Corporate Flexibility in a Time of Crisis

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This paper proposes 3 measures of corporate flexibility

Workplace flexibility: share of workers able to work from home

- Relatively standard (Dingel & Neiman, 2020, Papanikolaou & Schmidt, 2020)

Financial flexibility: access to internal/external liquidity

- Innovative: survey-based assessment

Investment flexibility: ability to change the speed of capital expenditures

- Innovative: survey-based assessment

And relates them to 2020 forecasts made in March 2020

Financial flexibility predicts *higher* employment, capex growth forecasts

Workplace flexibility predicts *higher* employment growth forecasts

Investment flexibility:

- Predicts *lower* capex growth under low **workplace flexibility**
- Predicts *higher* capex growth under high **workplace flexibility**

Similar results for realizations during COVID & outlook for post-COVID

Roadmap

What this paper does for the literature

Measurement details

Where is the interesting variation?

Hindsight is 2020

What this paper does for the literature

Contribution: corporate flexibility matters in a crisis

- Not just "flexibility is good."
- The *type* of flexiblity matters for employment, investment outlook
- COVID is the ideal shock: large, sudden, sharp
- Contrast with 2008

Pushes the frontier on measurement:

- Lots to learn from hypothetical/subjective survey questions (e.g. Fuster, Kaplan, and Zafar, Forthcoming REStud)
- Here they additionally link them to forecasts, actions (e.g. automation)

Measurement Details

<u>Likert</u>-based financial & investment flexibility:

- *How much financial flexibility would you say your company has right now?*
  (***0*** *- None,* ***1*** *- A little,* ***2-3-4*** *Moderate,* ***5*** *- A lot)*

- *How flexible is the speed at which you complete your largest capital investment project?*
  (***0*** *- Very flexible,* ***1*** *- Flexible,* ***2*** *- Somewhat flexible, ...,* ***6*** *- Very inflexible)*

Compare: *"In the event of a sudden collapse in your firm's revenues, how many months worth of operating costs could your company cover with its cash savings, credit lines, and access to other short-to-medium term funding?"*
______ *months*

Measurement Details

Likert responses are hard to interpret:

- How to translate "a little" into a quantity? What exactly does it mean?
- How to compare across respondents?

However: they make constrained-optimal use of the Likert variables

- Translate Likert scale into binary 0,1
- Or use ordered logit regressions for Likert outcomes

Where is the interesting variation?

The paper's analysis is essentially at the industry level

- Two of three (investment & workplace) flexibility variables are measured at the NAICS 4-digit level

But is the most interesting variation across firms or industries?

- Many key variables related to firm performance vary widely and significantly **within narrow industries**
- E.g., job reallocation (Davis & Haltiwanger, 1992), management practices (Bloom & Van Reenen, 2007), TFP (Foster, Haltiwanger, and Syverson, 2005)

Where is the interesting variation?

My hunch is <u>financial</u> & <u>investment</u> flexibility (in particular) are closer to <u>firm</u> than industry attributes. Same for a firm's ability to operate smoothly when workers are remote.

Can we salvage some of the within-industry variation?

- Fairly straightforward for investment flexibility
- For workplace flexibility, I'm not sure the current survey data allows it

Hindsight is 2020

I can't help thinking some of my comments are a bit unfair:
Can't go back in time and change the survey questions

But there's no reason not to ask <u>retrospective</u> questions now

- How much liquidity could/did firms raise when COVID hit?
- How much investment was delayed in 2020 when COVID arrived?
- How much investment was reallocation to computers/peripherals/cloud to enable WFH?
- What fraction of workers are (still) remote in 2021? How many were a year ago? How many will continue to be remote in 2022?

Corroborate results about plans, forecasts from 2020 with data on 2020/2021 outcomes

Conclusion

This paper asks an important question in dynamic corporate finance

Proposes new measures of <u>financial</u> & <u>investment</u> flexiblity:

- Can we make them more quantitative?
- Are we trying to measure industry or firm attributes?

And makes apt use of a (now) standard measure of <u>workplace</u> flexiblity

As of June 2021 things are still in flux. We can still learn (ex-post) from how firms actually used flexibility