

Distant Owners, Local Pain:

The Role of Shareholder Community Ties During Downturns

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Abstract

Does the geographic proximity of controlling shareholders affect how firms adjust to local economic shocks? I construct a novel administrative dataset linking shareholder location information to firm employment, financial statements, and local bankruptcy shocks for private firms in France. The empirical design compares firms exposed to the same local shocks but differing in ownership geography, controlling for firm fixed effects and time-varying local economic conditions. Firms with a greater fraction of local shareholders experience significantly smaller employment declines following local bankruptcy shocks. This effect is strongest when shareholders currently reside locally and also appears for shareholders born locally but no longer residing there, indicating that persistent community ties influence employment adjustment independently of contemporaneous local economic exposure. Mechanism evidence shows that locally owned firms preserve employment by reducing capital growth rather than labor. These findings provide causal evidence that ownership geography shapes firms' adjustment margins and influences how economic shocks are transmitted to workers.

Keywords: Ownership Geography; Corporate Governance; Layoffs; Local Economy

JEL Codes: G34; J63; R30

1. Introduction

Local economic downturns rarely remain confined to the firms directly affected. Legal insolvency waves, plant closures, and major contractions can propagate through local supply chains, labor markets, and demand linkages, generating broader employment losses within affected regions. A growing literature documents that bankruptcies and firm distress create highly localized spillovers, reducing employment and economic activity among nearby firms even when those firms are otherwise financially sound. Yet firms operating in the same local environment often respond very differently to such shocks. Some firms maintain employment despite adverse conditions, while others adjust labor sharply. Understanding the sources of this heterogeneity is central to corporate finance, labor economics, and regional economics.

This paper studies whether the geographic location of controlling shareholders helps explain these differential responses. This question builds on the idea that economic agents are embedded in social and geographic networks that shape their incentives and corporate decisions (Landier, Nair and Wulf, 2009). When controlling shareholders reside in the same local community as the firm, employment reductions may impose costs beyond immediate financial considerations, including reputational concerns, social ties, and the potential erosion of long-term relationships with employees and the local community. In contrast, distant shareholders may face weaker local incentives and may place greater weight on the firm's financial performance. The central question of this paper is therefore whether ownership geography shapes how firms translate local economic distress into employment decisions.

Shareholder proximity can influence firm behavior through several mechanisms. Local shareholders are embedded in local social and economic networks, increasing the social and reputational costs of layoffs. Because local owners interact repeatedly with employees, suppliers, and other stakeholders, employment decisions may affect their broader economic relationships and social standing. Geographic proximity may also provide informational advantages, allowing shareholders to better assess whether shocks are temporary or persistent. These mechanisms imply that firms with local shareholders may preserve employment during downturns and adjust instead along other margins, such as investment and capital accumulation.

Testing this hypothesis presents several empirical challenges. First, employment outcomes may be correlated with firm performance or owner characteristics, making it difficult to isolate ownership effects without plausibly exogenous variation in local economic conditions. Second, detailed shareholder-level geographic information is typically unavailable for private firms, limiting the ability to measure ownership proximity. Third, comprehensive employment and financial data are rarely available for the universe of firms, making it difficult to study firm adjustment margins

in response to shocks.

France provides a unique setting to overcome these challenges. The empirical design exploits local economic shocks constructed from collective insolvency proceedings recorded in the Bulletin Officiel des Annonces Civiles et Commerciales (BODACC), the official registry of legally mandated announcements of judicial reorganizations and liquidations. These insolvency events are sudden, geographically specific, and plausibly exogenous to unaffected firms (Bernstein et al., 2019). Because BODACC covers the universe of insolvency proceedings, it enables the construction of department-year measures of localized economic distress.

Ownership geography is measured using a novel dataset constructed from corporate bylaws filed with the Institut National de la Propriété Industrielle (INPI), which provide detailed information on shareholder identity, ownership shares, and residential addresses. Geocoding these addresses and linking them to administrative firm data allows precise measurement of shareholder proximity based on residence and birthplace. Firm outcomes are measured using employer–employee administrative payroll data (DADS/ACOSS) and firm financial data from the FICUS–FARE database, which provide comprehensive information on employment, wages, capital, and investment. The breadth and quality of these administrative data enable precise measurement of ownership geography, employment dynamics, and firm adjustment margins.

With these linked datasets, the empirical strategy compares firms exposed to the same local economic shocks but differing in ownership geography. Difference-in-differences specifications with firm fixed effects and rich time-varying controls isolate whether shareholder proximity affects firms’ employment responses to local distress. Identification relies on differential responses to plausibly exogenous local insolvency shocks, rather than on cross-sectional differences in ownership alone.

The analysis yields four main findings. First, firms with more local shareholders experience significantly smaller employment declines following local insolvency shocks. Second, the buffering effect is strongest when shareholders currently reside in the firm’s department, though birthplace ties also attenuate employment contractions. Third, locally owned firms preserve employment by reducing capital growth and investment rather than cutting labor, indicating that ownership geography affects firms’ adjustment margins. Fourth, these results remain robust to firm fixed effects, industry-by-year and department-by-year fixed effects, and controls for firm financial characteristics.

This paper contributes to several strands of literature. First, it identifies shareholder geographic proximity and community ties as a novel and economically important determinant of corporate adjustment. Second, it provides causal evidence that ownership geography shapes firms’ responses to local economic shocks. Third, it shows that ownership geography affects how firms adjust,

shifting adjustment away from labor and toward capital. These findings establish ownership geography as an important and previously understudied dimension of ownership structure with significant implications for corporate behavior and local economic resilience.

The remainder of the paper proceeds as follows. Section 2 reviews the related literature and positions the paper within research on ownership structure, investor geography, and firm adjustment to local economic shocks. Section 3 describes the administrative data sources, sample construction, and measurement of ownership geography and local bankruptcy shocks. Section 4 presents the empirical framework and main results, showing how shareholder geographic proximity shapes firms' employment responses to local distress. Section 5 examines robustness and investigates the mechanisms underlying the employment effects, focusing on financial characteristics and capital adjustment. Section 6 concludes.

2. Literature Review

This paper contributes to several strands of the literature on ownership, investor geography, and firm adjustment to economic shocks. First, this paper contributes to the literature showing that shareholder preferences and characteristics can shape corporate decisions beyond purely financial considerations (Bénabou and Tirole, 2010; Edmans, 2011; Hart and Zingales, 2017). Prior work emphasizes that shareholders may value non-pecuniary outcomes, such as employee welfare or stakeholder relationships. This paper identifies geographic proximity and community ties as a concrete and measurable channel through which such preferences affect firm behavior, showing that locally embedded shareholders mitigate layoffs during local economic downturns.

Second, this paper contributes to the literature showing that ownership structure and shareholder characteristics influence labor outcomes and corporate policies. Prior studies find that family ownership is associated with greater employment stability (Sraer and Thesmar, 2007; Ellul, Pagano and Schivardi, 2018), while ownership concentration and shareholder diversification affect labor adjustment and investment by altering shareholders' financial incentives and risk exposure (Falato, Kim and von Wachter, 2022; Faccio, Marchica and Mura, 2011; Lyandres et al., 2019; Bena et al., 2024). This paper highlights shareholder geographic proximity and community ties as a distinct dimension of ownership that shapes firm adjustment to economic shocks.

Third, the paper relates to the literature on local economic shocks and firm adjustment. Giroud and Mueller (2019) show that negative local shocks reduce employment both locally and in other establishments of the same firm through internal capital markets, while Landier, Nair and Wulf (2009) show that geographic proximity shapes corporate adjustment decisions, with distant plants

more likely to experience closures and employment reductions. However, this paper shows that heterogeneity in firm responses to the same local shock is partly explained by ownership geography, demonstrating that shareholder proximity independently influences firms' adjustment decisions.

Fourth, the analysis also speaks to the literature on investor geography and home bias. Prior work shows that investors prefer geographically proximate firms and may possess informational advantages, affecting portfolio allocation and investment performance (Coval and Moskowitz, 1999; Ivkovic and Weisbenner, 2005). This paper extends this literature by showing that investor geography also has real effects within firms, demonstrating that investor location shapes corporate adjustment decisions beyond financial markets.

Finally, this paper contributes to the literature on private firms. While prior work shows that private firms differ from public firms in financing and investment behavior (Brav, 2009; Asker, Farre-Mensa and Ljungqvist, 2015), little is known about how controlling shareholders influence adjustment decisions due to limited ownership data. By directly observing controlling shareholders' geographic proximity, this paper provides new evidence that ownership geography is an important determinant of employment and investment adjustment in private firms.

3. Data

3.1. Data Sources

I construct a comprehensive firm-level panel dataset by linking multiple administrative and financial data sources covering the universe of French firms. These data provide detailed information on firm identity, ownership, employment, financial statements, and legal insolvency events. The unit of observation is the firm-year, and firms are linked across datasets using unique national identifiers (SIREN and SIRET). The combined dataset enables precise measurement of ownership geography, employment dynamics, and exposure to local economic shocks.

The dataset combines the following sources:

- **Business Registry (SIRENE):** The SIRENE registry, maintained by the French National Institute of Statistics and Economic Studies (INSEE), provides the official identification system for all French firms and establishments. It contains firm identifiers (SIREN), establishment identifiers (SIRET), geographic location, industry classification, legal form, and firm entry and exit dates. This registry allows precise assignment of firms to geographic units, including departments, which serve as the primary level for measuring local economic shocks. Us-

ing these identifiers ensures consistent tracking of firms over time and accurate geographic matching.

- **Bylaw Corpus (INPI):** Ownership and governance information is obtained from corporate bylaws filed with the Institut National de la Propriété Industrielle (INPI), the official French registry that maintains legally required corporate filings. Company bylaws are the firm’s foundational legal document and specify the ownership structure, capital contributions, and governance arrangements among shareholders. These filings are submitted at incorporation and updated when ownership or governance changes occur. The documents are publicly accessible through the INPI online data portal and API¹ and are retrieved using each firm’s unique SIREN identifier. Because these filings contain legally mandated disclosures on shareholder identity, ownership shares, and geographic information, they provide a comprehensive source of ownership data for private firms.

The bylaw documents are converted from scanned PDF format into machine-readable text, and shareholder and CEO explicitly designated in the filings are identified using a structured entity-recognition procedure combining rule-based parsing and natural language processing methods.² Extracted entities are classified as individual or company shareholders and linked to associated attributes including ownership shares, company identifiers, and geographic location. For individual shareholders, geographic information includes residential address and, when available, birthplace. For company shareholders, geographic location is based on the registered headquarters address.

These data are used to construct firm-level measures of ownership geography. The primary measure, local ownership, is defined as the fraction of shareholders residing in the same department as the firm, based on residential address for individual shareholders and headquarters location for corporate shareholders. Birthplace information is used to construct complementary measures of historical attachment. These measures allow precise identification of controlling shareholders and geographic proximity between shareholders and firms, which form the basis of the empirical analysis.

- **Employer–Employee Data (DADS):** Labor outcomes are measured using the Déclarations Annuelles de Données Sociales (DADS), an administrative dataset covering all wage-earning employees in France. These data provide comprehensive information on employment, wages, occupation, and employer identity. Firm-level employment is constructed by aggregating

¹<https://data.inpi.fr/>

²Entity extraction combines rule-based parsing with large language model-assisted entity recognition implemented using the OpenAI API. The ChatGPT-4.1-mini model is used to identify shareholders and CEO explicitly designated in the bylaws based on formal legal ownership and governance disclosures. Appendix A provides detailed information on the extraction protocol and entity harmonization.

establishment–level employment across all establishments belonging to the same firm. This dataset enables precise measurement of employment levels and employment growth, which serve as the primary outcome variables in the analysis. Because reporting is mandatory for all employers, the dataset provides near–universal coverage of employment relationships.

- **Financial Statements (FICUS–FARE):** Firm financial information is obtained from the FICUS–FARE database, which combines tax filings and administrative records to produce comprehensive accounting information for French firms. These data include balance sheet and income statement variables such as total assets, capital stock, investment, leverage, profitability, and dividends. Because these data are derived from tax filings and validated by tax authorities, they provide reliable and consistent measures of firm financial conditions and investment behavior. These financial variables are used to analyze firm adjustment margins and control for firm financial characteristics.
- **BODACC Insolvency Registry:** Local economic shocks are measured using data from the Bulletin Officiel des Annonces Civiles et Commerciales (BODACC), the official French registry that publishes legally mandated announcements related to firm insolvency and restructuring. The analysis focuses specifically on collective insolvency proceedings, including judicial reorganization (*redressement judiciaire*) and judicial liquidation (*liquidation judiciaire*), which represent severe financial distress events supervised by commercial courts. These proceedings provide a credible and economically meaningful measure of local economic distress, as they reflect genuine firm failures rather than routine administrative updates. Using these data, I construct department–year measures of local bankruptcy shocks based on the intensity of collective insolvency proceedings affecting peer firms in the same geographic area.

3.2. Sample Construction and Summary Statistics

The dataset is constructed from administrative records covering the universe of firms located in metropolitan France. The initial population consists of all firms recorded in the SIRENE registry, the official national business register maintained by INSEE. This registry includes firms of all legal forms, including private corporations, sole proprietorships, partnerships, and public entities, and provides comprehensive information on firm identity, location, legal form, and industry classification.

From this universe, the analysis focuses on incorporated private firms with clearly defined ownership structures, specifically sociétés commerciales such as SARL (Société à responsabilité

limitée), SAS (Société par actions simplifiée), and privately held SA (Société anonyme).³ These legal forms provide clearly defined shareholder structures and ownership shares, allowing precise measurement of shareholder identity and geographic location. Firms without formal equity ownership structures, including sole proprietorships and certain partnerships, are excluded because shareholder ownership and geographic proximity cannot be consistently measured for these entities.

To ensure comparability across firms and focus on market-oriented private-sector activity, the sample excludes firms operating in sectors subject to distinct regulatory regimes or ownership structures, including agriculture and extraction, financial and insurance services, real estate, public administration, and household or extraterritorial sectors.⁴ These sectors differ systematically from typical private firms in terms of ownership structure, regulatory oversight, and economic behavior, which could confound the analysis of ownership effects on employment adjustment.

The analysis further restricts the sample to mono-department firms, defined as firms whose establishments operate within a single French department. This restriction ensures a precise mapping between firm activity and local economic conditions, which is essential for identifying how shareholder proximity affects firm responses to local economic shocks. Because the empirical design relies on department-level variation in insolvency shocks, focusing on mono-department firms avoids exposure misclassification that would arise if firms operated across multiple geographic regions.

From this population, I draw an exact 1% random sample of firms within each department using stratified sampling. This procedure preserves the geographic distribution of firms across departments while maintaining a dataset that is computationally tractable. Stratified sampling ensures that each department is proportionally represented, preserving cross-sectional variation in local economic conditions and ownership structures. Because sampling is conducted independently within each department, the resulting sample remains representative of the national population of private firms.

Ownership information is obtained from corporate bylaws collected by the Institut National de la Propriété Industrielle (INPI), which provide detailed information on shareholder identity, ownership shares, and residential location. These legal filings allow precise identification of shareholder geographic location and enable construction of firm-level measures of local ownership based on the fraction of shareholders residing in the same department as the firm. The ownership

³These entities correspond to legal form codes begin with 5 and 65 in the official INSEE *code juridique* classification recorded in the SIRENE registry. SARL, SAS, and SA together account for the vast majority of incorporated firms in France and represent over 95% of commercial corporations.

⁴Specifically, excluded sectors include agriculture and extraction (NAF codes 0100–0999), financial and insurance services (6400–6699), real estate (6800), public administration (8400–8499), and household or extraterritorial activities (9700–9999).

data are merged with firm-level administrative data on employment, financial statements, and firm characteristics using unique firm identifiers.

To measure local economic distress, I use data on collective insolvency proceedings from the Bulletin Officiel des Annonces Civiles et Commerciales (BODACC), which publishes legally mandated announcements of court-supervised insolvency procedures. The analysis focuses specifically on collective proceedings, including judicial reorganization (*redressement judiciaire*) and judicial liquidation (*liquidation judiciaire*), which represent severe financial distress events involving formal restructuring or liquidation of firms. These proceedings provide a credible and economically meaningful measure of local economic shocks because they reflect genuine financial distress affecting local firms and can generate spillover effects on nearby firms through local economic linkages. Using these data, I construct department-year measures of local bankruptcy shocks based on the number of collective insolvency proceedings affecting firms located in each department. The BODACC data are available in a consistent and comprehensive format beginning in 2009, which defines the start of the regression sample period. Accordingly, while firm-level administrative data are available over a longer horizon, the empirical analysis focuses on the period 2009–2016, during which bankruptcy shocks can be measured consistently.

Table 1 reports summary statistics for the regression sample. Panel A presents firm–year observations. Firms in the sample are relatively small, with mean employment of 13 workers and a median of 4 workers, consistent with the size distribution of privately held firms. Local ownership is prevalent but exhibits substantial cross-sectional variation: the average fraction of local shareholders is 0.76, and 74% of firm–year observations have a majority of shareholders located in the same department as the firm. Ownership structures are concentrated, with an average of 2.4 shareholders per firm, and foreign ownership is limited, accounting for only 3% of shareholders on average. Firms are also mature, with a mean age of nearly 15 years, and display considerable heterogeneity in employment growth and capital.

Panel B reports the distribution of the department $\times$ year BODACC bankruptcy shock used in the empirical analysis. Variation in this shock across firms and over time provides the identifying source of local economic distress used to examine how shareholder geographic ties affect firms' employment adjustment.

Table 1. Summary Statistics

Panel A: Observation Level								
Variable	N	Mean	SD	Min	P25	P50	P75	Max
Local shareholder (continuous)	29,169	0.76	0.39	0.00	0.50	1.00	1.00	1.00
Local shareholder (dummy)	29,169	0.74	0.44	0.00	0.00	1.00	1.00	1.00
Department diversity	39,418	0.14	0.30	0.00	0.00	0.00	0.00	1.00
$\Delta \ln(\text{Emp})$	34,996	-0.00	0.35	-4.68	-0.07	0.00	0.07	3.86
Employment	39,418	13.20	59.40	0.00	2.00	4.00	10.00	3184.00
Firm age (years)	39,418	14.77	14.91	0.00	5.00	11.00	20.00	116.00
Fraction of company shareholders	39,418	0.19	0.33	0.00	0.00	0.00	0.33	1.00
Fraction of non-French shareholders	39,418	0.03	0.15	0.00	0.00	0.00	0.00	1.00
$\ln(\text{Capital})$	36,880	9.96	2.43	0.00	8.94	9.39	11.19	31.27
Number of shareholders	39,418	2.40	1.42	1.00	1.00	2.00	3.00	23.00
Panel B: Shocks								
Shock variable	N	Mean	SD	Min	P25	P50	P75	Max
Dummy BODACC shock	39,418	1.00	0.06	0.00	1.00	1.00	1.00	1.00

Note: Panel A reports firm-year summary statistics for the regression sample. Panel B reports the distribution of the department $\times$ year BODACC bankruptcy shock used in the regressions.

4. Empirical Design and Main Results

4.1. Baseline Specification

To examine whether shareholder geographic proximity affects firms' employment responses to local economic distress, I estimate the following baseline specification:

$$\Delta \ln(\text{Emp}_{i,t}) = \alpha + \beta_1 L_{i,t} + \beta_2 B_{d(i),t} + \beta_3 (L_{i,t} \times B_{d(i),t}) + \gamma_i + \lambda_t + \varepsilon_{i,t}, \quad (1)$$

where $\Delta \ln(\text{Emp}_{i,t})$ denotes employment growth for firm i in year t , constructed from employer-employee administrative records. The variable $L_{i,t}$ measures local shareholder presence and captures the geographic proximity between the firm and its shareholders. In the baseline specification, it is defined as the fraction of shareholders residing in the same department as the firm. Alternative specifications use a dummy variable equal to one if a majority of shareholders reside locally. Shareholder location is obtained from corporate bylaws and administrative records, which report shareholders' birth place and residential addresses. These data allow precise identification of

whether shareholders are located in the same local labor market as the firm and enable construction of time-varying measures of local ownership.

The variable $B_{d(i),t}$ denotes the bankruptcy shock in the department where firm i operates, where $d(i)$ indexes the department of firm i . This variable is constructed using department-year variation in collective insolvency proceedings recorded in the BODACC registry. Collective proceedings, including judicial reorganization and liquidation, represent severe financial distress affecting peer firms in the same local economy. The shock is constructed using a leave-one-out approach that excludes firm i when computing the department-level measure, ensuring that the shock reflects exposure to distress among other firms rather than the firm's own outcome.

The coefficient of primary interest is β_3 , which captures whether firms with greater local shareholder presence respond differently to local economic distress. A positive value of β_3 indicates that local ownership attenuates the negative employment effects of local insolvency shocks, consistent with locally embedded shareholders placing greater weight on preserving employment.

The specification includes firm fixed effects (γ_i), which control for all time-invariant firm characteristics, including persistent differences in ownership structure, business model, and firm size. Additional time-varying fixed effects, such as year fixed effects, industry-by-year fixed effects, or department-by-year fixed effects, are included in alternative specifications to absorb common macroeconomic conditions, industry trends, and local economic shocks. Identification therefore comes from differential employment responses among firms operating in the same economic environment but differing in shareholder geographic proximity.

Standard errors are clustered at the department level to account for spatial correlation in local economic conditions and bankruptcy shocks across firms within the same geographic area.

4.2. Local Shareholder and Employment Response to Bankruptcy Shocks

Table 2 reports estimates of equation (1). Columns (1)–(4) measure local ownership using a dummy equal to one if a majority of shareholders reside in the firm's department, while columns (5)–(8) use the continuous measure defined as the fraction of shareholders residing locally.

In specifications without department×year fixed effects, the coefficient on the BODACC shock is negative and statistically significant, ranging from approximately -0.14 to -0.18 . Because the dependent variable is log employment growth, these estimates correspond to economically meaningful employment declines following local bankruptcy shocks. Evaluated at the sample mean firm size of 13 employees, the estimates imply employment declines of approximately 1.8 to 2.3 workers, confirming that collective insolvency waves generate substantial contractions among

nearby firms.

Table 2. Employment Growth Response to BODACC Bankruptcy Shock and Local Shareholder Presence

	Local shareholder (Dum.)				Local shareholder (Cont.)			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
<i>Variables</i>								
Local shareholder (<i>L</i>)	-0.132** (0.051)	-0.127** (0.053)	-0.122** (0.054)	-0.125* (0.067)	-0.135** (0.064)	-0.129* (0.066)	-0.129* (0.068)	-0.135* (0.081)
Dummy BODACC shock	-0.178*** (0.037)	-0.148*** (0.042)	-0.138*** (0.042)		-0.185*** (0.052)	-0.154*** (0.056)	-0.145** (0.056)	
<i>L</i> × Dummy BODACC shock	0.158*** (0.050)	0.148*** (0.052)	0.143*** (0.053)	0.141** (0.066)	0.162** (0.063)	0.150** (0.065)	0.147** (0.066)	0.149* (0.079)
<i>Fixed-effects</i>								
Firm	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year		Yes				Yes		
Industry × Year			Yes				Yes	
Dept × Year				Yes				Yes
Observations	25,326	25,326	25,259	25,326	25,326	25,326	25,259	25,326
R ²	0.15706	0.16132	0.18679	0.18483	0.15704	0.16130	0.18677	0.18482

Clustered (dept) standard-errors in parentheses

*Signif. Codes: ***: 0.01, **: 0.05, *: 0.1*

Note: This table reports regressions of employment growth on local shareholder, a department-level BODACC bankruptcy shock, and their interaction. Local shareholder is measured as either a dummy for local shareholder presence or the share of local ownership. The Dummy BODACC shock is a leave-one-out department-year dummy. Specifications include firm fixed effects and progressively add year, industry × year, and department × year fixed effects. The dependent variable is $\Delta \ln emp$. Standard errors are clustered at the department level.

The interaction between local shareholder and the bankruptcy shock, which is the key coefficient of interest, is positive and statistically significant across all specifications. The estimated interaction terms range from approximately 0.14 to 0.16, indicating that local ownership substantially attenuates the negative employment response to local distress. Economically, these estimates imply that firms with local shareholders experience significantly smaller employment declines than otherwise similar firms exposed to the same local shock. In several specifications, the estimates suggest that the negative employment effect of local insolvency shocks is largely eliminated for firms with fully local ownership

These results remain stable as progressively richer fixed effects are introduced. Column (1) includes firm fixed effects, which ensure that identification comes from within-firm variation over time rather than cross-sectional differences across firms. Subsequent columns add year fixed effects and industry×year fixed effects, which absorb aggregate macroeconomic fluctuations and sector-specific shocks. Column (4) and Column (8) further include department×year fixed effects, which absorb all time-varying shocks common to firms operating in the same local economic environment.

Because the BODACC shock is defined at the department–year level, it is fully absorbed by department×year fixed effects and therefore cannot be separately estimated in those specifications. Identification instead comes from comparing firms within the same department and year that face identical local economic conditions but differ in shareholder geographic proximity. The persistence of the positive and statistically significant interaction coefficient under this demanding specification indicates that the results are not driven by unobserved local shocks, sectoral trends, or time-invariant firm characteristics.

Overall, the evidence indicates that ownership geography plays a central role in shaping firms’ employment responses to local economic distress. Firms with greater local shareholder presence adjust employment significantly less following local insolvency shocks, consistent with geographically proximate owners internalizing the local costs of layoffs.

4.3. Decomposition of Shareholder Location

A potential concern with the baseline results is that the employment stabilization effect may reflect shareholders’ direct economic exposure to local conditions rather than persistent community ties. Shareholders who currently reside in the same local economy may themselves be affected by local bankruptcies through housing wealth, labor market opportunities, or other local economic activities. In this case, shareholders may preserve employment to mitigate further deterioration in local conditions that directly affect their own welfare. Under this interpretation, the baseline effect would reflect shareholders’ contemporaneous economic exposure rather than social attachment or community ties.

To address this concern, Table 3 decomposes local shareholder presence into two mutually exclusive components that distinguish between historical attachment and current residence. Specifically, I separate shareholders who were born in the firm’s department but no longer reside there (*Born Here but left*) from those who currently reside in the department (*Currently here*), regardless of birthplace. Because shareholders in the *Born Here but left* group do not reside in the local economy, they are not directly exposed to contemporaneous local economic conditions. Any employment stabilization effect associated with this group therefore cannot be explained by

shareholders' direct economic exposure and instead reflects persistent community ties.

The results show that historical attachment alone significantly attenuates employment declines following local bankruptcy shocks. The interaction between the shock and *Born Here but left* is positive and statistically significant across all specifications, with coefficients ranging from 0.08 to 0.10. Evaluated at the sample mean firm size of 13 employees, these estimates imply that firms with shareholders born locally but no longer residing in the department preserve approximately one additional jobs relative to otherwise similar firms without such ties. This finding rules out explanations based solely on shareholders' contemporaneous economic exposure and provides direct evidence that persistent community ties influence firm employment decisions.

The interaction between the shock and *Currently here* is also positive and statistically significant, with larger magnitudes ranging from approximately 0.14 to 0.16. These estimates exceed those associated with historical attachment alone, suggesting that active local presence strengthens the buffering effect. Shareholders who remain physically embedded in the local community may face stronger reputational concerns, repeated interactions with local stakeholders, or greater exposure to local economic conditions, increasing the effective cost of workforce reductions.

These results remain stable across specifications that include firm fixed effects and stringent time-varying controls, including department $\times$ year fixed effects, which absorb all common local economic shocks. Identification in these specifications comes from comparisons among firms operating in the same department and year but differing in shareholders' geographic ties. The persistence of the employment stabilization effect for shareholders who were born locally but no longer reside in the department confirms that the results are not driven by differential exposure to local economic conditions. Instead, they reflect differences in shareholders' geographic attachment, highlighting the role of community ties in shaping firms' employment responses to local economic distress.

Table 3. Decomposition of Shareholder Geographic Ties: Historical vs Current Local Presence

Model:	Decomposition specification			
	(1)	(2)	(3)	(4)
<i>Variables</i>				
Dummy BODACC shock	-0.252*** (0.055)	-0.218*** (0.059)	-0.204*** (0.058)	
Born here but left	-0.383** (0.159)	-0.393*** (0.143)	-0.401** (0.157)	-0.427*** (0.121)
Currently here	-0.134* (0.069)	-0.129* (0.070)	-0.128* (0.072)	-0.135 (0.086)
Dummy BODACC shock× Born here but left	0.099*** (0.028)	0.095*** (0.026)	0.089*** (0.033)	0.079** (0.034)
Dummy BODACC shock× Currently here	0.160** (0.067)	0.149** (0.069)	0.144** (0.070)	0.148* (0.084)
<i>Fixed-effects</i>				
Firm	Yes	Yes	Yes	Yes
Year		Yes		
Industry × Year			Yes	
Dept × Year				Yes
Observations	25,326	25,326	25,259	25,326
R ²	0.15714	0.16140	0.18687	0.18493
<i>Clustered (dept) standard-errors in parentheses</i>				
<i>Signif. Codes: ***: 0.01, **: 0.05, *: 0.1</i>				

Note: This table decomposes local shareholders into two mutually exclusive groups based on birthplace and current residence relative to the firm's department. *Currently Here* measures the fraction of shareholders currently located in the firm's department, regardless of birthplace, while *Born Here but Left* measures the fraction of shareholders born in the firm's department but residing elsewhere. Dummy BODACC shock is a leave-one-out department-level bankruptcy shock. The dependent variable is $\Delta \ln emp$. Standard errors are clustered at the department level.

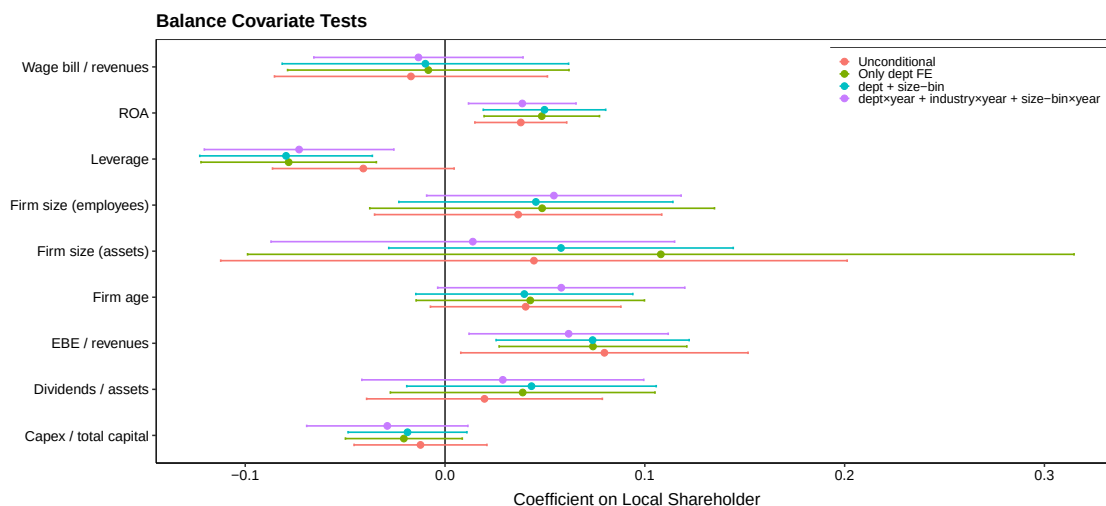
5. Robustness and Mechanism

5.1. Role of Financial Controls

The baseline results in Table 2 show that firms with greater local shareholder presence experience significantly smaller employment declines following local bankruptcy shocks. A potential

concern is that firms with local shareholders may differ systematically from other firms along observable financial dimensions that also influence employment adjustment. For example, more profitable firms, firms with lower leverage, or firms with stronger operating performance may be inherently better positioned to maintain employment during downturns, independently of shareholder location.

Figure 1. Covariate Differences by Local Shareholder



Note: This figure examines differences in firm characteristics associated with local shareholder presence. Each point represents the estimated coefficient from a regression of a firm characteristic on the local shareholder measure, defined as the fraction of shareholders residing in the same department as the firm. Horizontal bars denote 95% confidence intervals with standard errors clustered at the department level. The four specifications progressively incorporate fixed effects: no fixed effects, department fixed effects, department and size-bin fixed effects, and a saturated specification including department-by-year, industry-by-year, and size-bin-by-year fixed effects. Positive coefficients indicate that firms with a greater fraction of local shareholders exhibit higher values of the corresponding characteristic. The vertical line at zero indicates no association. Firm characteristics include return on assets (ROA), leverage (debt-to-assets), operating profitability (EBE-to-revenue), dividends-to-assets, capital investment (Capex-to-total capital), firm size (assets and employment), and firm age.

Figure 1 examines whether firms with greater local shareholder presence differ systematically in observable characteristics. The figure reports estimated coefficients and 95% confidence intervals from regressions of firm characteristics on the local shareholder measure under progressively richer fixed-effect specifications. While unconditional differences exist across several financial dimensions, these differences are substantially attenuated once richer fixed effects are introduced. Most coefficients become economically small, although profitability (ROA and EBE-to-revenue) and leverage remain statistically significant. To account for these remaining differences, Table 4 re-estimates the baseline employment specification while progressively introducing lagged controls for profitability, leverage, and operating performance.

Introducing financial controls requires restricting the sample to firm-year observations with

available balance sheet data from FICUS.⁵ As a result, columns including financial controls are estimated on a smaller subsample. Column (1) of Table 4 reports the baseline specification using the full sample. Column (2) re-estimates the model on the restricted FICUS sample and introduces lagged ROA, while Columns (3) and (4) further add controls for leverage and operating profitability (EBE/Revenue).

Table 4. Shareholder Location and Employment Growth Response to BODACC Shock: Role of Financial Controls

Model:	(1)	(2)	(3)	(4)
<i>Variables</i>				
Local shareholder	-0.141*	-0.832***	-0.839***	-0.839***
	(0.072)	(0.038)	(0.041)	(0.041)
Local shareholder × Dummy BODACC shock	0.161**	0.822***	0.828***	0.828***
	(0.070)	(0.006)	(0.014)	(0.014)
Lagged ROA		0.048*	0.044*	0.044*
		(0.024)	(0.024)	(0.024)
Lagged Leverage			-0.014	-0.014
			(0.024)	(0.024)
Lagged EBE / Revenue				-0.0002***
				(6.26 × 10 ⁻⁵)
<i>Fixed-effects</i>				
Firm	Yes	Yes	Yes	Yes
Dept×year	Yes	Yes	Yes	Yes
<i>Fit statistics</i>				
Observations	25,271	12,872	12,838	12,838
R ²	0.18525	0.21950	0.21693	0.21696

Clustered (dept) standard-errors in parentheses

*Signif. Codes: ***: 0.01, **: 0.05, *: 0.1*

Note: This table examines whether the employment response to local bankruptcy shocks varies with shareholder location after controlling for firm financial characteristics. The dependent variable is employment growth, measured as $\Delta \ln emp$. Local shareholder is measured as the share of shareholders residing in the same department as the firm. Dummy BODACC shock is a leave-one-out department-year bankruptcy shock. Columns progressively introduce lagged financial controls, including return on assets (ROA), leverage, and operating profitability (EBE/Revenue). All specifications include firm and department-by-year fixed effects. Standard errors are clustered at the department level. The interaction term captures whether firms with local shareholders adjust employment differently following local bankruptcy shocks after accounting for financial differences.

⁵Financial variables are constructed by merging the main sample with FICUS balance sheet data, which are not available for all firm–year observations. Expanding coverage will be addressed in future versions.

Across Columns (2)–(4), the interaction between local shareholder presence and the bankruptcy shock remains positive, highly statistically significant, and economically stable after introducing financial controls. This robustness indicates that the employment-stabilizing effect of local shareholders is not explained by differences in firm profitability, leverage, or operating performance. Instead, the results support the interpretation that shareholder geographic proximity independently influences firms’ employment adjustment decisions, strengthening the causal interpretation of the baseline findings.

5.2. Mechanism: Capital Adjustment

The results in Tables 2 and 4 show that firms with local shareholders reduce employment significantly less following local bankruptcy shocks, even after controlling for financial characteristics. This raises an important question: how do these firms absorb adverse shocks if they do not adjust employment as strongly as other firms? One possibility is that firms with local shareholders adjust along other margins, such as investment and capital accumulation.

To examine this mechanism, Table 5 analyzes firms’ capital adjustment responses to local bankruptcy shocks using the same empirical framework as in the baseline specification. The dependent variable is capital growth, measured as $\Delta \ln capital$, and the specification progressively introduces lagged financial controls, including profitability, leverage, and operating profitability. Firm and department-by-year fixed effects are included to isolate within-firm responses to local shocks.

Column (1) reports estimates using the full baseline sample. Columns (2)–(4), estimated on the restricted FICUS subsample with financial controls, show a negative, highly statistically significant, and economically stable interaction coefficient of approximately -0.54 . This indicates that firms with local shareholders reduce capital growth more strongly following local bankruptcy shocks compared to firms without local shareholders. The stability of the estimates after introducing financial controls confirms that this effect is not driven by differences in firm financial characteristics.

Taken together with the employment results, these findings suggest that locally owned firms adjust primarily along the capital margin in response to adverse local shocks. Rather than reducing employment to the same extent as other firms, locally owned firms slow capital accumulation, consistent with shareholders’ geographic proximity influencing firms’ adjustment decisions. This evidence supports the interpretation that local shareholders contribute to employment stabilization by shifting adjustment toward investment rather than labor.

Table 5. Shareholder Location and Capital Growth Response to BODACC Shock: Mechanism Evidence

Model:	(1)	(2)	(3)	(4)
<i>Variables</i>				
Local shareholder	-0.114 (0.154)	0.280 (0.178)	0.277 (0.180)	0.277 (0.180)
Local shareholder × Dummy BODACC shock	-0.162 (0.126)	-0.548*** (0.009)	-0.543*** (0.018)	-0.543*** (0.018)
Lagged ROA		-0.029 (0.036)	-0.030 (0.038)	-0.029 (0.038)
Lagged Leverage			-0.012 (0.045)	-0.012 (0.045)
Lagged EBE / Revenue				-7.47×10^{-5} (0.0002)
<i>Fixed-effects</i>				
Firm	Yes	Yes	Yes	Yes
Dept×year	Yes	Yes	Yes	Yes
<i>Fit statistics</i>				
Observations	25,419	13,103	13,067	13,067
R ²	0.16455	0.18522	0.18546	0.18546

Clustered (dept) standard-errors in parentheses

*Signif. Codes: ***: 0.01, **: 0.05, *: 0.1*

Note: This table examines whether shareholder location affects firms' capital adjustment following local bankruptcy shocks. The dependent variable is capital growth, measured as $\Delta \ln capital$. *Local shareholder* is measured as the fraction of shareholders residing in the same department as the firm. *Dummy BODACC shock* is a leave-one-out department-year bankruptcy shock. Columns progressively introduce lagged financial controls, including return on assets (ROA), leverage, and operating profitability (EBE/Revenue). All specifications include firm and department-by-year fixed effects. Standard errors are clustered at the department level. The negative interaction coefficient indicates that firms with local shareholders reduce capital growth more strongly following local shocks, consistent with local shareholders preserving employment by adjusting investment rather than labor.

6. Conclusion

This paper studies whether shareholder geographic proximity affects how firms adjust to local economic shocks. Using newly constructed data linking shareholder-level geographic information from corporate bylaws to administrative firm-level employment and financial records, I examine how ownership geography shapes firm responses to plausibly exogenous local bankruptcy shocks in France.

The results show that firms with more geographically proximate shareholders experience significantly smaller employment declines following local economic distress. This effect is economically large and robust to firm fixed effects, department-by-year fixed effects, and controls for firm financial characteristics, ensuring identification from comparisons among firms exposed to the same local conditions. These findings establish that ownership geography is an important determinant of employment adjustment during downturns.

The decomposition of shareholder location shows that both current local residence and persistent community ties influence firm behavior. Shareholders who currently reside near the firm have the strongest employment stabilization effect, consistent with ongoing local embeddedness. However, shareholders who were born locally but no longer reside there also mitigate employment declines. Because these shareholders are not directly exposed to contemporaneous local economic conditions, this result isolates community attachment as a distinct mechanism rather than mechanical economic exposure.

Mechanism evidence shows that firms with local shareholders adjust along different margins. Instead of reducing employment, locally owned firms respond to adverse shocks by reducing capital growth and investment. This pattern indicates that shareholder geographic proximity shifts adjustment away from labor and toward capital, stabilizing employment during downturns.

Taken together, the findings provide causal evidence that shareholder geographic proximity shapes corporate adjustment decisions and influences the transmission of economic shocks to workers. More broadly, the results demonstrate that controlling shareholders are not purely passive providers of capital but locally embedded economic agents whose community ties affect firm behavior. By identifying ownership geography as a key determinant of employment stability and adjustment margins, this paper contributes to the literature on ownership structure, investor geography, and firm responses to economic shocks, and highlights the role of shareholder community ties in shaping real economic outcomes.

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Appendix A Extraction of Shareholder and CEO Information from Corporate Bylaws

This appendix describes the procedure used to extract shareholder and CEO information from corporate bylaws obtained from the INPI registry. These documents contain unstructured legal text describing ownership structure, capital contributions, and governance appointments. To convert these legal disclosures into structured firm-level ownership data, I combine rule-based parsing with large language model–assisted entity extraction. The extraction protocol follows the general approach developed by [Beaumont, Hombert and Matray \(2026\)](#), which I independently implement and adapt using publicly available INPI filings to construct shareholder-level measures of geographic location and ownership structure. Specifically, I use the OpenAI API with ChatGPT-4.1-mini to identify shareholders and CEOs explicitly designated in the bylaws, both at incorporation and in subsequent amendments.

Step 1: Conservative Entity Extraction

The first stage consists in extracting all entities explicitly mentioned as shareholders or CEOs in a given document. The model is prompted with a structured extraction protocol designed to operate conservatively and minimize false positives. Entities are classified into four mutually exclusive categories: (i) CEO individual, (ii) CEO company, (iii) shareholder individual, and (iv) shareholder company.

CEOs are recorded only when explicitly designated using formal legal titles, such as *président* (for SAS firms) or *gérant* (for SARL firms). Shareholders are included only when the document provides explicit evidence of ownership, such as a capital contribution, a specified number of shares, or formal designation as an *associé*, *actionnaire*, or *souscripteur*. The extraction protocol includes explicit exclusion rules to avoid misclassification of entities that appear in the document but do not hold ownership positions, such as auditors, banks, legal representatives, or spouses mentioned for administrative purposes.

When available, the model additionally extracts structured attributes including birth information and residential address for individual shareholders, and headquarters location and firm identifiers for company shareholders. Ownership information, including the number or nominal value of shares held, is also extracted when reported. The extracted information is returned in structured format, allowing aggregation across documents at the firm level.

Step 2: Harmonization of Entity Names Across Documents

A key challenge in large-scale analysis of bylaw documents is that the same entity may appear under multiple spellings across filings, due to OCR noise, abbreviations, or inconsistent naming conventions. To address this issue, I apply a harmonization procedure to ensure consistent identification of shareholders and executive officers across documents.

In this stage, entity names that plausibly refer to the same underlying individual or company are standardized. For individual shareholders, the harmonization procedure separates first and last names when possible and resolves typographical variations or ordering inconsistencies. For company shareholders, the procedure prioritizes standardized legal names and resolves abbreviations and formatting differences. This step ensures that shareholders and CEO can be tracked consistently across bylaw filings and subsequent amendments.