



An Roinn Airgeadais
Department of Finance

Discussion - Market dynamics, digitalisation and inclusive productivity

Luke Rehill, Lead Discussant
Webinar 2

Annual Conference of the OECD GFP 2020
2 December 2020

Exit and Recovery of Financially Distressed Firms: The Role of Management (1)

Research aim: Analyse impact of managerial features on the probability of becoming a financially distressed firm (FDF) and the ability to recover + results by firm size

Data: matched employer-employee Portuguese data.

- 49,254 firms, over 3 million workers, 2011-2018.

Approach: Logit model with fixed effects - FDF, recovery from such

- Variables of interest – Managerial education, tenure, previous experience
- Controls – Leverage ratio, productivity, export ratio, number of employees

Findings: Managerial features impact on financial performance differs by firm size

- For micro and small sized firms, has a highly significant impact on reducing probability of becoming a distressed firm and increases chances of recovery

Exit and Recovery of Financially Distressed Firms: The Role of Management (2)

Contribution

- Vast majority of previous studies are for large and medium sized firms.
- Analyse impact of managerial skills on financial performance of small and micro firms.

Policy implications

- Improving managerial skills of smaller-sized firms may improve financial performance, reduce probability of becoming distressed
- Pertinent as this may improve the ability to deal with shocks such as Covid-19 pandemic.

Possible extensions

- Identify where better managers are located in the productivity distribution
- Or look at how resources are allocated, or wages....
- Sectoral composition – management features a function of sector
- Endogeneity - being an FDF forced them into more education?

Inequality in Productivity and Access to Capital Markets: Geography and Finance of Leaders and Laggards (1)

Research aim: assess the productivity of leaders and laggards and 1) how this can be related to geography, 2) how this is related to financial structures of firms

Data: Italian joint stock manufacturing companies between 2007 and 2017, avg. 52,916 obs per year

Approach:

- Provide descriptive analysis relationship between finance, productivity and geography (particularly core-periphery dynamics)
- Exploit the development of local financial markets in Italy (exogenous shock)

Findings:

- Evidence of a strengthening of the leader-laggard patterns between core areas in the North of Italy and peripheral economic areas in the South
- Laggards make less use of capital markets, are more bank exposed and more leveraged than leaders
 - amplified for firms based in Southern regions

Inequality in Productivity and Access to Capital Markets: Geography and Finance of Leaders and Laggards (2)

Contribution

- Industry leaders tend to concentrate in central areas and that they agglomerate many other firms (Alfaro et al, 2019); access to credit does foster productivity growth (Aghion et al, 2010)
- Firms with a weak financial structure will also have less access to bank credit.
- Investigate impact of this + interaction with geographic element

Policy implications

- Evidence of other factors that may be accelerating the growth in productivity dispersion

Possible extensions

- Do regions differ significantly in their business dynamism?
- Allocation of resources?
- Are firms on the periphery more exposed to globalisation shocks? (Given laggard firms more leveraged)



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Productivity dispersion and labour shares in Europe

Martina Lawless (Economic and Social Research Institute) and
Luke Rehill (Department of Finance, Ireland)

Webinar 2

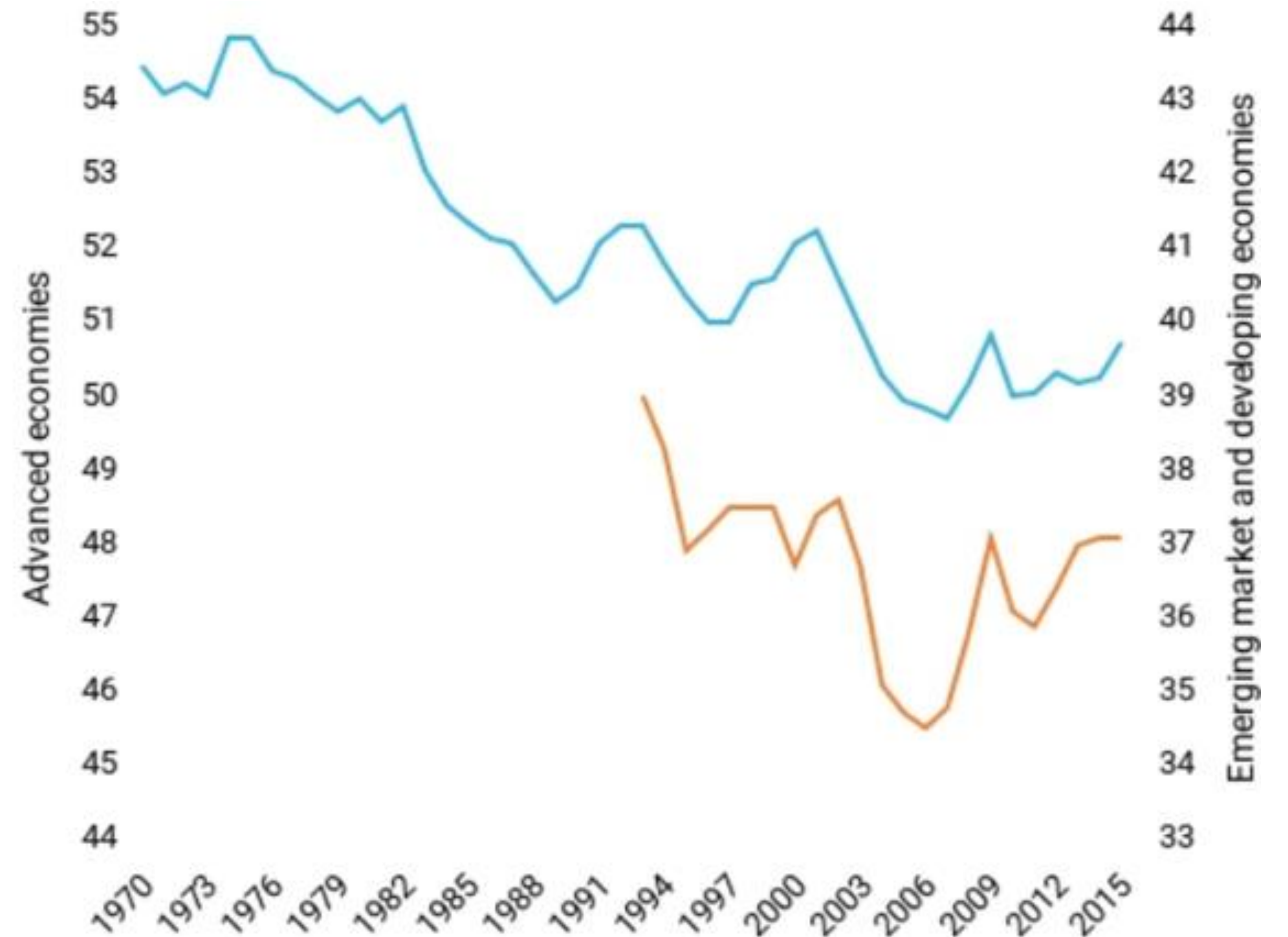
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Labour share over time



- Until the 1980s, stable labour income share was accepted as a ‘stylized fact’ of economic growth.
- Evidence of a decline from 70s until 2000s
- Broad based across regions and economies



Why does this matter?



- Assumed constant in macroeconomic models for many decades
- Wages account for the bulk of household income for the majority of households
- Fall in labour share implies workers not sharing (all of) the benefit of productivity gains
- Capital tends to be concentrated on upper ends of income distribution → link to increasing inequality

Literature – Macro and Micro strands



- Considerable work looks at patterns of labour share at aggregate level (country, sector totals) such as OECD (2018), IMF (2017)
- Suggests sectoral reallocation unlikely to be main explanation
- Emerging literature on between firm vs. within firm changes of labour share and other aggregate variables
 - Autor et al. (2017): mainly between firm phenomena for US from 80s to today
 - Mertens (2019): 50/50 between/within for German manufacturing sector over 95-2014

Cross-country changes seem to be mainly within-industries



Source: EU KLEMS

Contribution



- Bridge macro and micro approaches using data on sector-level moments across Europe

CompNet database

- Developed by the ECB, national central banks, statistical agencies across Euro area
- Each country had access to firm-level data
- Rich information on productivity, trade, financial, competition and labour
- Aggregated up to 2 digit sector level – totals, means, standard deviations, percentiles calculated using harmonised methodology

Allows us to:

- Link labour share developments with concentration (Autor et al, 2017) and productivity dispersion (Gouin-Bonenfant, 2018) across multiple countries without firm-level data
- Decompose changes of overall labour share into changes in mean and changes due to reallocation between firms

Source: EU KLEMS

Data coverage



	Years	Observations
Belgium	2004-2014	396
Croatia	2002-2014	146
Czechia	2003-2014	223
Denmark	2000-2014	474
Finland	1999-2014	458
France	2004-2014	315
Hungary	1999-2014	233
Italy	2001-2014	392
Lithuania	2000-2014	229
Netherlands	2000-2014	486
Portugal	2006-2014	240
Slovenia	2005-2014	154
Spain	2009-2014	129
Sweden	2003-2014	136
Total		4014

Source: EU KLEMS

Decomposition of labour shares



$$LS_{jt} \equiv \frac{\sum w_{it}L_{it}}{\sum VA_{it}} = \sum \left(\frac{VA_{it}}{\sum VA_{it}} * \frac{w_{it}L_{it}}{VA_{it}} \right)$$

$$LS_{jt} = \underbrace{\overline{LS}_{jt}}_{\text{Within}} + \underbrace{cov_{jt} \left(\frac{VA_{it}}{\sum VA_{it}}, LS_{it} \right)}_{\text{Between}}$$

Baseline: sector labour shares



	(1)	(2)	(3)
	Total	Within	Between
Concentration (HHI)	-0.186*** (0.051)	0.054 (0.058)	-0.240*** (0.073)
Lab productivity Sd.Dev.	-0.231*** (0.025)	-0.065** (0.029)	-0.166*** (0.036)
Constant	0.461*** (0.024)	0.645*** (0.027)	-0.183*** (0.034)
Observations	4,014	4,014	4,014
R-squared	0.557	0.355	0.337
Year effects	Yes	Yes	Yes
Sector effects	Yes	Yes	Yes
Country effects	Yes	Yes	Yes
Standard errors in parentheses			
*** p<0.01, ** p<0.05, * p<0.1			

Conclusion



- Decline in labour share indicates productivity gains are distributed unevenly.
- Declining trend is not due to changes in sectoral composition
- Increased concentration within sectors and a widening of the productivity gap between the “best” and “the rest” appear to be important for evolution of labour share.
- In part because these factors have enabled firms with low labour shares, potentially ‘superstar firms’, to grow in size.
- Reinforces the need to ensure benefits of globalisation and productivity are passed on to workers.