Not in my Community: Social Pressure and the Geography of Dismissals in France*

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Abstract

There is growing evidence that social pressure shapes firms' behavior. Given how sensitive communities are to downsizing, this suggests that firms are likely to be under strong social pressure when considering reducing employment. Using French linked employer-employee data, we show that firms are sensitive to social pressure in the local environment where their headquarters are located, which induces them to refrain from dismissing at short distance from headquarters. More specifically, we find that, within firms, secondary establishments located further away from headquarters have higher dismissal rates than those located closer, taking into account the possible endogeneity of plant location. We also find that the positive effect of distance on dismissals increases with the visibility of the firm in the local community of its headquarters: the larger the share of the firm in the total employment of the local labor market of its headquarters, the stronger the positive effect of distance to headquarters on dismissals. Moreover, this effect appears to be stronger the greater the degree of selfishness of the local community at headquarters. This suggests that local social pressure at headquarters is a key determinant of the positive relationship between distance to headquarters and dismissals. Correspondingly, we show that our results cannot be entirely accounted for by other explanations of the dismissal-distance relationship that are put forward in the literature.

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