Credit Shocks and Firms’ Organization

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Abstract :
What happens to firms' organizational structure when they are hit by a negative credit shock? By matching employer-employee data with firm loans and bank balance sheets, we study firms' reactions to a credit shock–the global financial crisis—using a combination of event study design and instrumental variable. We evaluate the impact of a credit shortage on the organization of labor within the firm: when hit by a credit supply shock, firms reduce employment of team leaders more than lower-skilled production workers, while no adjustment is found at the top of the organizational hierarchy. We show that working capital impacts the re-organization of the firms' labor structure via the financing of machines: firms that invested in machines before the financial crisis are more exposed to the credit shock and re-organize by reducing employment of workers that are complementary with machines. The results provide novel evidence of heterogenous complementarities between working capital and skills along the hierarchy of the firm.