

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

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Discussion by:

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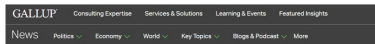
AFA 2022

Background: Should companies allow for teleworking?



Every Company Going Remote Permanently: Nov 30, 2021 UPDATE

By Steve | 1 comment | 1 month ago | 3 Min read | In Computers, Management



ECONOMY | OCTOBER 13, 2021

Remote Work Persisting and Trending Permanent

The image shows a snippet of an article from FlexJobs. At the top, there is a search bar with the text 'Search by job title, keyword, etc.' and a 'Location' field. Below the search bar, there is a navigation menu with the following items: 'Find Remote, Hybrid, & Flexible Jobs', 'How Flex Jobs Works', 'Events & Webinars', and 'Job Search Articles'. The main article title is '30 Companies Switching to Long-Term Remote Work'. Below the title, there is a byline 'By Emily Courtney' and a '5.5k' rating. To the right of the byline, there are social media sharing icons for Facebook (1.2k), Twitter (457), LinkedIn (2k), and a red icon (43).

The image shows a snippet of an article from Forbes. At the top, there is the 'Forbes' logo. Below the logo, there is a navigation menu with the following items: 'EDITORS' PICK', 'Jan 31, 2021', '07:00am EST', and '172,876 views'. The main article title is 'Never Want To Go Back To The Office? Here's Where You Should Work'.



Kristin Stuller Forbes Staff
Business

She's 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.

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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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- 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-envelope 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?