

# Acqui-hiring - Talent Strategy to Catch Purple Squirrels in VUCA World

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## Abstract

As the business environment gets taken over by VUCA storm, disruptions have become a routine phenomenon. These disruptions make it imperative for the businesses to be more responsive so as to sustain themselves in the wake of emerging global markets, technological breakthroughs, demographical shifts and changing preferences of the customers. The emerging business landscape is demanding new capabilities from the businesses and their workforce as well. In this context, the businesses are witnessing huge demand for STEM talent. Unfortunately the supply of this talent has been falling short of its demand. Also with millennials joining workforce in large numbers modern day workforce priorities are also changing fast adding to the complexity of the problem thereby pushing talent managers to adopt agile and innovative talent acquisition approaches like acqui-hiring to win the talent war. This paper attempts examine the role of acqui-hiring – a merger and acquisition strategy to meet the existing talent crunch. The paper also attempts to analyse the benefits and concerns associated with acqui-hiring faced by the talent managers across the world .

**Keywords** - VUCA , disruption, agile, STEM , acqui-hiring

*“It is not the strongest of the species that survives, nor the most intelligent that survives. It is the one that is most adaptable to change.”- Charles Darwin*

## Introduction - VUCA: The New Business Normal

Survival of the fittest theory propounded by Charles Darwin long ago holds a great relevance in today’s business world. Modern day businesses operate under the new regime called VUCA, a phrase coined by the US army to illustrate the volatile, uncertain, complex and ambiguous conditions in the world in the post-cold war period. VUCA an acronym which signifies the environment dominated by :

**Volatility:** It refers to the pace of change in the industry. It is characterized by market turbulence and demand fluctuations.

**Uncertainty:** It emphasizes an environment where future cannot be predicted on the basis of past. A world where disruptions occur on frequent basis.

**Complexity:** It involves numerous factors which are interconnected to form a complex whole making it difficult for the managers to make rational decisions.

**Ambiguity:** An environment which lacks clarity on cause and effect forces. There is a great scope for misreads.

The phrase VUCA was consequently embraced by the business world to describe the rapidly changing business environment, characterized by emerging global markets, technological breakthroughs, demographical shifts, changing tastes of the customers marking an end to the era of traditional business models.

This new VUCA regime is challenging even the most capable leaders by rendering their skills obsolete very fast with the organizational changes under unstable business environment. To flourish in such a turbulent environment, organizational leadership must possess two attributes i.e. agility and adaptability.

### **Agility: The need of the Hour**

To sail through the VUCA, talent managers need to develop “agile model “ for so as to equip their businesses to face any disruptive phenomenon successfully. Agility refers to the ability of HR domain to respond rapidly and viably to the changing people expectations and disruptions at work as well as business need (Mirza, M. S., 2018). In order to do so they must anticipate and plan for the disruptive challenges and opportunities which may emerge anytime in the course of operating the business. Some of the key decisions can be taken in the following directions (Sullivan, J., 2012):

**People Agility :** All the talent functions like talent acquisition , L& D and reskilling should be directed towards the employees who are agile enough and possess the capacity to respond effectively to the unforeseen business situations which may emerge in VUCA environment.

**Process Agility:** All the talent management processes should be designed such that they possess an inbuilt element of flexibility, agility, and rapid changing capability.

**Procurement Agility:** HR practitioners should develop the procurement agility to address the sudden talent needs of the business swiftly through pre identifying talent pools and developing talent pipelines via talent communities.

**Promoting innovation agility:** Talent strategies should be restructured to foster innovation in the form of new ways of attracting acquiring, engaging and retaining talent and other game changers which are the key to thrive in VUCA.

**Perpetual competitive advantage agility:** Talent strategies should be designed such that they should provide for enduring competitive advantage over talent rivals .

### **Global STEM Talent crunch**

The new business regime is demanding new capabilities from the businesses and their workforce. With the onset of new Industrial age, businesses are observing rise in the demand for technical workforce. Businesses across the world particularly the ones operating within science, technology, engineering and mathematics fields are facing a difficulty in sourcing skilled talent earmarking the existence of Talent Crisis. Further empirical evidence of such crisis is suggested by research consultancies like Price Waterhouse Coopers and Manpower. This talent gap is pressurizing talent managers to go for adopting innovative and agile sourcing approaches like acqui-hiring – a merger and acquisition approach so as to win the talent war.

### **Acquihiring- New face of HR Agility**

With the rapid technological advancements taking place across the world and easy availability of seed capital, Indian Tech start up ecosystem has also been witnessing increasing trend. Millennials in particular, are a great advocates of startups as these firms offer them the required freedom to experiment their innovative ideas which is relatively difficult in conventional business set up. Given the VUCA regime, many of the start ups are hit by changing business trends every year. For the firms, that are not able to meet their growth targets, acquihiring provides soft landing options.

### **Acqui-hiring**

Mergers & acquisitions have traditionally remained popular strategies to expand ones market share or becoming a market leader. Acqui-hiring is a mergers- acquisition strategy whereby a larger company acquires smaller company (mostly start ups) in order to have access to its intellectual human capital. At times, start up witnessing unviable operations is being acquired by its larger rival, providing an opportunity to the founders to recover their investment and thereby easy exist.

In some cases, acqui hiring does not involve complete merger. It involves striking a bargain to release certain employees in return for amount on "per head basis" depending upon the knowledge, skills and expertise employees have for the new role.

### **Objectives of the Study**

- To understand dynamics of acqui-hiring as Merger & Acquisition strategy
- To examine the asset orchestration view of acqui-hiring to provide sustainable competitive advantage in VUCA world
- To explore acqui-hiring trends emerging in India
- To examine the benefits and concerns of acqui-hiring for the parties concerned.

### **Evolution of Acqui-hiring**

The phrase "acqhire" finds its first mention in Rexblog (May 11, 2005) explaining the acquisition of NY based star up Dodgeball by tech giant Google. During this time period, Google went on to acquire many startups and in case of many of the deals it even continued with the acquired products which were later discontinued.

The trend for acqi-hiring picked up pace / gained momentum with the emergence of Face book which acqi-hired a startup known as Friendfeed in 2009 by striking a deal worth \$47

million approximately \$4 million per engineer. as a result of this deal , cofounders of the said acquired firm - Bert Taylor and Paul Buchheit were offered crucial roles like that of CTO in Face book., Later in 2010, Face book reportedly acquired start up named Drop .io whose founder Sam Lessin assumed key position at Face book.

A start up named Milk was acqi-hired by Google in March 2012 predominantly for its founders and team of designers in exchange of substantial price. Acqi-hiring trend saw its peak during pre IPO Face book era, when it acquired many start ups in the wake of acquiring top talent particularly in mobile division.

### **Acqui-hiring versus Merger& Acquisition**

When a company is acquired not for its products, services or technology but for its talent , it is known as acqi-hiring. In other words, it refers to purchasing a team of blue squirrels who have a proven track record

Acquisition is a corporate activity in which an organization purchases most, if not all, of another company's ownership stakes to gain control of it.

### **Acqui hiring as an asset orchestration strategy**

Strategic management scholars have asserted that not all the resources that the firms possess are a source of sustainable competitive advantage. To provide sustainable competitive advantage, the resources that firm owns must be valuable, rare , imperfectly imitable and difficult to replace.(Barney 1991) To meet the intense competition in the turbulent VUCA world, managers continuously make adjustments to the firm's resources using their dynamic capabilities. Dynamic capabilities refer to the expertise of the firm to consolidate, build and reform its internal and external resources in response to the changing business environment.(Teece , 2012). In other words, its the firm's ability to sense, seize and reconfigure. Sensing ie the ability to identify and evaluate the opportunities and threats that lie embedded in the external environment and its own capabilities. Seizing involves arranging the resources to tap the identified opportunities. Reconfiguring infers firm's ability to redesign its resources both old and new to generate maximum value (Teece,2007) . Asset orchestration can be termed as an expertise of the managers to recognize the resource gaps within the firm and closing the same for tapping the new opportunities emerging in the external environment. Acqi-hiring can be viewed as a managerial tool to orchestrate assets. Asset orchestration view of acqihiring involves identifying the firms with the requisite talent to be acqihired and to undertake their valuation appropriately. Next comes the decision to integrate the acqihired talent into the existing firm. The managers need to decide as to whether the acqihired talent should be allowed to work as autonomous team or they should be integrated with existing departments (Zollo & Singh, 2004).

### **Talent acquisition through Acqihiring route**

“War for Talent” is back this time with a little twist ie “War for technical talent”. Business leaders are facing a range of challenges right from severe talent crunch to generational shift in the face of millennial workforce. As the tech revolution is catching pace in the face of Internet of things , big data , cloud technology etc. it has become extremely important for the companies to attract the best of the engineers to beat the intense competition and to emerge as market leaders. Fast changing business landscape under VUCA has led to changes in the

job markets too across the world. Intense competition coupled with changing workforce priorities are making it extremely challenging for the employers to attract and retain talented workforce. As the battle for talent is getting intense organizations have started looking for innovative hiring strategies like Acqui-hiring.

### **Acqui-hiring Deal structure**

With the startup trend catching pace, venture capitalists are increasingly investing in startups. It is generally seen that during the first round of funding, startups raise very little amount. The problem starts when it comes to subsequent round of funding for which most of the venture capitalists turn little skeptical. This is when they prefer to the outcome of the round one of funding.

Many startups face fund crunch and subsequently making it difficult to stay in business. This is when they are eyed by the large corporations for their most talented teams to be acquired.

When a company decides to acquire a startup, the purchase consideration is divided into two parts – deal consideration and compensation pool.

In a typical acquirhiring deal, the process is similar to that of the normal merger and acquisition with a little difference. In acquirhiring, the seller get back the amount they invested alongwith real inflation rate( as the case may be). The employees get huge cash bonus alongwith stocks vested over 3-6 years period that motivates them enough to stay with the company for a fairly long period of time. Also acquirees are usually provided with autonomy pertaining to keeping their teams and normally not required to fit in culturally into acquirer's culture.

Acqui-hire transactions can be structured in the following ways:

**Merger-** Here the buying firm takes the ownership of all the assets and liabilities including debt. This kind of deal is usually beneficial for the seller as the sales proceeds are taxed at low capital gain rates.

**Asset Purchase deals-** This could be a good tax saving alternative for both the parties if they happen to prove that most of the assets were purchased and would be operational in future too in some or the form.

**Employment release deals-** Mostly prevalent in talent acquisitions, these deals indicate that acquiring company is intending to hire and compensate startup team as employees.

### **Acqui-hiring – Rising trend in India**

It is seen that tech giants like Facebook, Google have been undisputed pioneers in acquirhiring but lately, the trend is catching up fast across the world and in India too. Especially e commerce companies have been on acquirhiring spree in Indian space.

In 2014, Urban Ladder Home décor Solutions Pvt Ltd acquired BuyNBrag.com, curated online marketplace for furniture. Urban Ladder managed to strengthen its talent base by having the founder and other core members of BuyNBrag.com onboard. (Bangalore based Urban Ladder acquires BuyNbrag,2014). In the year 2016, fintech startup Lendingkart

acquired KountMoney which provided online lending platform for personal loans founded in 2015. This acquisition helped Lendingkart to leverage the data analytics expertise of Kountmoney to improve its service delivery (Ranjan Sameer, 2018). In 2017, Myntra acquired online logistics startup Inlogg to reduce its delivery costs of serving customers in tier 2 and tier 3 cities. Inlogg used to have tie up with local courier firms to deliver in tier 2 and tier 3 cities. Inlogg team has been integrated with that of Myntra's post acquisition. (Digbijay Mishra, 2017) Similarly in 2018, a speech recognition startup, Liv.ai, based on AI was acquired by Flipkart. Post this acquisition, 20 members of the said startup have been inducted into Flipkart's voice solution team who would work to deliver superior conversational shopping experience to Flipkart's customers. (Vardaan, 2018) Back in July 2018, Xoxoday acquired Mumbai based startup Blue Bulb which specializes in providing unique localized experiences as reward and engagement to employees of mid-sized firms. Mr. Regan Rodricks, co-founder of Blue Bulb was taken onboard at Xoxoday as AVP sales-west region. (Club Mahindra -backed Xoxoday acquires Mumbai-based Blue Bulb, 2018) Some of the popular acquisitions that have taken place in India have been summarized in Table 1 below:

**Table 1 : Acquisition in India**

<b>Acquirer</b>	<b>Acquiree</b>	<b>Year</b>
KPMG India	Recommender Labs	2019
Intel Corporation	Ineda Systems	2019
Swiggy	Kint.io	2019
Walmart Labs	Int.AI	2018
Xoxoday	Blue Bulb	2018
Flipkart	Liv.ai	2018
Myntra	InLogg	2017
Vokal	StupidChat	2017
ixigo	Reach	2017
Paytm	Edukart	2016
Myntra	Cubeit	2016
Voonik	Getsty	2016
Yatra.com	Travel -Logs	2016
Cashify	Mobi Bing	2016
Common Floor	Bakfy	2015
Urban Ladder	BuynBrag	2014
Ibibo Group	Your Bus	2014
Facebook	Little Eyelabs	2014
Act Mobile Networks	Colimetrics Software	2014
Free Charge	Preburn	2014

Quixey	Dexetra Software Solutions	2014
Kirusa	Cooltok	2014
Indiahomes.com	Unesta Homes	2014
Flipkart	Mime360	2011

**Source:Online reports**

### **Benefits of Acqui-hiring over traditional hiring for the acquiring company**

Attracting the best of the talent becomes a difficult task for the corporate particularly in case of Hi-po talent through conventional hiring route . Acqui- hiring provides an easy access to the acquiring company to the reservoir of the scarce talent.

#### **Opportunity to hire close –knit team**

The firm adopting acqui-hiring route enjoys the privilege of hiring cohesive team. Thus such a hiring greatly reduces the efforts of the management towards team building and collaboration as the team members possess experience of working together already.

#### **Surety of right hiring**

When acqui- hire firm is rightly selected, the firm gets an instant access to the trained workforce with proven track record. Startups are said to be reservoir of innovative talent thus acqui-hiring benefits the acquiring firm by making them available innovative talent pool.

#### **Access to readymade leader**

When the firm acquires, it gains access to entrepreneurial leader and his team who possess creative ideas and who can successfully fill up senior level positions in an organization. In this way acqui – hiring also acts as a tool for succession planning. On the other hand, leaders are benefitted in terms of getting more resources to implement their innovative ideas.

#### **Creates strong employer brand**

Acqui-hiring can contribute towards improving the employer brand by bringing high potential talent onboard thereby enhancing the firm’s ability to attract the best of the talent in future.

#### **Promotes high performance culture**

Hiring high potential employees of acqui-hired firm can shift firm’s culture to higher performance frequency thereby contributing in sustaining high performance work systems.

## **Saves time and effort**

When any company is planning to expand its business in new markets, it normally has to undertake an intensive recruitment drive which consumes a great deal of time, money and effort. But by adopting an acquiring route, the parent company very conveniently gets an access to a fully functional team with relevant skill set and experience with no requirement of any further training thereby saving time and effort on the part of HR practitioners.

## **Concerns associated to Acqui-hiring**

- The founders of the company that has been acquired may eventually lose their interest to join the larger company as an employee and having been led by someone else. In such circumstances, acquiring may fail to deliver desirable outcomes for the acquiring company.
- Acquiring company is at the risk of incurring losses in case the acquired staff find it difficult to adjust in the corporate set up and end up defecting.
- Acquiring can have adverse effect on the morale of the existing employees of the acquiring firm when they find the company paying heavily to acquired employees for virtually the same work. Thus they may get provoked to join start up leaving the existing organizations.

## **Conclusion**

For the acquiring to be successful it is important for the talent managers to plan the cultural transition of the employees of acquired firm well. They need to be proactive in designing the onboarding program for the new employees such that their transition to the acquiring company may take place without any emotional turbulence. Career management practices of the acquiring organization should also reflect upon the career paths that are more aligned to the needs of new and existing employees. As the war for talent goes intense, more and more businesses will be on hunt for crippling tech startups which serve as reservoir of STEM talent. Thus acquiring trend is here to stay for long to equip the businesses with requisite talent to gain competitive advantage in the turbulent market conditions.

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