Labor Force Telework Flexibility and Asset Prices: Evidence from the Covid-19 Pandemic

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Discussion by:

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Background: Should companies allow for teleworking?

Every Company Going Remote Permanently: Nov 30, 2021 UPDATE

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Remote Work Persisting and Trending Permanent

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Never Want To Go Back To The Office? Here's Where You Should Work

Kristin Stoller Forbes Staff
Business
I'm the deputy editor of the business section.

Background: Debate on telework post-pandemic

- During the pandemic, most firms are *forced* to let employees work from home
- Can and should firms let employees work from home even post-pandemic?
- To answer this important question, we need to assess how working from home affects a firm's productivity, growth, value, etc.

Background: Debate on telework post-pandemic

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- Can and should firms let employees work from home even post-pandemic?
- To answer this important question, we need to assess how working from home affects a firm's productivity, growth, value, etc.
- This paper fills in the gap by providing empirical evidence and theoretical guidance on how labor force telework flexibility affects firm value

Summary of this paper

Empirical:

- Construct labor force telework flexibility (LFTF) for detailed industries
- Show that LFTF is a *first-order* driver of cross-sectional stock returns and firm sales/profitability/investment/employment during the pandemic
- Firms in low-LFTF industries experience lower stock returns than firms in high-LFTF industries

Theoretical:

- A neoclassic model with two types of technologies (in-person vs. telework)
- A careful analyses of how LFTF affects firms' exposure to demand and supply shocks

Comment 1: Understanding the stock return results

Short-run versus long-run cash flow channels:

- The pandemic shock certainly affected low-LFTF firms' short-run cash flows more than high-LFTF firms', e.g., due to lock down.
- An important question is whether the pandemic shock also affects low-LFTF firms' long-term cash flows more, e.g., through weakening low-LFTF firms' mkt share.
- Stock price aggregates both short and long run cash flows.

Q: Are the stock return results reflecting a transitory cash flow difference or a long-term impact by the pandemic?

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Q: Are the stock return results reflecting a transitory cash flow difference or a long-term impact by the pandemic?

- The answer to this question can shed light on investor expectation of the pandemic
- Only short-run: Investors expect everything back to before when pandemic is over
- Also long-run: Investors expect the pandemic to "change the landscape"
- Dechow et al. (2020) suggests that the long-term effect maybe limited

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Suggestion 1: Can we use the return results and earnings results to look into how the pandemic affects high-LFTF and low-LFTF firms' long-term cash flows? E.g.,

- A back-of-the-envelop calculation based on a dividend discount model
- May need to assume similar effects of the pandemic shock on discount rates of high-LFTF and low-LFTF firms
- The return effects not accounted by the short-term earnings can be attributed to the long-term effects

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Suggestion 2: Subsample analysis of LFTF on returns within high-duration firms and low-duration firms.

Comment 2: LFTF reflecting supply or demand shocks?

LFTF is interpreted as mitigating supply shocks in both empirics and model

- LFTF is measured based on the job's requirement for personal contact
- However, it is unclear whether such personal contact is between employees and customers
- One can imagine that barbers in a hair salon require lots of personal contact, but with customers
- The pandemic may negatively affect a hair salon because barbers cannot telework (supply shock), but may also because customers cut their demand for haircut (demand shock)

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Why do we care about separating demand versus supply shock?

- Separating whether the findings are reflecting different exposure to a supply or demand shock can be helpful for firms' policy making against pandemic
    - Firms may need to take different approaches to improve supply (e.g., reorganize workplace) vs. demand (e.g., marketing to retain customers)
- To better gauge the frictions for firms to change from in-person technology to telework technology

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Suggestion: The authors may consider separating industries into customer facing, e.g., retail and service, from non-customer facing, e.g., manufacturing

Conclusion

- Very interesting paper!
- A through analysis of how telework flexibility affects firms' during the pandemic
- These findings open the door to answering many timely and important questions
  - How do investors expect the pandemic to affect firms' short and long-term cash flows?
  - Can we use the LFTF-premium to learn supply shock versus demand shock?