

Conflict in Dismissals

Pauline Carry
Princeton University

Benjamin Schoefer
UC Berkeley

2024

How do firms and workers separate?

- Dismissals are costly for both firms and workers.
- While those costs are usually taken as given, both parties can influence them.
 - E.g.: employers decide which reference to provide, workers decide to settle or go to trial.
- Interactions during dismissals can range between two cases:
 - ① **Cooperation** to minimize separation costs (as predicted by efficient bargaining models).
 - ② **Conflict**: deliberate imposition of costs.
- How interactions actually play out during the separation remains open question.
 - Many empirical challenges (coming up)
- This paper: ask and devise empirical test for:
 - Do the employer and the worker **minimize costs** during a dismissal?
 - Does **conflict** play a (large) role in those decisions?

Real-world dismissals can appear **conflictual**

“Bossnapping” (e.g., Air France’s layoffs in 2015):

**The
Guardian**

Sixteen men go on trial for alleged role in chaotic scenes last year when airline bosses had shirts torn off fleeing angry staff



📷 Air France human resources chief Xavier Broseta is helped across a fence by security and police

Financial Times US & Canadian companies + Add to myFT

Goodyear workers jailed for ‘bossnapping’

French court’s ruling does not bode well for Air France employees



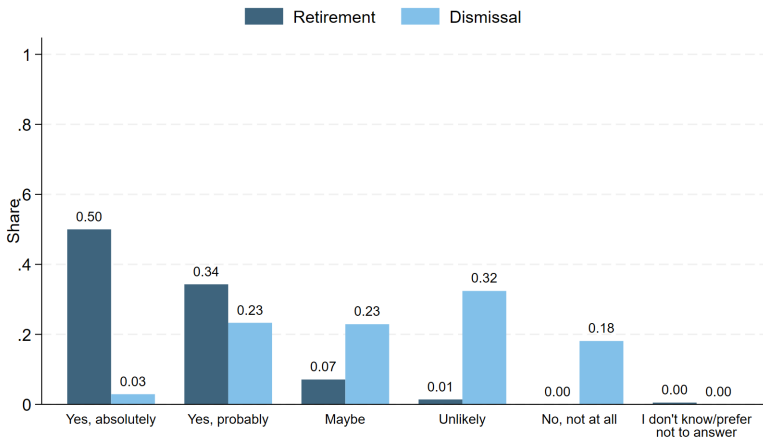
Air France: Stripping, ‘bossnapping’ and barricades - French workers on the rampage

INTERNATIONAL BUSINESS TIMES ^{UK}

Real-world dismissals can appear **conflictual**

Think about the last *[dismissal, retirement]*. If you had to ask a small favor to the worker (a password, location of a document,...), do you think he would help you?

[Source: our HR director survey, more later]



Real-world dismissals can appear **conflictual**

“Bossnapping” (e.g., Air France’s layoffs in 2015)

French employers don’t think a dismissed worker would grant them a favor (compared to a, e.g., retired worker).

In France, 25% of dismissed workers go to labor court.

Employers avoid advance notice, for fear of moral hazard, sabotage (Bewley, 1999, US).

→ **Anecdotal patterns suggest room for**

- **Departure from **cooperative** picture painted by standard models of job separations (see next slide)**
- **Additional costs from dismissals**

Contrast: “Coasean” view and separations in workhorse models

- Standard “Coasean” models: workers and firms pick bilaterally efficient actions—find a way (bargain) to exploit all mutual gains from trade.
- Even at and during the separation stage—and even during dismissals.
- Not much is known about the empirical separation process itself.
 - Existing literature: whether and which separations are efficient (jobs with joint surplus < 0).
 - Less studied: how do the firm and the worker behave during separations?
- The way separations play out matters:
 - To compute the costs of job separations
 - Are there missing margins in theory of job separations?
 - What factors (EPL policies, HR practices...) facilitate / inhibit conflict and the associated costs on this margin?

RQ: do firms and workers converge on bilaterally efficient, cost-minimizing actions during a dismissal? (Why not?)

- **Empirical challenges:**

- Measurement: which actions do/do not maximize joint surplus / minimize costs?
- Regulatory constraints: EPL imposes *unilateral* sep's, may preclude Coasean bargains.

- **Reform:** introduction of "Separations by Mutual Agreements" (SMAs) in France in 2008

- SMA waives employment protection and dismissals costs (but preserves UI eligibility)
- Requires mutual consent
- Explicitly allows flexible bargaining on terms (e.g., transfer to the worker)

⇒ **Designed to facilitate Coasean bargains**

- **Theory:** standard endogenous separation model with flexible bargaining

⇒ **Prediction: SMAs are bilaterally efficient choice—should replace 100% of dismissals**

- **Empirics:** estimation of the share of dismissals replaced by SMAs

- Admin & survey data + 3 empirical strategies

- **Mechanisms:** what prevents firm & worker from converging on the less costly sep. mode?

- Own survey of HR directors + existing data on labor courts, social climate survey

Preview of results

- Only 12% of potential dismissals use the SMA.
 - 88% of dismissals end up with the inefficient costly separation mode.
 - Dismissals ending up in labor court never substitute.
- Three main reasons explain 65% of the SMA failures:
 - ① Hostility between employers and workers
 - Employment protection and dismissal stigma are used to impose costs on one another.
 - ② Employers use dismissals to incentivize other workers, incentives, implicit contracts,... (“discipline device”)
 - Dismissal decisions should be thought of at the firm level and ex ante, not ex post and bilaterally/at the match level.
 - ③ Asymmetric beliefs about the potential labor court outcomes
 - Can also explain the puzzle of why workers go to labor court.
- Suggests room for additional distortions and costs from those frictions more generally during dismissals.

Roadmap

- ① Institutional background
- ② Theory: choice of separation mode
- ③ Empirics: estimating the share of dismissals replaced by SMAs
- ④ Mechanisms: factors explaining the failure to bargain an SMA during a dismissal

Dismissals are highly regulated in France

France is ranked the 8th OECD country with the most stringent EPL.

- EPL targets permanent/open-ended contracts (85% of employment)
- 2 types of dismissals of permanent contracts: personal (77%) or economic (23%)¹

Rules for personal dismissals—which are our focus:

- Dismissal cause must be serious enough and verifiable
 - 3 types: (i) fault by the worker, (ii) professional incompetence, (iii) serious misconduct
- Process: mandatory employer-employee interview + 2 months notice
- Worker receives UI and a severance: $\frac{1}{5} \text{wage} \times \text{tenure} + \frac{2}{15} \text{wage} \times \max(\text{tenure} - 10, 0)$
 - No experience rating
- 25% of dismissed workers go to labor court to challenge the cause

¹Shares in 2003-2006, i.e., pre-reform

Other separation types until 2008

Economic dismissals

- Result from economic difficulties (e.g. firm exit)
- 12 times *less* likely to go to court than personal ones
- We don't study economic dismissals in this paper
 - 23% of dismissals are economic, they are often collective
 - They are about the firm's economic conditions (not about a firm-worker match)

Quits

- Worker-initiated, no reason required
- No severance package, worker not eligible for UI

Introduction of “separations by mutual agreement” (SMAs) in 2008

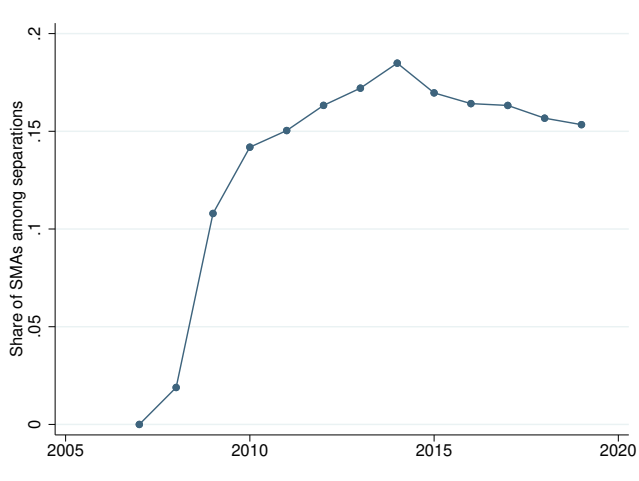
June 25, 2008: introduction of SMAs ("*Ruptures Conventionnelles*")

- Result of an agreement between social partners in January 2008
- Aims to relax EPL while maintaining job security

Worker and employer must both agree to terminate the contract.

- Process: firm and worker meet to determine severance and separation date
 - Bargain on a severance at least equal to dismissal level
 - 1-month notice period
 - [▶ Short online form](#)
 - Bottom line: easier/less costly than dismissal. [▶ Process comparison](#)
- Worker is eligible for UI (as if dismissed)
- SMAs cannot be challenged in labor court
- Ongoing dismissals can be converted to SMAs at any stage

Quick SMA take-up at 16% of separations



Roadmap

- ① Institutional background
- ② Theory: choice of separation mode
- ③ Empirics: estimating the share of dismissals replaced by SMAs
- ④ Mechanisms: factors explaining the failure to bargain an SMA during a dismissal

Model ingredients: unilateral separations only

Two-period model:

- Period 1: a firm and a worker are in a match, positive surplus to each party, with fixed wage
- Between 1 and 2: shocks may shift the job or outside option value for the firm or the worker
 - They can separate before period 2 or continue the job

Unilateral separations:

	Firm	Worker
Job continues	J^F	J^W
Dismissal	$V - f - c - \bar{s}$	$U + b + c + \bar{s}$
Quit	V	U

- Dismissal: $J^F < V - f - c - \bar{s}$
 - Firms pays red tape f
 - Worker receives UI, b
 - Transfers: severance \bar{s} & court outcome c
- Quit: $J^W < U$
 - No UI, no transfer, no cost

Model ingredients: unilateral separations only

Two-period model:

- Period 1: a firm and a worker are in a match, profitable, with fixed wage
- Between 1 and 2: shocks may shift the job value for the firm or the worker
 - They can separate before period 2 or continue the job

Unilateral separations:

	Firm	Worker
Job continues	J^F	J^W
Dismissal	$V - f - c - \bar{s}$	$U + b + c + \bar{s}$
Quit	V	U

- Dismissal: $J^F < V - f - c - \bar{s}$
 - Firms pays red tape f
 - Worker receives UI, b
 - Transfers: severance \bar{s} & court outcome c
- Quit: $J^W < U$
 - No UI, no transfer, no cost

Baseline model: comparison of SMAs and dismissals

Features of SMA:

- Removes EPL: $f = c = 0$
- Flexible bargaining of a severance, s^b (on top of \bar{s})
- Requires mutual consent

Values:

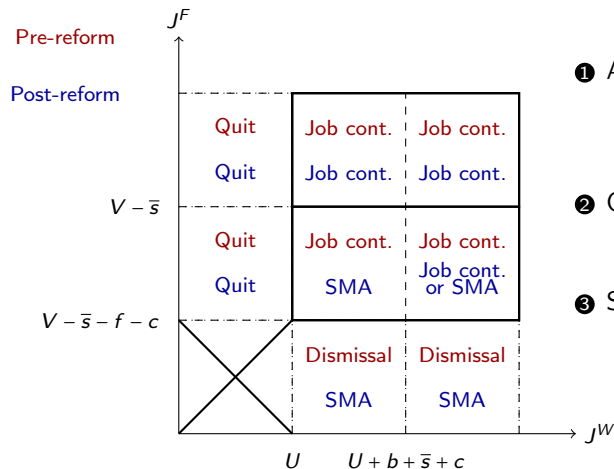
	<u>SMA</u>	<u>Dismissal</u>	<u>Condition for preference of SMA</u>
For the firm:	$V - \bar{s} - s^b$	$V - f - c - \bar{s}$	$s^b < f + c$
For the worker:	$U + b + \bar{s} + s^b$	$U + b + c + \bar{s}$	$s^b > c$

⇒ SMAs are bilaterally efficient if positive red tape costs of dismissals: $f > 0$

⇒ All dismissals should be converted into SMAs.

Additional predictions: SMAs could also replace job continuations (marginal jobs) + quits don't get replaced by SMAs (except if worker can give back some value, see full model in paper). 

Predictions of the model



- ❶ All dismissals are converted into SMAs
 - SMAs are the efficient mode of separation, compared to dismissals
- ❷ Quits are not replaced by SMAs
 - Quits induce no direct cost for firms
- ❸ SMAs generate additional separations
 - Of jobs that were marginal

Roadmap

- ① Institutional background
- ② Theory: choice of separation mode
- ③ Empirics: estimating the share of dismissals replaced by SMAs**
- ④ Mechanisms: factors explaining the failure to bargain an SMA during a dismissal

Object of interest: Share of dismissals “converted” into SMAs

In more words: Share of dismissals that would have occurred under regime 1 (w/o SMAs), S_1^D , that are “converted” into SMAs under regime 2 (w/ SMAs), $S_2^{SMA|D,1}$

Next (quickly): define formally and clarify model analog

Then: present empirical identification

Object of Interest: Formal definition, model analog, identification

Object of interest: σ : share of dismissals that would have occurred under regime 1 (w/o SMAs), S_1^D , that are “converted” into SMAs under regime 2 (w/ SMAs), $S_2^{SMA|D,1}$:

$$\sigma = \frac{S_2^{SMA|D,1}}{S_1^D} \quad (1)$$

Since introduction of SMAs shouldn't trigger additional dismissals, $S_1^D = S_2^{SMA|D,1} + S_2^D$, and hence:

$$= \frac{S_1^D - S_2^D}{S_1^D} \quad (2)$$

$$= 1 - \frac{S_2^D}{S_1^D} \quad (3)$$

Model analog and prediction: conversion share is equal to share of would-be dismissals w/ $f > 0$:

$$= 1 - F_D^f(0) \quad (4)$$

where $(F_D^f(f) = F^f(f|V - f - c - \bar{s} < 0)$: marg. distribution of f among would-be dismissals, i.e., dismissals that would occur in regime 1 (w/o SMAs).

Empirical identification: need to know at least two of dismissals in regime 1 and 2, and SMAs that convert dismissals (would have been dismissals absent SMA possibility).

Object of interest: σ : share of dismissals that would have occurred under regime 1 (w/o SMAs), S_1^D , that that are “converted” into SMAs under regime 2 (w/ SMAs), $S_2^{SMA|D,1}$:

$$\sigma = \frac{S_2^{SMA|D,1}}{S_1^D} = 1 - \frac{S_2^D}{S_1^D} \quad (5)$$

$$= 1 - F_D^f(0) \quad (F_D^f(f) = F^f(f|V - f - c - \bar{s} < 0): \text{ marg. dist. of } f \text{ among would-be dismissals}) \quad (6)$$

Dismissals in regime 1 (i.e., regime w/o SMAs) are jobs with negative firm surplus:

$$S_1^D = \int 1(V - f - c - \bar{s} < J^F) dF(.) \quad (7)$$

Among those, conversions into SMAs are jobs w/ **positive firing costs** f : $(S_1^D = S_2^{SMA|D,1} + S_2^D)$:

$$S_2^{SMA|D,1} = \int 1(V - f - c - \bar{s} < V - \bar{s} - s^b | V - f - c - \bar{s} < J^F) dF(.) \quad (8)$$

$$= \int 1(f > 0 | V - f - c - \bar{s} < J^F) dF(.) \quad (\text{used } s^b \geq c) \quad (9)$$

Dismissals that still occur in regime 2 (i.e., regime w/ SMAs) **have negative firing costs** f :

$$S_2^D = \int 1(V - f - c - \bar{s} \geq V - \bar{s} - s^b | V - f - c - \bar{s} < J^F) dF(.) \quad (10)$$

$$= \int 1(-f - c \geq -s^b | V - f - c - \bar{s} < J^F) dF(.) \quad (11)$$

$$= \int 1(f \leq 0 | V - f - c - \bar{s} < J^F) dF(.) \quad (\text{used } s^b \geq c) \quad (12)$$

Measurement of conversions of dismissals into SMAs

- **Share of dismissals converted into SMAs:**

$$\sigma = \frac{CV}{\widetilde{PD}}, \quad \text{with } \widetilde{PD} = PD + CV$$

- PD : actual number of personal dismissals (*observed*)
 - CV : number of dismissals converted into SMAs (*unobserved*)
 - \widetilde{PD} : counterfactual number of dismissals, had SMAs not been introduced (*unobserved*)
- **3 empirical strategies to estimate σ :**
 - ① Extrapolate aggregate time series to build counterfactual
 - ② Difference-in-differences at labor market cell level
 - ③ Survey-based counterfactuals

Data: labor flows, labor disputes, social climate and own survey

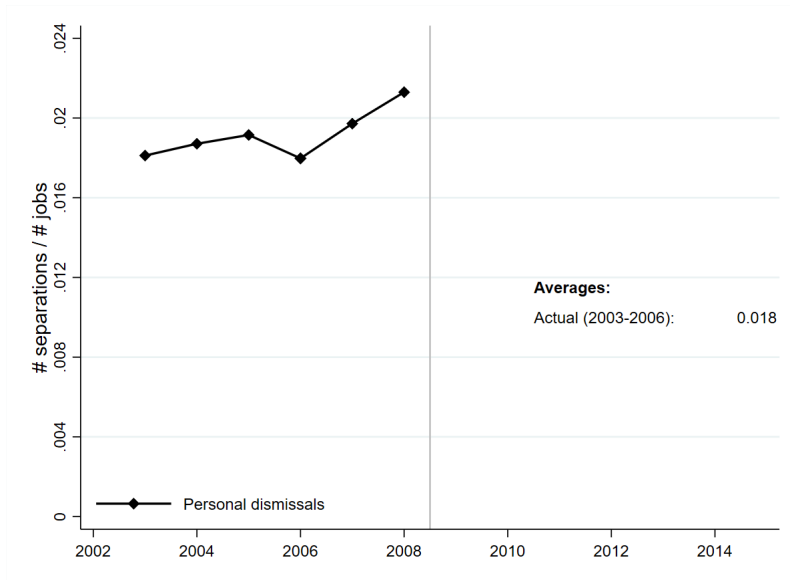
- **Administrative sources:**

- **Worker flows (MMO):** micro-level records, 2003-2014
- Employment records (DADS)
- Labor court cases (Conseils des Prud'hommes)

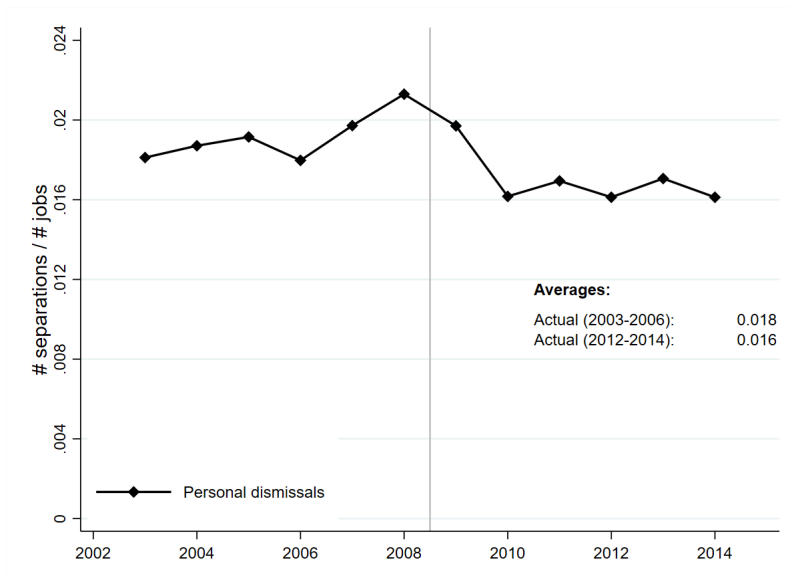
- **Surveys:**

- SMA users: 4,500 workers who signed an SMA in 2011 (ran by Ministry of Labor)
- Labor Force Survey
- Survey on labor relations (REPONSE): 40,341 employees and 8,387 managers (ran by Ministry of Labor in 2011 and 2017)
- **Own survey of HR directors** (more details in a few slides)

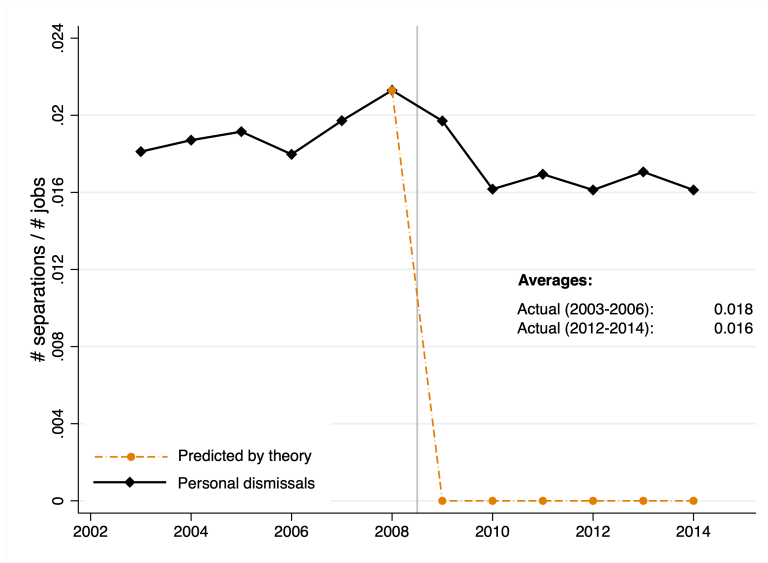
Personal dismissals, times series



Personal dismissals, time series: $\sigma < 1$



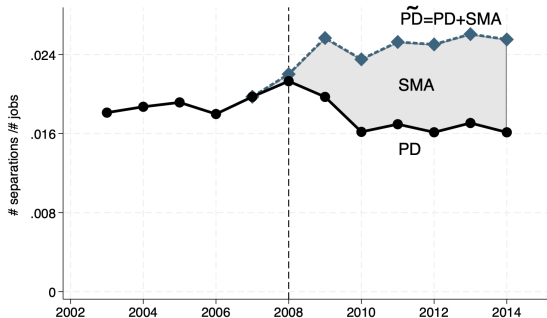
Personal dismissals, time series: $\sigma < 1$



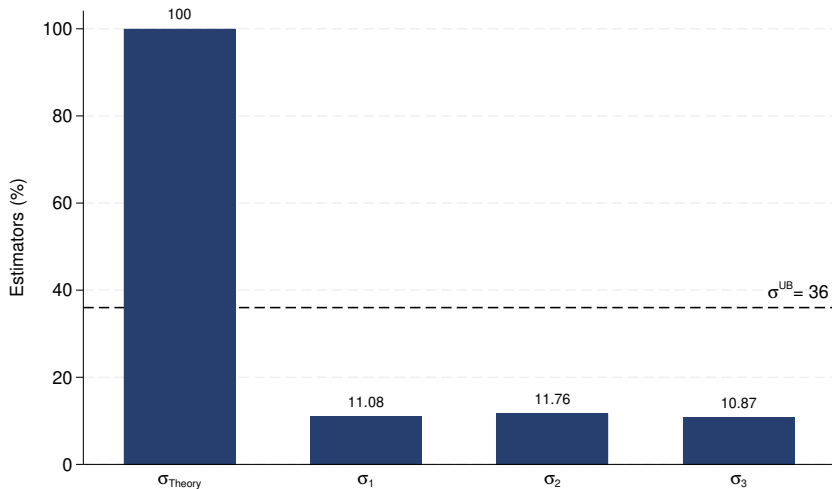
Overview of our estimation strategies (1/2)

0) We determine an upper bound for σ .

- Assuming that **ALL** observed SMAs replace dismissals, what is the conversion rate?
- In this unlikely scenario, we find $\hat{\sigma}^{UB} = \frac{SMA_s}{SMA_s + PD} = 36\%$



Three strategies: 88% of p. dismissals are not replaced by SMAs



Overview of our estimation strategies (1/3)

0) We determine an upper bound for σ .

- Assuming that **ALL** observed SMAs replace dismissals, what is the conversion rate?
- In this unlikely scenario, we find $\hat{\sigma}^{UB} = 36\%$

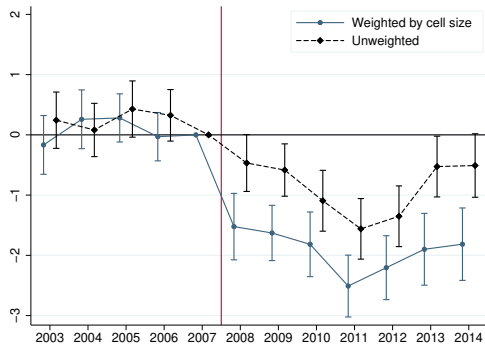
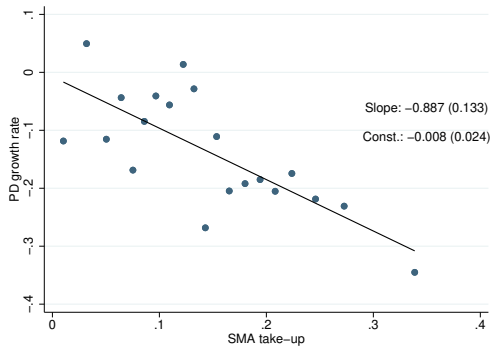
1) We extrapolate aggregate time series for dismissals.

- Reductions in PD are attributed to SMA conversions: $\hat{\sigma} = \frac{PD^{post} - PD^{pre}}{PD^{pre}}$

2) Difference-in differences across labor market cells.

- We estimate the change in PD over time associated with higher SMA take-up.
- Estimate is combined with aggregate SMA take-up to predict aggregate conversions.
- 1,500 cells based on: industry, establishment size, occupation, tenure, age.

Overview of our estimation strategies (2/3)



$$\log(PD_{i,t}) = \gamma_i + \nu_t + \sum_{\substack{k=-4 \\ k \neq 0}}^{k=5} \beta_k \times \text{SMA Take-up}_i \times \mathbb{1}_{t=2007+k} + u_{i,t}$$

Overview of our estimation strategies (3/3)

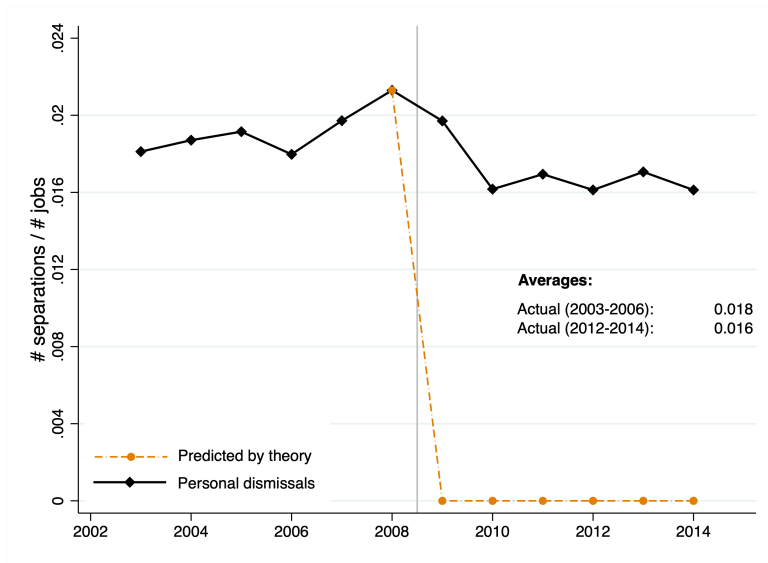
3) Survey-based counterfactual.

SMA Survey (2012): *Would you still have left the establishment if the separation by mutual agreement process did not exist?*

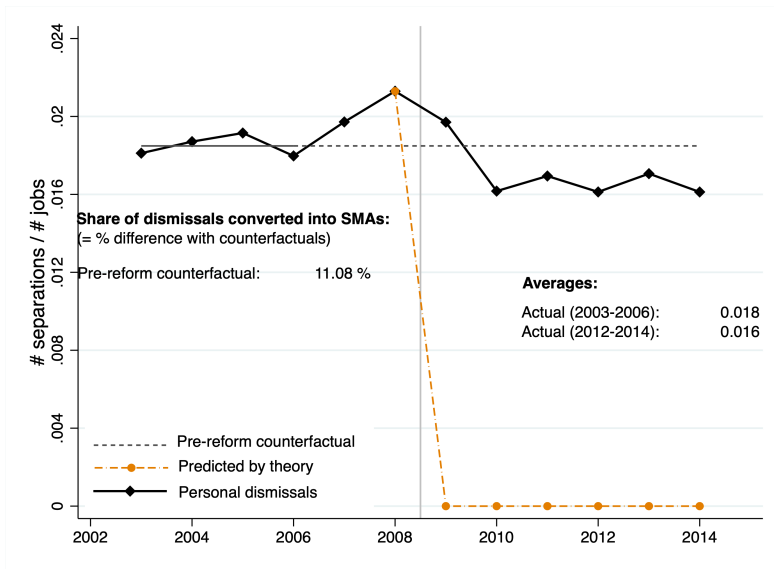
	#	%
Yes, I would have quit	1,790	38.76
Yes, I would probably have been dismissed	994	22.08
No, I would have stayed	1,270	28.21
Other / doesn't know	448	9.95
N	4,502	

$$\Rightarrow \widehat{CV}_3 = 0.22 \times \text{SMAs}$$

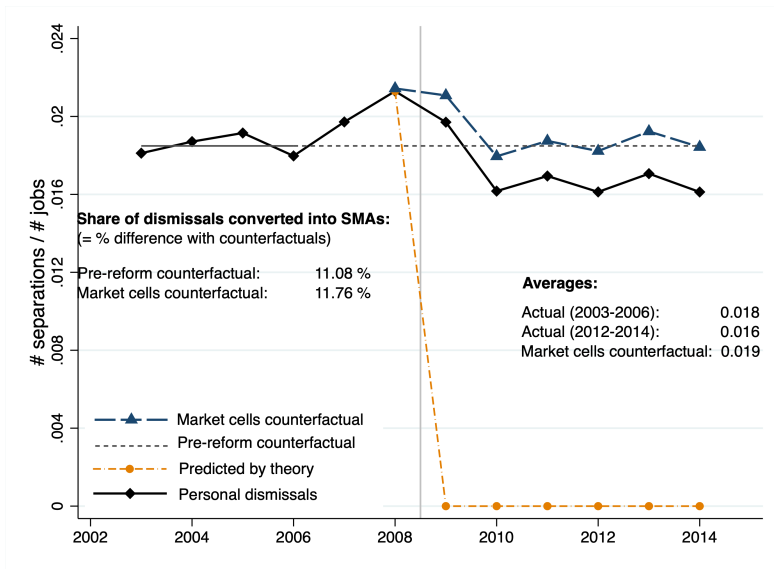
Strategy 1: extrapolate trends in aggregate time series



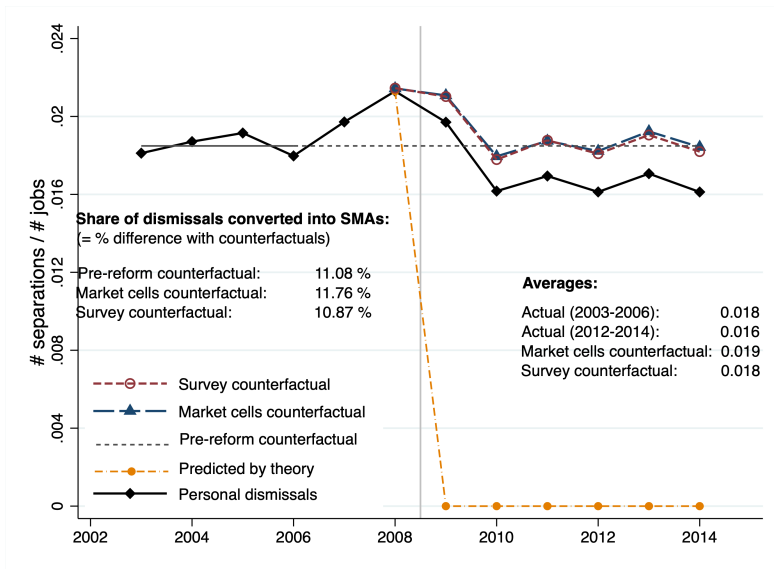
Strategy 1: extrapolate trends in aggregate time series, $\hat{\sigma}_1 = \frac{PD^{pre} - PD}{PD^{pre}}$



Strategy 2: panel variation in labor market cells

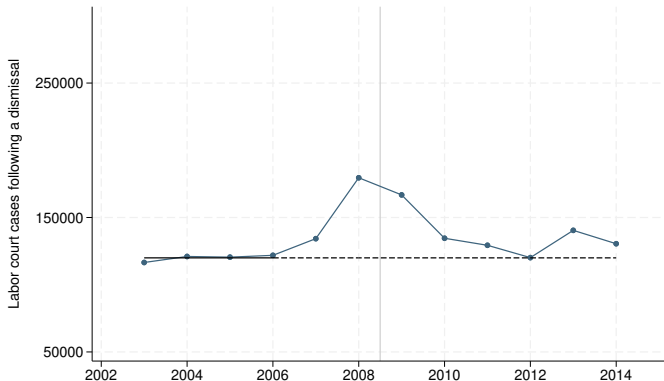


Strategy 3: survey-based counterfactual



Dismissals going to court are not converted into SMAs

- Dismissals with labor court entail larger red tape costs → should be more likely to convert



→ Again, empirics are inconsistent with model predictions (and policy motivation).

Dismissal red tape costs (f)

To recap, condition for preference of SMA over a dismissal in standard model:

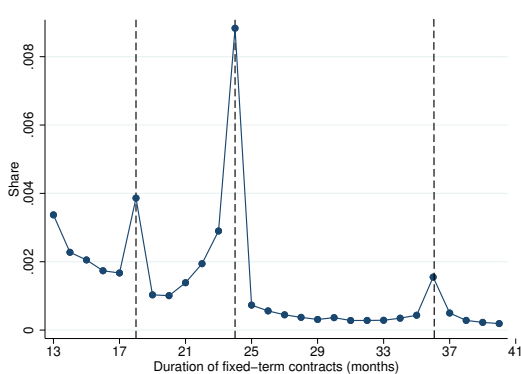
$$f > 0$$
$$\Rightarrow \sigma = 1 - F^f(0)$$

Plausible is it that $f \leq 0$ for 88% of French dismissals? **Substantial evidence that f is large and firms try to avoid it:**

- Long literature on EPL effects on hiring and separations (incl. in France)
- Policy motivation of SMA introduction
- We find several (observable) proxies for f :
 - Spike in firm-initiated separations at the end of the probationary period
 - Heavy use of fixed-term contracts of long / legal maximum duration (next slide)

Firms implement strategies to avoid f

- Maximum legal duration of fixed-term contracts is 18, 24 or 36 months.



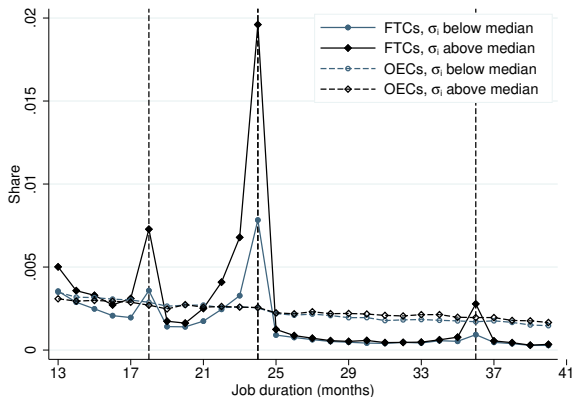
► By σ

► Probationary periods

→ Since firms usually try to avoid f , why not using SMAs instead of dismissals?

Firms implement strategies to avoid f —heterogeneity by σ

- Maximum legal duration of fixed-term contracts is 18, 24 or 36 months.



► By σ



► Probationary periods

→ Since firms usually try to avoid f , why not using SMAs instead of dismissals?




Roadmap

- ① Institutional background
- ② Theory: choice of separation mode
- ③ Empirics: estimating the share of dismissals replaced by SMAs
- ④ Mechanisms: factors explaining the failure to bargain an SMA during a dismissal

What can explain the failure to bargain an SMA?

- Mechanisms that would further boost conversions into SMAs:
 - Stigma of being dismissed for fault for the worke 
 - Red tape cost of labor court for worker
 - SMA easy and flexible process
- Factors we sidestep (because of, e.g., institutional context + we ruled out with a survey):
 - Limited information about SMAs
 - Dismissal threat not credible
 - Transaction / bargaining cost of SMA  [Online form](#)

Narrow down to three plausible factors missing in model:

- ① Hostility, fairness, retaliation 
- ② Firms using dismissals to incentivize workers 
- ③ Asymmetric beliefs about labor court outcome 

→ We test for these three factors—and quantify relevance in $\sigma < 100\%$ —with our own survey.

Own survey of HR directors

- We directly e-mailed HR directors between June and September 2024
 - Contact information provided by HeadsOf (from LinkedIn profiles)
 - 473 filled (~10% response rate, after 2 reminders sent)—final analysis sample 210
 - High quality responses (provide details, pass attention checks,...)
- Sample is highly involved in dismissals:
 - They make dismissal decisions (78%), implement them (95%), talk to lawyers (85%)
 - 44% participated in >20 dismissals (32% to 5-19 and 19% to 2-5) in the last 10 years

We ask them questions about the last personal dismissal they decided or implemented.

- The SMA is discussed during 54% of dismissals

Own survey of HR directors

- We (Pauline and I) directly e-mailed HR directors between June and September 2024
 - Contact information provided by HeadsOf (from LinkedIn profiles; plus secondary business contact databases)
 - 473 filled (10% response rate, after 2 reminders sent)
- Sample is highly involved in dismissals:
 - They make dismissal decisions (77%), implement them (95%), talk to lawyers (85%)
 - 42% participated in >20 dismissals (33% to 5-19 and 20% to 2-5) in the last 10 years
- High quality responses
 - Mean response time: 13 min (median: 10 min)
 - Pass attention check + provide many textual details + express interest in results

We ask them questions about the last personal dismissal they decided or implemented.

- Main analysis focused on dismissals that were *not* for serious misconduct
 - Different trade-off for those, as severance and advance notice not required

SMA's do come up as an alternative to dismissals

Was an SMA ever discussed during the last dismissal?

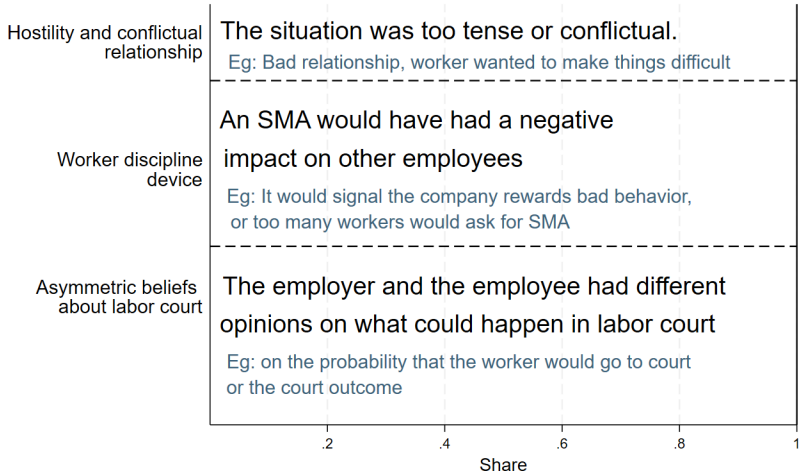
	#	%
Yes, by the employer	61	29
Yes, by the employee	24	11
Yes, by both	30	14
No	95	45
Doesn't know	0	0
N	210	

54% of dismissals discussed an SMA:

- People know about the SMA's
- They consider the SMA as a potential substitute to the dismissal
- Since it was discussed, the HR managers are likely aware of the reasons it failed

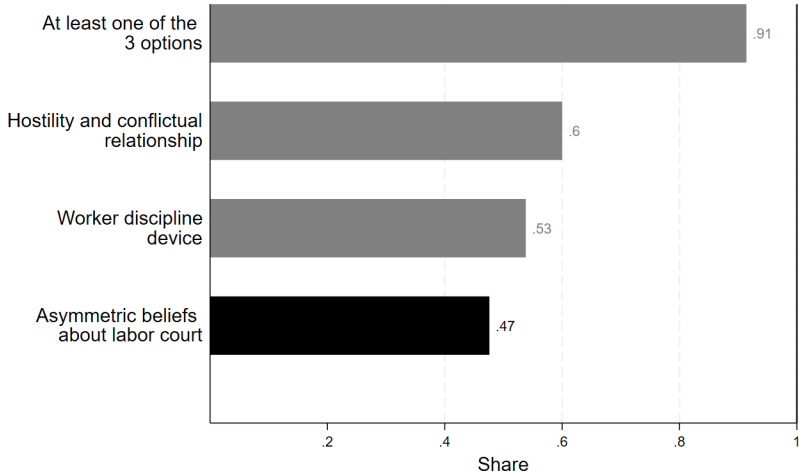
Three main mechanisms

Do some of these reasons explain why an SMA was not signed with the dismissed worker?



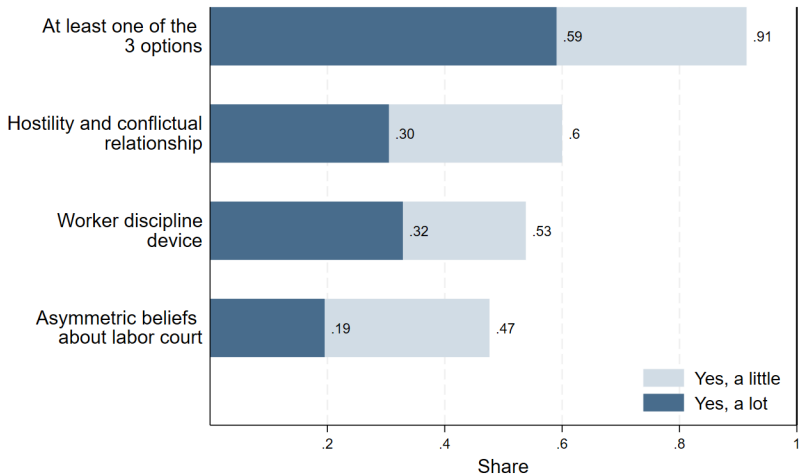
Three main mechanisms

Do some of these reasons explain why an SMA was not signed with the dismissed worker?



Three main mechanisms

Do some of these reasons explain why an SMA was not signed with the dismissed worker?



Counterfactuals

- We ask HR directors about hypothetical situations.
- If everything related to factor Z did not exist, what is the probability the dismissal would have been an SMA?
 - with Z = hostility, incentives, asymmetric beliefs (or all of them)
- We use their responses to deduce counterfactual conversion shares:

$$\hat{\sigma}^{\text{Counterfactual Z}} = \underbrace{12\%}_{\text{Already converted}} + \underbrace{88\%}_{\text{Not converted}} \times \underbrace{P(\text{dismissal converted} \mid \text{factor Z removed})}_{\text{Estimated with survey}}$$

▶ Survey question

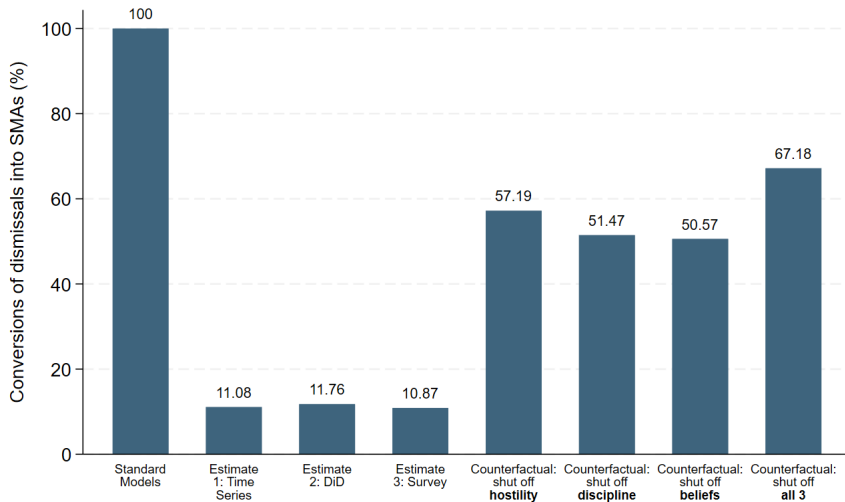
▶ Checks

▶ Survey question

▶ Text vs. numbers

▶ Distribution

Contributions of the three mechanisms in explaining SMA failures



► More: other mechanisms

► Hostility

► Spillovers

► Beliefs

Additional evidence 1: cooperative pre-retirement dismissals

Workers with age > 50 are eligible for 3 years of UI.



For those less hostile dismissals: $\hat{\sigma}^{3\text{-year to retirement}} = 37\%$.

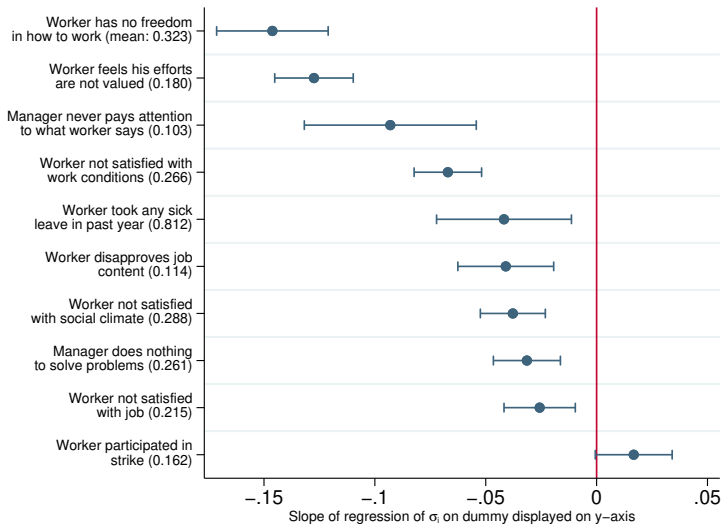
Additional evidence 2: hostility proxies

$$\sigma_i = \alpha_0 + \alpha_1 \mathbb{1}_{Hostile_{ij}} + \epsilon_{ij}$$

- $Hostile_{ij}$: proxies from social climate survey
- σ_i : conversions into SMAs
- Worker j in cell i

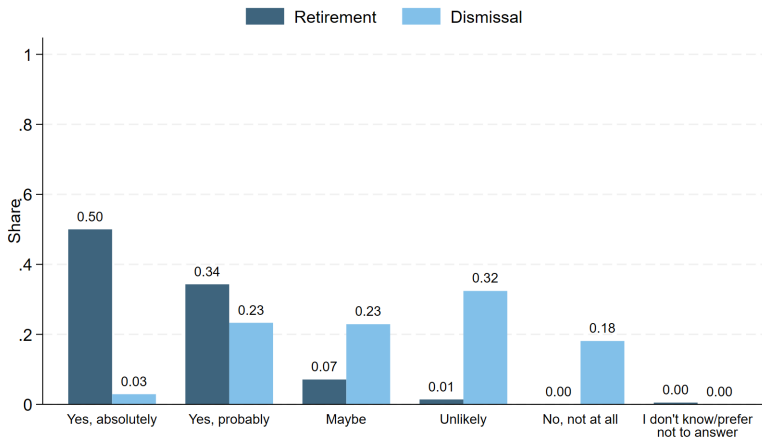
Results: hostile cells are less likely to convert into SMAs.

▶ More proxies



Recap: dismissals, conflict, and cooperation

HR director survey: Think about the last *[separation type]*. If you had to ask a small favor to the worker (a password, location of a document,...), do you think he would help you?



Conclusion

Can firms and workers cooperate to reach efficient outcomes during a dismissal?

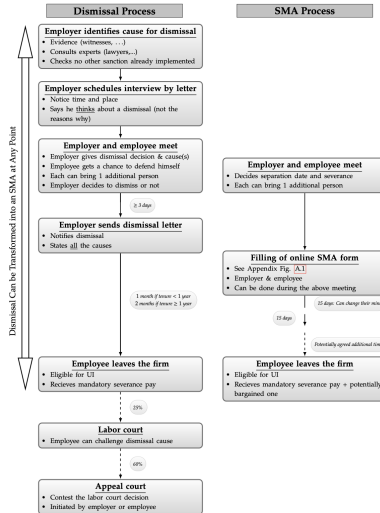
- We exploit the choice between a dismissal and an SMA as a test.
→ 88% of cases pick the inefficient dismissal, despite large costs.
- 3 mechanisms explain 64% of SMA failures:
 - ① **Hostility between workers and employers.**
→ EPL, labor courts and dismissal stigma are used to generate costs.
 - ② **Employers dismiss workers to incentivize other workers, upload implicit contracts,...**
("discipline device").
→ Separation decisions may be bilaterally inefficient ex post, but optimal ex ante and/or at the firm level.
 - ③ **Firms and workers have different beliefs about labor court outcomes.**
→ Can also explain why people go to court and don't settle.

Open Qs: what contexts (management practices, firm organization, policies, ...) may exacerbate or reduce those factors? How to design EPL to increase bilateral efficiency?

Appendix

Process Comparison

Figure 3: Personal Dismissal versus SMA Procedures



Literature and contributions

- Large literature on dismissal costs
 - For firms: EPL acts as an adjustment cost
 - For workers: Davis and von Wachter (2011), Gibbons and Katz (1991)

→ We study an opportunity to opt out of dismissals and EPL.
- Separation inefficiencies and wage rigidity: Bewley (2002), Jäger, Schoefer, Zweimüller (2022), Davis and Krolikowski (2023),

→ We consider inframarginal dismissals and the separation process itself.
- Inefficiencies in bargaining process: strikes (Mas, 2006, 2008), pre-trial negotiations (Loewenstein and Moore, 2004), housing evictions (Rafkin and Soltas, 2023)

→ We exploit an institutional framework that facilitates efficient bargaining.
- Two existing papers on SMAs, comparing firms using / not (yet) using SMAs
 - Signoretto (2015), Batut and Maurin (WP, 2020)

→ Our paper is the first to use SMAs as an efficiency test.

SMA online form (1/3)

Complete and submit a request

Logout

[Back to home page](#)

Seizure authorized until 03/06/2024

Application number: 202407435741P

Contact email: pauline.carry@princeton.edu

 Employer

 Employee

 **Calculation of compensation**

 Calendar

 Validation

 Save

Je donne
mon avis

SERVICES
PUBLICS

*fields are required

Calculation of compensation

Seniority of the employee on the planned termination date

Number of years of seniority

Number of months of seniority

years month

Last paid month

Month

Years

July

2024

[↑ Edit the previous step](#)

Gross remuneration for the last 12 months

Gross remuneration for the last N months:

[▶ SMA reform](#)

[▶ Mechanisms](#)

SMA online form (2/3)

Gross remuneration for the last N months:

Same over the last 12 months Evolutionary over the last 12 months

Gross monthly salary for the last 12 months

4000.00

€

Including bonuses

4000.00

€



Including total annual and exceptional bonuses over the most recent 3 months

[↑ Edit the previous step](#)

Average gross monthly salary

Highest average between the last 12 or 3 months*

4000.00

€



Result of automatic calculation (average): €4,000.00

This result does not take into account specific situations (in particular alternation of full-time and part-time periods, etc.) which lead to a different calculation of the compensation.

Gross amount of the specific severance pay proposed

Proposed compensation*

7000.00

€



Proposed compensation (in letters): Fifty euros

For an employee with the seniority and remuneration indicated above, the minimum amount corresponding to the legal compensation is (gross amount): €6,000.00

▶ SMA reform

▶ Mechanisms

SMA online form (3/3)

Calendar

Interviews

Interview number 1

Date of interview*



Employee supported: Yes No

Assisted employer: Yes No

+ Add maintenance

Additional remarks

Additional remarks

Application timeline

The form is signed by the parties on...*



Expected date of termination of employment con...

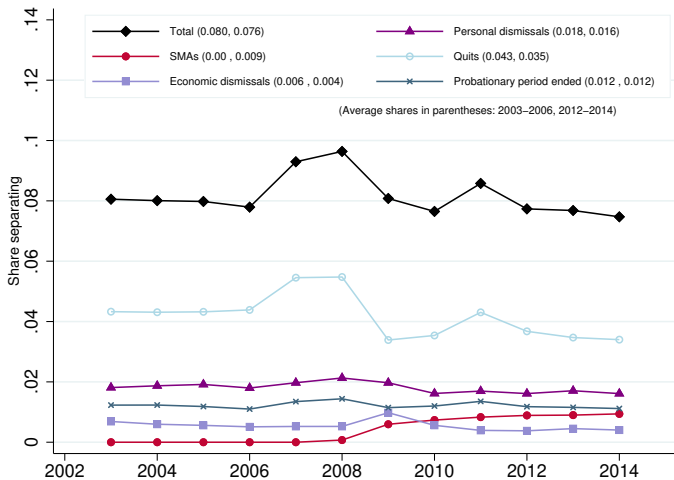


Please enter the date of signature and the address of the employer or employee in order to calculate the dates.

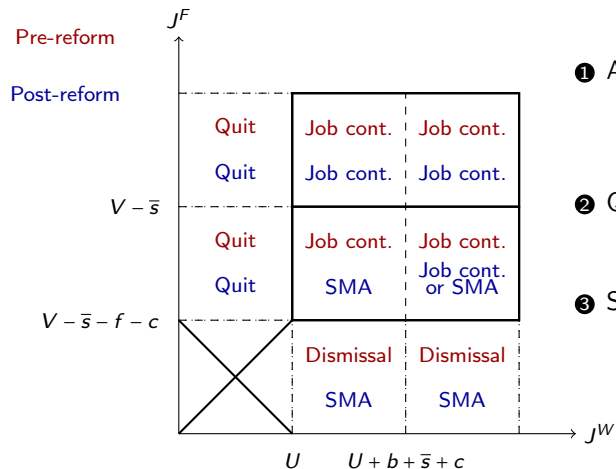
▶ SMA reform

▶ Mechanisms

All separation types



Predictions of the model



- ❶ All dismissals are converted into SMAs
 - SMAs are the efficient mode of separation, compared to dismissals
- ❷ Quits are not replaced by SMAs
 - Quits induce no direct cost for firms
- ❸ SMAs generate additional separations
 - Of jobs that were marginal

▶ Back

Strategy 2: difference-in-differences

We exploit disaggregated data and observation of SMA take-up.

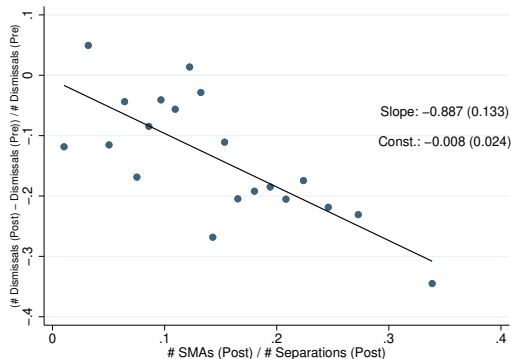
Implementation:

- We divide the French labor market into cells, i .
- 1,465 cells based on industry, occupation, tenure, age and establishment size
- Estimate the change in dismissals (PD) associated with higher SMA take-up ($\frac{\# \text{ SMA}}{\# \text{ separations}}$):

$$\underbrace{\frac{PD_i - PD_i^{pre}}{PD_i^{pre}}}_{-\sigma_i} = \alpha + \beta \times \text{SMA take-up}_i + v_i$$

- We combine the estimate $\hat{\beta}$ with aggregate SMA take-up to compute conversions.

Strategy 2: difference-in-differences



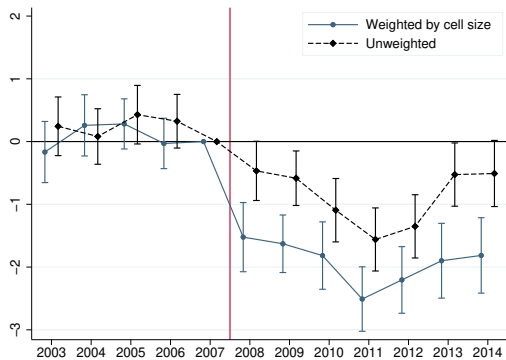
- Higher SMA take-up coincides with reduction in dismissals
 - Indicative of conversions
- Without SMAs, PDs remain constant
 - Constant ≈ 0 supports strategy 1
- $\hat{\beta} = -0.89$
 - $\Rightarrow \widehat{CV}_2 = 0.89 \times PD^{pre} \times \text{SMA take-up}$

▶ Pre-reform

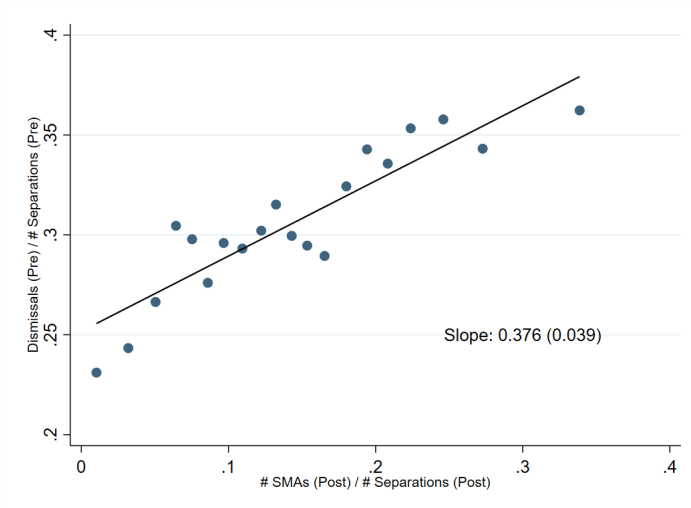
▶ Back

Strategy 2: check that correlation is specific to post-SMA period

$$\log(PD_{i,t}) = \gamma_i + \nu_t + \sum_{\substack{k=5 \\ k=-4 \\ k \neq 0}} \beta_k \times \text{SMA Take-up}_i \times \mathbb{1}_{t=2007+k} + \nu_{i,t}$$

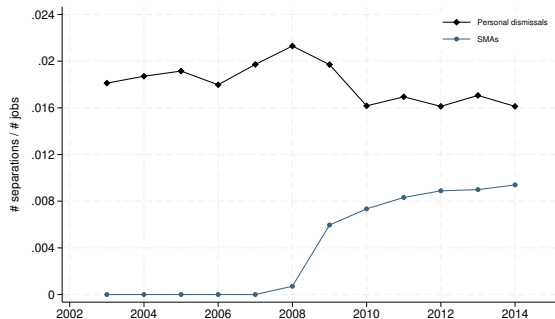


SMA take-up higher in cells initially using PD



Upper bound for σ

What would be the value of σ if all observed SMAs were conversions of dismissals?



- Assume that all SMAs are replacing PDs

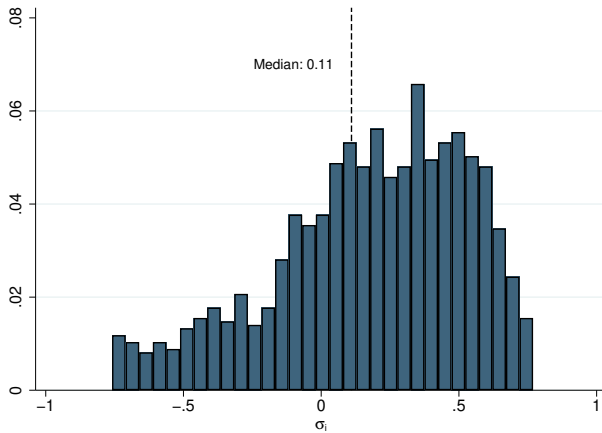
- $\widetilde{PD} = PD + SMA$

- (Implausible) upper bound for σ :

$$\hat{\sigma}^{UB} = \frac{SMAs}{SMAs + PD} = 0.36$$

Related: across strategies, $\hat{CV} \leq SMA$. (consistency check)

Heterogeneity in σ_i at cell level

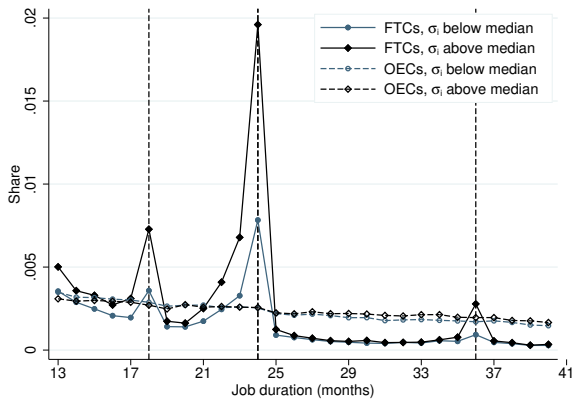


Correlations between σ_i and cell characteristics

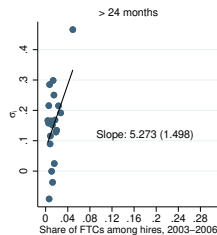
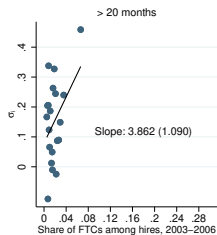
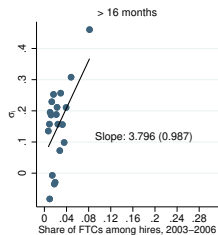
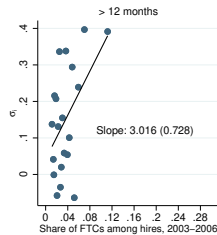
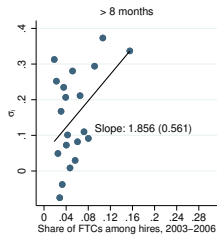
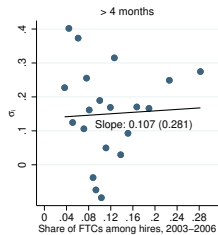
In the data, the share of efficient modes of separations (σ_i) is higher for:

- Workers who are younger and with short tenure
- Smaller establishments
- Skilled workers ($\hat{\sigma} = 30\%$ for managers and skilled technicians)
- Manufacturing and IT services

Proxy 1 for f : duration of fixed-term contracts

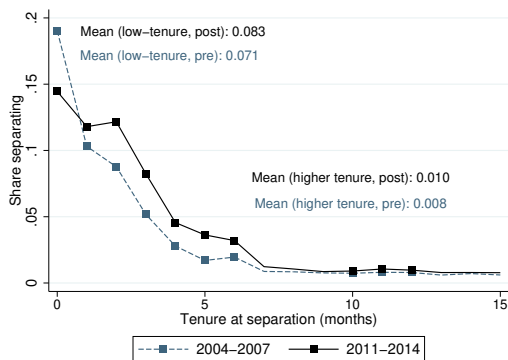
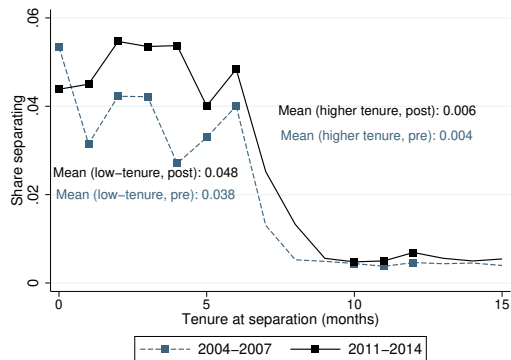


Correlation: FTCs in new hires and σ



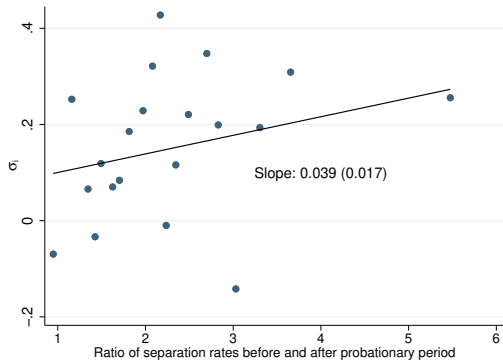
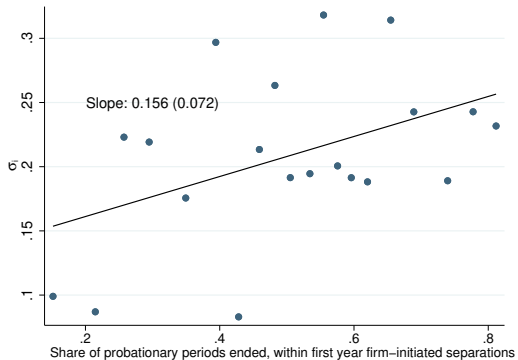
Proxy 2 for f : separations during probationary period

- If firm terminates job during probationary period, no EPL ($f = 0$)
- Maximum duration of probationary period depends on occupation

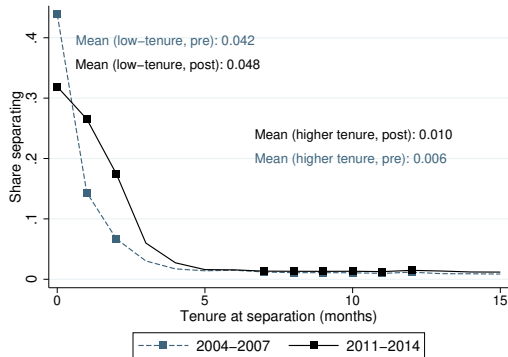
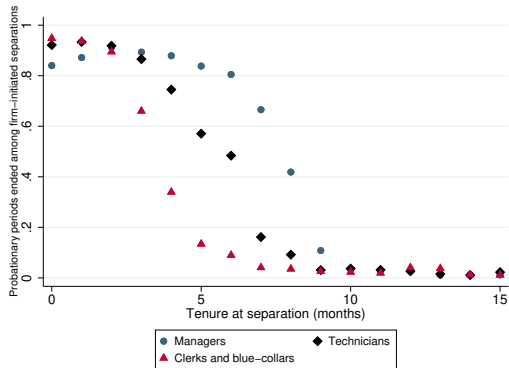


Proxy 2 for f : separations during probationary period

- Correlation between σ_i and job separations during probationary period



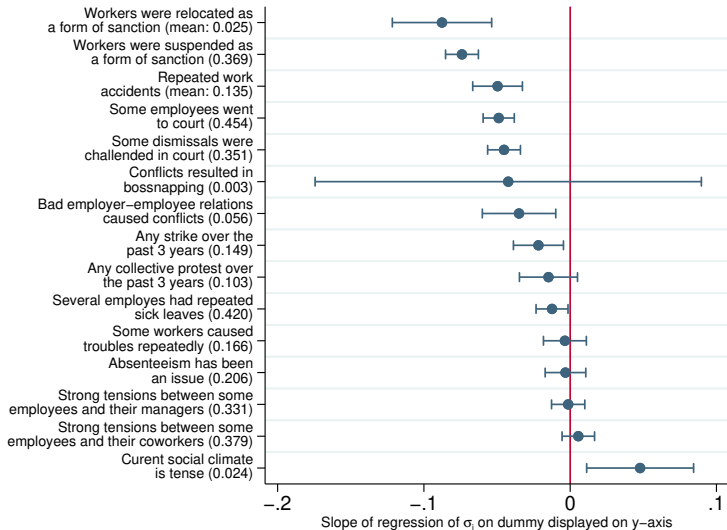
Low-tenure firm-initiated separations



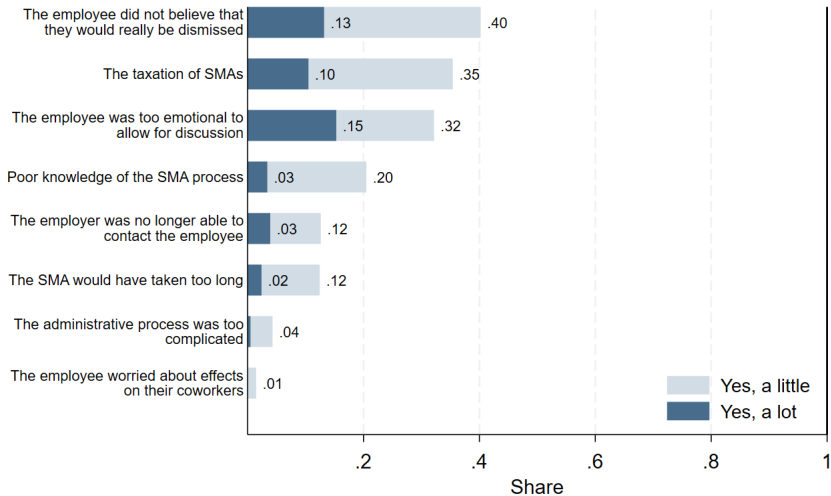
Hostility matters for lack of conversions of dismissals into SMAs

▶ Back

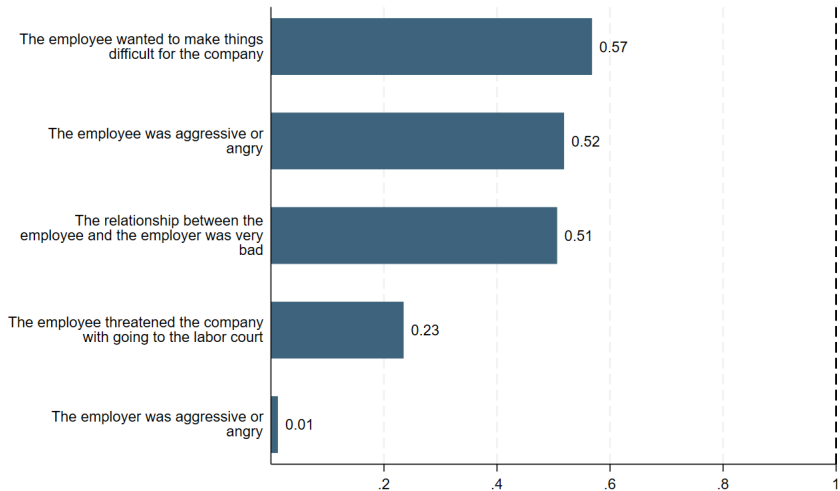
Manager survey (previous slide: employees)



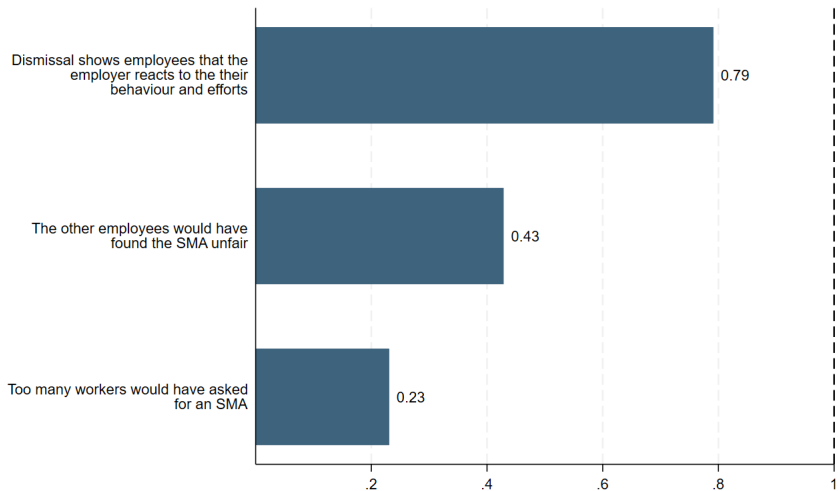
Additional potential mechanisms



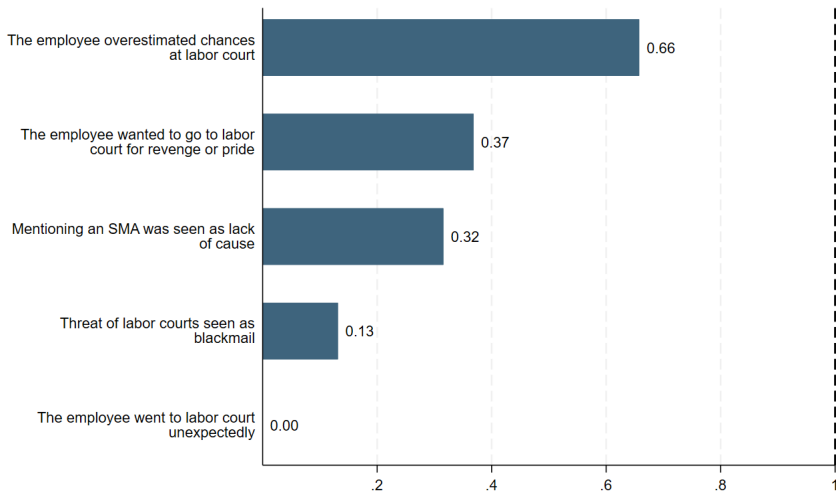
More details on hostility



More details on incentives



More details on asymmetric beliefs



Mechanisms: Hostility (Reverse Altruism)

- Key idea : a party's payoff depends negatively on the counterparty's payoff—with hostility parameter h^i .²
- Consider a hostile worker: $h^w > 0$, $h^f = 0$. (Analogous results if firm hostile ($h^f > 0$) and worker red tape cost/stigma.)

Values:

SMA

Dismissal

Prefer SMA if:

F: $V - \bar{s} - s^b$

$V - f - c - \bar{s}$

$s^b < f + c$

W: $U + b + \bar{s} + s^b - h^w \cdot (V - \bar{s})$ $U + b + c + \bar{s} - h^w \cdot (V - f - c - \bar{s})$ $s^b \geq (1 + h^w)c + h^w f$

⇒ Hostility pushes up worker's reservation sev. pay s^b

⇒ Worker demands more, the higher f !

Joint surplus test of an SMA over a dismissal **under hostility**:

$$\underbrace{f}_{\text{Standard EPL red tape}} \geq \underbrace{h^w \cdot (f + c)}_{\text{Hostility wedge}}$$

²Assume that discretionary sev pay not subject to hostility (reciprocity).

Definition: Incentives

- Key idea: diverging from costly dismissal to SMA (e.g., stigma for worker or red tape) has “incentive” costs to firm spread over other workers—e.g., incentive effects, efficiency wage mechanisms, fairness concerns for poor performance,...
- Model as reduced-form cost to firm, I .

Values:

	<u>SMA</u>	<u>Dismissal</u>	<u>Prefer SMA if:</u>
F:	$V - \bar{s} - s^b - I$	$V - f - c - \bar{s}$	$s^b \leq c + f - I$
W:	$U + b + \bar{s} + s^b$	$U + b + c + \bar{s}$	$s^b \geq c$

⇒ Non-bilateral incentive effects I push down firm's reservation sev pay s^b .

Joint surplus test of an SMA over a dismissal under incentives:

$$f \geq I$$

Mechanisms: Asymmetric Information/Beliefs

- Key idea: parties have divergent opinions about payoffs—specifically post-separation ones (assume that no room for this during SMA process).
- Consider worker overoptimism about court outcomes: ξ_c^w and ξ_f^w ; the reverse for the firm (ξ_c^f, ξ_f^f).

Values:

SMA

Dismissal

Prefer SMA if:

$$\begin{array}{lll} \text{F:} & V - \bar{s} - s^b & V - f - (1 + \xi_1^f)c - (1 + \xi_2^f)f_f^c - \bar{s} & s^b \leq (1 + \xi_1^f)c + (1 + \xi_2^f)f_f^c + f \\ \text{W:} & U + b + \bar{s} + s^b & U + b + \bar{s} + (1 + \xi_1^w)c - (1 + \xi_2^w)f_c^w & s^b \geq (1 + \xi_1^w)c - (1 + \xi_2^w)f_c^w \end{array}$$

⇒ Worker overestimation of court outcomes pushes up worker's reservation sev. pay s^b .

⇒ Firm underestimation pushes down its reservation sev pay s^b .

Joint surplus test of an SMA over a dismissal **under asymmetric beliefs:**

$$f_c^f + f_c^w + f \geq (\xi_1^w - \xi_1^f)c + \xi_2^f f_f^c + \xi_2^w f_c^w$$

Question for the counterfactual conversion shares

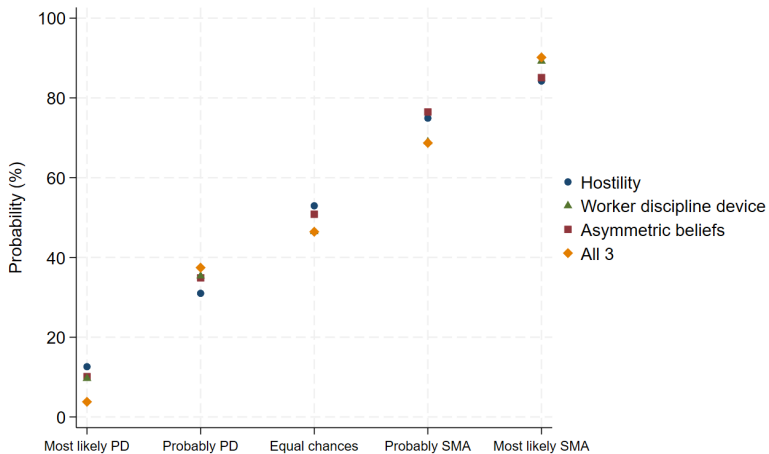
Now suppose that we eliminate everything that falls under the factor "The situation was too tense or confrontational (on one side or both)". That is to say, the employee and the employer were on good terms at the time of the dismissal and that no one was hostile. In this case, would the permanent contract have ended with a dismissal or a contractual termination?

- Most certainly with a dismissal
- Probably with a dismissal
- Equal changes for the dismissal and the SMA
- Probably with an SMA
- Most certainly with an SMA
- I don't know

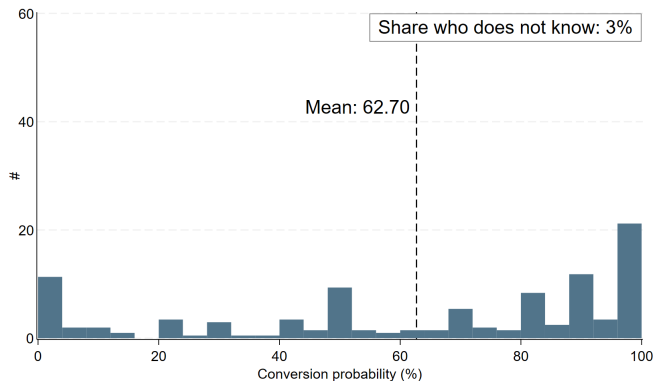
In this hypothetical situation, what would have been the probability that the employment would have ended by mutual termination?

▶ Back

Probabilities / text questions



Distribution of probabilities for counterfactual scenario (all factors)



▶ Back

Negative stigma for dismissed workers

Imagine you are recruiting for a position and have 2 potential candidates identical on paper. One has recently been dismissed and the other has signed an SMA. Which one would you be more inclined to offer an interview to?

	#	%
The dismissed worker	0	0
The worker who signed an SMA	97	46
Both identically	100	47
Don't wish to answer	13	6
Total	210	