Companies with workplace flexibility set to hire more

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SECTIONS FINANCE

The COVID-19 pandemic for the first time made workplace flexibility a key determinant of companies’ ability to respond to a crisis, on a par with financial and investment flexibility.

That’s the takeaway from research by Duke PhD student John W. Barry, Cornell’s Murillo Campello, Duke’s John R. Graham, and Chicago Booth’s Yueran Ma. While businesses with financial flexibility were best equipped to weather the 2008–09 financial crisis, the researchers find that in the pandemic, companies whose employees could work remotely are coming through with the best prospects.

“High workplace-flexibility firms foresee continuation of remote work, stronger employment recovery, and shifting away from traditional capital investment, whereas low workplace-flexibility firms will rely more on automation to replace labor,” they write. “The COVID-19 shock appears to accelerate automation adoption” particularly in sectors with low workplace flexibility, raising “the prospect of a ‘robot-led recovery’ in these industries.”
The researchers surveyed 520 CFOs representing a cross section of American businesses from February through April 2020, asking their outlook about revenue, employment, and capital spending. They conducted follow-up soundings in June, September, and December. The study defines financial flexibility as a company’s access to internal funds and external financing, investment flexibility as the power to adjust the timing of capital expenditures, and workplace flexibility as the ability for employees to work remotely.

As in 2008, when CFOs were surveyed by Campello, Graham, and Duke’s Campbell R. Harvey, CFOs with more financial flexibility said they expected higher employment and capital expenditure growth in 2020. But they also reported that workplace flexibility has a new importance. In the 2008–09 financial crisis, workplace flexibility didn’t play a role in a company’s outlook, while this time, executives at businesses with greater workplace flexibility projected significantly higher employment growth than those with less. Companies in the top quartile of workplace flexibility predicted 3–4 percentage points more employment growth than companies in the bottom quartile.

Companies with low workplace flexibility expected less rosy conditions and planned to delay capital expenditures if they had the investment flexibility to do so.

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Overall, among companies negatively affected by COVID-19, CFOs said they expect the recovery to take several years. In the surveys conducted largely later in the year, 42 percent of respondents predicted employment levels would remain below pre-COVID-19 levels until the end of 2021, and 20 percent said they wouldn’t return to
normal until after 2022, if ever. Forty percent projected that capital investments would remain low until the end of this year, and 30 percent said it would take another year to return to normal levels, if at all.

The COVID-19 crisis has changed how companies invest, the researchers observe. CFOs at businesses with high workplace flexibility reported early on that they would be less likely to invest in storefronts and office space in 2020, and the later surveys indicate a weakening willingness to dedicate money to capital spending going forward. These businesses are shifting away from traditional capital investment and likely focusing more on technologies and assets that can facilitate remote collaboration, according to the researchers. Importantly, they note, even as the US economy recovers, macroeconomic statistics may show sluggish capital spending, which could reflect the changing nature of investment rather than companies’ financial weakness.

There may also be a long-term impact on workers. Large companies with low workplace flexibility are turning more to automation to protect against shutdowns in another health-related crisis, which would particularly hurt low-skilled workers, who have a higher risk of being replaced. Some high-skilled workers, such as back-office staff, may also be displaced over time.

The rise of workplace flexibility as a factor in business success should play a role in future stimulus and recovery plans, the researchers suggest. For example, as workers in less-flexible industries lose their jobs, policy makers with their eye on the greater economic picture may want to use unemployment insurance and educational programs to help those workers train for different careers.

“When financial flexibility is the binding constraint, monetary and fiscal policies may help alleviate problems,” they write. “When workplace flexibility is the binding constraint, however, traditional policy tools may be less effective.”
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