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The Alpha Edison Perspective on The Future of Work

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The Future of Work

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We continue to partner with our investors and portfolio companies to understand the long-term repercussions of the COVID-19 pandemic. In this piece, we evaluate the persistence of pandemic-induced behavior changes with respect to how we work.

The pandemic has changed how and where we do our work

MOST COMPANIES WERE IN A TRADITIONAL MODEL PRE-PANDEMIC

Before March 2020, most companies organized their workforce in a similar way: in one or more centralized office spaces where employees would be expected to go most days of the week. Many office buildings were located in urban areas – midtown Manhattan, downtown San Francisco – and the workforce organized themselves accordingly, living in or around those urban areas while solving the optimization problem of minimizing their commute while maximizing their quality of living.

Society organized itself around this status quo – treating the current state of affairs as the optimal even if or when it was not. When the status quo was questioned, executives felt like they were facing a binary choice: a fully in-person workforce, or a fully remote one. The latter was embraced by a small group – companies like GitHub, who have been remote since their inception – but many others stuck with what they believed to be a safer default.

At Alpha Edison, we spend a lot of time thinking about pockets of silent suffering. In hindsight, it was clear that mandated in-person work was leading to silent suffering among at least a fraction of employees. While those with the means to live near their office building may not have been bothered by commuting, employees who had to travel in from suburban or farther away neighborhoods struggled with long commutes which have been shown to be a leading cause of lower productivity and wellbeing. Those with caregiving responsibilities had to make decisions about whether to take a less demanding part-time role in order to make the 3pm daycare pick-up, or risk frequently not being home before bedtime. Young graduates keen to see the world fit all of their

travels into the allotted weeks of holiday instead of working from various locations around the world.

THE PANDEMIC FORCED MOST COMPANIES TO WORK REMOTELY

As we wrote about in our first AE Insights [article](#), the pandemic served as a global disruption to our previous set of working habits. We would no longer be expected to commute every day – even if we did, the office would not be open when we arrived. We would not have in-person meetings, instead quickly learning how to use various video conferencing technologies to connect with our colleagues. And we would rely more than ever on Slack and email to ensure routine tasks continued to get done.

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Similar to the multiple stages of grief, we collectively experienced multiple waves of emotion in response to remote work. The initial wave was one of uncertainty and [risk aversion](#) – we knew very little about the severity and speed at which COVID-19 would wreak havoc on the country and the globe in the months to come, and how long we would be huddled at home with our families. Following this initial uncertainty was a period of cautious [enjoyment](#) – the silent suffering of commuting and the guilt of working caretakers felt, at least temporarily, relieved.

The pandemic has changed how and where we do our work (cont.)

But since remote work was thrust upon companies, rather than being a considered and thought-through decision made by company leaders themselves, a lot of things were patched together in makeshift ways. Companies not well-equipped with software and tools to work from home had a steep learning curve. Parents found their children at home with them taking school lessons from the nearby bedroom. We were in a pandemic first, and a remote world second. The distractions and discomforts present during the past year – lack of home office equipment, children needing attention, no places of entertainment to go outside the home – were unique to being in a pandemic, although some employers have unfortunately associated them as being inevitably linked to remote work.

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Which aspects of our new way of working will persist?

UNDERSTANDING EMPLOYEE BEHAVIOR SHIFTS THROUGH THE AE BEHAVIORAL MODELS

AE introduced a proprietary set of [behavioral models](#) several months into the pandemic - a framework for understanding the various forces which encourage or discourage behavior change and determine behavioral persistence - in order to make more scientific predictions about which COVID-induced behavior changes will persist after the pandemic is over. These models help us understand which behaviors and preferences for remote work will persist, and which behaviors and preferences for in-person work will rebound. What do the behavioral models predict with respect to the persistence of working at home?

removed. With purchases of new homes at a [peak level](#) in more than a decade, many are moving into larger spaces outside of urban areas to ensure they have enough space to accommodate their “home” and “work” lives.

Working remotely has also allowed for the development of new Habits. With commutes removed from the working equation, car rides have been replaced with a long walk with the (perhaps newly [adopted](#)) dog, and a drive-through stop at Starbucks has been replaced with homemade cappuccinos. At this point, many of these new habits have become ingrained and will be able to persist if employers choose to keep remote work as an option for their employees.

Whether employers give that option will be crucial to the predictions made by two other behavioral models. As we’ve spoken about before, Network Effects underpin many aspects of working life. The social connections that employees have with one another can be nurtured in a physical space and they can also live in software. But being intentional about how social bonds are formed and maintained in a company will be something the company’s leadership will have to think hard about. To some extent, the pandemic was a great exercise in empathy for historically in-person workers who had not appreciated how difficult it can be to feel included when one is remote. Even if that empathy is sustained when some workers go back to being in-person while others remain remote, the decision remains an important coordination problem.

Risk Preferences suggest that most workers are risk-averse, meaning they may choose certain behaviors as an attempt to minimize risk (e.g. of being fired) instead of maximizing their own productivity and well-being. The risk of being “out of sight, out of mind” may loom larger than the risk of contracting COVID-19 for some, while the equation may tip in the opposite direction for others.

AE Behavioral Model Predictions about the Future of Work



Two of the behavioral models confidently predict that new behaviors around remote work can and will persist if made possible. Many Switching Costs were removed during the pandemic, which has now lasted long enough that any obstacles – monetary and psychological – to, for example, setting up a comfortable home office space have been

Which aspects of our new way of working will persist? (cont.)

Of the models predicting less persistence of remote work, Signaling is one which has been difficult to do outside a physical office. Office “facetime,” an imprecise but frequently used heuristic by managers wishing to assess how hard their employees are working, is difficult to replicate in the virtual world. To get around this, some employees have taken to sending emails outside of normal working hours as a way to signal their commitment to the job. But this behavior perpetuates what has already been a difficult challenge of setting clear work and life boundaries when working from home, particularly for direct reports who do not want to receive notifications from their boss on a Saturday night. Finally, Variety-Seeking has certainly been more difficult to do in the home, where “chance encounters” are limited to the cat and perhaps a spouse working in another room. Many of us have missed truly spontaneous encounters, so integral to the development of both new relationships and innovative business ideas.

UNDERSTANDING EMPLOYER BEHAVIOR SHIFTS THROUGH A SURVEY OF OUR PORTFOLIO COMPANIES

In addition to using our behavioral models to understand how worker behaviors have changed through the pandemic, we collected data on our portfolio companies to better understand how employers have shifted their perspective during the pandemic, and what their expectations of their workforce will be long-term. The expectations of large public company employers have ranged in tone and direction depending on the industry and locations they are headquartered in. For example, the heads of several large financial institutions (headquartered in NYC) have been forthright about their desire to return the majority of their workforce to the office full-time. This comes in contrast to leading technology companies (largely based in California), who have taken a more muted and diverse approach to their announcements regarding the future of work.

To understand what smaller companies are doing, we surveyed our existing portfolio company management teams, receiving 22 respondents representing 18 different firms. Of the 18 companies surveyed, on average only 17% of their employees do work which requires them to be in person full-time, while 40% of their employees do work which can be fully remote. Notably, none of the companies reported needing all of their employees to be in person full-time, whereas three companies said that a full 100% of their employees could be remote full-time without it impacting the firm’s productivity.

So while 11 of the 18 companies had their workforce in-person full time before the pandemic, only one (a manufacturing company) will plan a similar model post-pandemic. With a handful of companies still undecided about what the future of work will look like at the time of the survey, the vast majority

anticipate a hybrid future. Furthermore, founders anticipate a more in-person future for their c-suite in particular – presumably because there is a lot of value to conducting decision-making meetings and brainstorms in person – then they might for their broader workforce (e.g. engineers and customer support).

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A CONTINUUM OF HYBRID WORKING MODELS

Unlike the full-time in-person and full-time remote models, a hybrid model does not have a single shape or size. Our portfolio companies, for example, were almost evenly split between those whose workforce would be primarily in-person and those whose workforce would be primarily remote. For some companies, hybrid will involve choosing specific days of the week when everyone is expected to be in the office in-person, while maintaining flexibility for the remaining days. For others, it might be allowing a subset of employees to be fully remote if their job description allows it, while expecting the rest of the team to be fully in-person. Some companies will keep a permanent office space so that employees always have the option to work there, while others are considering spending their office budgets on regular retreats for the team instead (a time which may be used primarily to catch up and socialize) and having remote work as the default the rest of the time.

[Raj Choudhury](#), a professor at Harvard Business School who spent some time with our portfolio companies during a Town Hall on remote work, likes to think of “percent time” as describing the structure of a hybrid model. For example, “25% in-office time” may look like being in the office 1-2 days a week, or it might mean being in the office one week out of a month. The same percentage applied in these two different ways can have very different implications for how workers will choose to self-organize (for example, an employee could live flying-distance in the latter scenario, but probably needs to live driving-distance in the former).

Dr. Choudhury’s research has found that employees who are allowed to [work-from-anywhere](#) – a distinction he highlights is not the same as work-from-home – may be more productive and experience higher well-being. He has also proposed ways to solve for common remote work struggles, like the desire for more variety-seeking, by simulating chance encounters using “virtual water coolers,” a pre-set meeting in which a random group of employees across different departments, titles, and –

Which aspects of our new way of working will persist? (cont.)

with the benefit of video conferencing – geographies, can get to know one another in a quasi-spontaneous but structured format. He has found that these virtual water coolers do a good job emulating the connection of an office environment, and may even lead to less “biased” connections – i.e. senior leaders getting to know more junior employees of different genders, races, and backgrounds than an office setting would normally facilitate.

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As a company leader, deciding on what the best model of work will be for your company will depend on your business needs as well as the assumptions you have about your employees. If you believe work can only be accomplished in a physical space (either because you're in, for example, the manufacturing industry, or because you believe that employees are less accountable remotely), a more traditional full-time in-office model is likely what you will adopt going forward.

If your employees are able to self-manage to ensure they get their work done remotely, and you have found teams to be more productive without the distractions of long commutes and loud open-office plans, you may try keeping a fully remote model going forward and repurpose the costs of a physical office. If you believe that work should be done wherever will be most conducive for optimal outcomes (e.g. maybe physical

brainstorms are best in-person, but focused writing and analysis can be done remote), and would like your workforce to be as inclusive as possible (e.g. of caregivers, introverted personalities, disabled individuals, and many others who may have struggled under the traditional model), figuring out a flavor of hybrid which feels right for you and your employees is probably the way to go.

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There is no “right” answer, even with respect to employee well-being, which is driven by both social connection (which is easier to enable in-person) and autonomy (which is easier to enable remotely). If you want to make sure you're taking the preferences of your workforce in mind, we would encourage you to survey your employees to understand what they have enjoyed and struggled with when it comes to remote work, and what they would like to see the company do in the future.

Understanding the derivative impacts of hybrid work models

At Alpha Edison, we are always seeking to understand the derivative impacts of a change in behavior as significant as how we work. While we cannot predict what the future of work will look like at any individual company, we can be confident that at the aggregate level more firms will move to fully remote and hybrid models. Understanding the derivative impacts of this behavior gives us insight into where to look when sourcing new investments.

One of the coordination problems which has been obvious to anyone who has driven to work (particularly here in Los Angeles) is how to “smooth out” what are typically “spiky” congestion patterns of traffic routes. Vehicle traffic during peak hours can lead to journeys which are two to three times as long as those made during non-peak hours. Some transportation agencies have sought to solve this problem using price discrimination, charging higher prices for peak

times and lower prices for off-peak times (e.g. bridge tolls in the Bay Area, congestion charges in London). Seeing that the decision to come in to work at a certain time has historically not been an employee's decision however, these fines often do little but hurt the lower income riders who have no choice but to pay more for travelling at peak times. More elegant solutions to this coordination problem exist, including ones which involve company-level incentives for allowing employees more flexibility around the times they arrive and leave the office (e.g. taking morning meetings in the office, driving home during lunchtime, and finishing deep work and afternoon meetings in the home office), the acceptance of which may become more commonplace following the pandemic.

Another coordination problem begging for a solution is the sharing of commercial real estate leases. If the employees of one firm only go into the office on Mondays and Wednesdays,

Understanding the derivative impacts of hybrid work models (cont.)

and the employees of another similarly-sized firm go in on Thursdays and Fridays, they could hypothetically share the same physical space. Hiring a cleaning crew between the two companies and ensuring their respective IP is safely stored week to week is relatively straightforward to set up. A company with an understanding of economics, behavioral science and a good use of technology will be well-positioned to help provide a solution to this type of coordination problem.

These new models of work will also have an impact on employee connection and well-being. With a less centralized workforce, firms will need to rethink their approach to benefits for their employees. Daily catered lunch and on-site yoga classes will no longer appeal if employees are not in the office to consume these benefits. A more flexible approach to benefits such as the one offered by [Joon](#), which allows employees to customize what “good food” and “fitness” means to them individually, will take center stage. Similarly, companies will need to be thoughtful about how they can enable continued employee contact and connection without a physical space. Virtual water coolers, as Dr. Choudhury suggests, is a good start but probably not sufficient for a long-term solution. Companies which go fully remote for the first time may need, for example, to increase company retreats from an annual cadence to a quarterly one to ensure that employees continue to consistently “live and breathe the firm’s mission.”

Finally, these new ways of working open up new opportunities. Companies who embrace more remote models will no longer be geographically constrained when recruiting new members

of their workforce. This removal of the “geofence” opens up access to a greater range of human capital, including people who may be better-equipped for the job than local alternatives. While nothing is completely free – a more geographically diverse workforce will require knowing more about tax codes and different cultural standards – research has shown that more diverse teams outperform homogeneous ones across a number of tasks. Solving these new HR and payment challenges also presents new opportunities for companies like [Bambee](#) to help firms solve.

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It has been clear to many that the pandemic has changed how we work forever. We have collectively moved from a single dominant model of work pre-pandemic to what will likely be a nuanced continuum of hybrid work models in the future. This shift has repercussions for employees and employers alike, some of whom have changed their behavior for the long-term. The future of work also brings forth a number of investable insights, which we are looking to gain exposure to through the companies we’re investing in – or doubling down on – as the world embraces a new way of working.