

Discussion of “Entrepreneurial Spawning from Remote Work”

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Overview of the Paper

- **Paper's hypothesis:** Remote work policies facilitates transition of waged workers into entrepreneurship.
 - **Key friction:** Workers have limited time to experiment with entrepreneurship.
- **Main innovation:** Uses really good internet data to measure firms that adopted remote work, and universe of public profiles on LinkedIn for employment records.
- **Headline result:** Using OLS estimator, one standard deviation increase in remote work is associated with an 8% higher likelihood of entrepreneurial spawning relative to mean (0.34%). Using IV-2SLS estimator, this increase is more than 10 times larger.

What do I really like about this paper?

Really cool paper. Why?

- Important research topic and question. It is critical to quantify (1) drivers of entrepreneurship, and (2) broader implications of remote work policies.
- Thoughtful work (85 pages!) with really impressive data collection.
- Genuine effort to identify the hypothesis.

Overall, I believe in the paper's hypothesis! Areas of improvement:

- Pinning down the economic magnitudes ([Comment 1](#)).
- Consider more carefully the external validity ([Comment 2](#)).
- Identify mechanism + aggregate productivity implications ([Comment 3](#)).

Comment 1: Magnitudes

General identification concerns:

- Are employees who transition into entrepreneurship already self-selected into firms that promote remote work?
- Do firms that encourage remote work also have cultures that naturally foster entrepreneurship?

The authors use two instruments, but there are some issues:

- OLS regression is decently well identified and produces a point estimate of 8%. Baseline specifications (Table 3 and 4) produce coefficients that 1,000%-3,000% larger than OLS estimates.
- What explains this large difference?

Comment 1: Magnitudes

- Instrument is still correlated prob on entrepreneurship through other ways other than ΔRW ? Could it be that exclusion restriction assumption does not hold?
- Quick re-cap of IV-estimator:

$$Y = \beta X + \epsilon$$

$$X = \theta Z + \eta$$

If $\text{Cov}(Z, \epsilon) = 0$ exclusion restriction holds.

$$\hat{\beta}_{IV} = \frac{\text{Cov}(Z, Y)}{\text{Cov}(Z, X)} = \beta$$

Comment 1: Magnitudes

- What if $Cov(Z, \epsilon) = \gamma \neq 0$?

$$\hat{\beta}_{IV} = \frac{Cov(Z, Y)}{Cov(Z, X)} = \beta + \underbrace{\frac{\gamma}{Cov(Z, X)}}_{Bias}$$

- Is it reasonable to expect $\gamma > 0$?
- In the paper, primary instrument

Z = Average commute distance of a firm's employees before the pandemic.

- Authors argue that for two firms in the same industry and county, the commuting distance of an average employee is 'idiosyncratic'.

Comment 1: Magnitudes

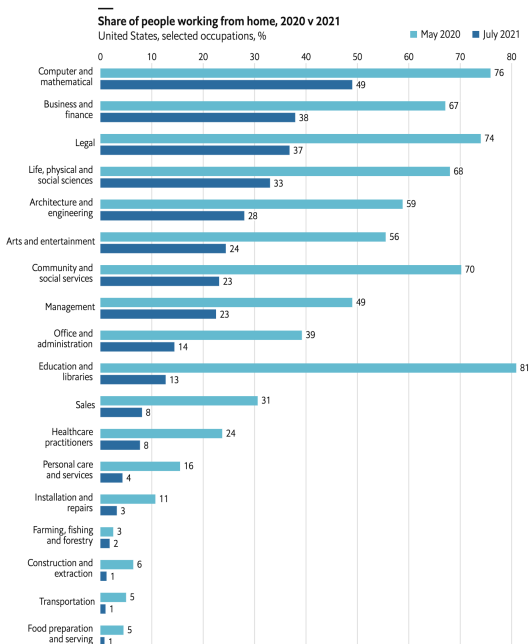
- However, any urban econ model will tell you that individuals make residential and employment choices based on commute time and amenities.
- Commuting being predetermined is not enough, since if it picks up on characteristics of employees that are likely to take advantage of entrepreneurship opportunities during covid.
- Instrument might pick up on companies that have more entrepreneur types.

“The spawning response is stronger among younger, better-educated, and more senior employees; it is also stronger in younger firms.”

Comment 1: Magnitudes: Suggestions

1. It seems that using within firm variation and exploiting changes in U.S. stay-at-home orders across counties/states (e.g., banning of gatherings) is a more direct way to introduce exogenous variation.
2. Also consider the end of leases of office space as exogenous variation, similarly to debt roll over identification. For example:
 - Firm 1: Office lease ended in 2021.
 - Firm 2: Office lease ends in 2025.
3. Change in share of RW between 2020 and 2021 seems more interesting to explore.

Comment 1: Magnitudes: Suggestions



Comment 2: External Validity

- Demand for certain online products increases during the pandemic. How to think remote work now versus during Covid?
- For example, Zoom, Peloton, Instacart were great businesses during covid.



Lightly used Peloton

\$1,200

- How would remote work affects entrepreneurship during “normal” times?

Comment 3: Mechanism

- **Friction:** Limited time to experiment with entrepreneurship. Remote work offers more time:
 - Saving time in commuting
 - Shifting time from existing job since firm can't monitor as closely
- Creation of new companies might come at the cost of productivity of existing firms?
- Since the fraction of failed entrepreneurship attempts is really large, it is likely that this productivity channel is large. This seems like a reason why remote work is bad for firms.

"Results suggest that the impact of remote work on aggregate productivity may be higher than firm-level estimates."

Conclusions

- Great topic, idea, and question.
- Amazing data collection.
- Solid work. Paper well written. Authors try to do a genuine effort to really identify the effect of remote work on entrepreneurship.
- Paper could really gain by pinning down the magnitudes.