Do Local Managers Give Labor an Edge?*

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Abstract

Analyzing a panel of S&P 1,500 firms I find that local managers are more labor-friendly than their non-local industry peers during times of poor industry performance. While layoffs spike during industry downturns, they are 13 percent less frequent among firms run by local managers than among similar firms within the same industry run by non-locals. This number increases to 22 percent when investigating layoffs of 10 percent of the workforce or more, but for large-scale layoffs (20% of the workforce or more) there is no differential effect of local managers, implying that there are limits to the influence of these managers on corporate decisions. The cash holdings of firms run by local managers fall by approximately one percent of assets relative to their non-local industry peers during times of poor industry performance, suggesting that local managers finance their firms’ relative increases in employment levels with cash.

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