Study finds startup workers fled for bigger, more established companies during pandemic

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The world may have felt like it had stopped in the pandemic's first weeks. But a "flight to safety" was underway at a popular digital job platform catering to the startup sector.

Digging into the data for nearly 180,000 users from AngelList Talent (now called Wellfound), the biggest online recruitment platform for private and entrepreneurial companies, researchers have found that U.S. job hunters turned away from smaller, early-stage companies in favor of positions at bigger, more established firms.

Their paper is published in The Review of Financial Studies.

Just as research has shown investors rush to safer places for their money during downturns, the labor market shows similar behavior, and this is the first study to document it, points out researcher Ting Xu, an assistant professor of finance at the University of Toronto's Rotman School of Management.

"Our results explain why startups struggled in the COVID-19 downturn despite a robust financing market," said Prof. Xu, who conducted the study with fellow researchers Shai Bernstein of Harvard Business School and Richard R. Townsend of the University of California San Diego.

They found that compared to the period before, job hunters were 20% more likely to search for work at companies with more than 500 employees after March 13, 2020 when the U.S. declared a state of national emergency over the pandemic. The companies were concentrated in sectors such as IT, media, e-commerce, health care and business services.

The average size of companies that job seekers searched also grew by 29% after March 13, continuing until mid-May, the end of the examined data period. Job seekers were also more likely to search companies that were bigger than their employment at the time.

The general trends didn't change in the application phase. The average size of companies where workers applied increased by 8% and the firms were 16% more likely to be in a later stage of fundraising.

The overall trend was driven by highly-skilled, better-educated job seekers, which is no small thing, Prof. Xu said.

"It's not only the quantity of talent that matters for firm success, but also its quality," he said. "If the shift is concentrated among high-quality candidates, it means that the startups are not just losing access to any talent, but to the best talent that are critical to their success."

Not only did applications to smaller, early-stage startups dropped by 20%, the researchers found these companies became less responsive to the applications they did get and were less likely to hire—a signal, said Prof. Xu, that the quality of applications dropped.

The research helps to explain why startups, theorized to be well-positioned to seed new growth during an economic recovery, tend instead to suffer: "Startups struggle to hire during downturns," said Prof. Xu.

The pandemic was an ideal period to study this behavior because it was not as complicated by other potential contributing factors as in other economic downturns. People's economic expectations dropped off much more sharply and quicker, and startup financing remained relatively healthy.

More information: Shai Bernstein et al, Flight to Safety: How Economic Downturns Affect Talent Flows to Startups, *The Review of Financial Studies* (2023). DOI: 10.1093/rfs/hhad075

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