirer gets to compete directly after a failed acquisition

- Then, if startup turns down takeover, it earns nothing if $v_a \geq v_s + b$, and earns $v_s - v_a + b$ otherwise
 - In either case, this is less than $v_s - \underline{w}$ (profit of a failed acquisition in baseline)
 - So, acquisition price is lower to account for this possibility

Inefficiency can arise even without private benefit

- If $v_a < v_s$ and $b = 0$, then inefficient acquihiring can arise when $2v_a > v_s$

Acquihiring or Direct Hiring?

So, inefficiency can occur *if the acquirer tries acquihiring*, even though $b = 0$.
But when will the acquirer choose this?

Proposition

Suppose $0 < \alpha\delta < 1$. Then, acquirer hires employee directly when $v_a > \bar{v}_a$, where

$$\bar{v}_a \equiv v_s + b + \frac{\alpha[\delta(v_s - \underline{w}) + b]}{(1 - \alpha)(1 - \delta)} \geq v_s + b$$

and through acquihiring when $\underline{v}_a < v_a < \bar{v}_a$, where

$$\underline{v}_a \equiv \frac{v_s + \delta(\underline{w} + b)}{1 + \delta} < v_s.$$

No hiring takes place when $v_a < \underline{v}_a$. The employee always prefers direct hiring over acquihiring.

Lessons from More General Bargaining 1

- ➊ Acquirer might use direct hiring (when having little bargaining power in negotiations)
- ➋ Private benefits are not key: acquihiring can arise at $b = 0$
- ➌ Different mechanism: acquisition price is lowered by the threat of competition
- ➍ Threat of competition (δ high) makes acquihiring more appealing; in the limit ($\delta \rightarrow 1$), any hiring must be acquihiring

Lessons from More General Bargaining 2

- ➊ When direct hiring occurs, it is efficient
- ➋ Inefficient acquihiring can occur
- ➌ Employee still unhappy with acquihiring
- ➍ Inefficiency arises from an asymmetry: a can buy s but not vice versa
 - Absent illegal behavior (which has occurred...), hard to pay competitor not to compete

- Private information about private benefits
 - A natural reason for not extracting full private benefit
- Multiple workers
 - Independent contributions
 - Complementary contributions

Takeaways

Two stories for acquihiring rather than direct hiring

- ① Don't need to compensate for private benefits
- ② Intense competition reduces acquisition price

Acquihiring harms employees and also leads to inefficiencies

Policy takeaway: “This is about labor” should come with further discussion...

The haiku summary

Pay A to hire B:
an efficiency defence?
Meta do better.