
Staying with your Rivals: Geographic Proximity Effects on Firm Performance

Jiaju Lin¹, Henry Leung^{*1}, and Joakim Westerholm¹

¹The University of Sydney Business School – Australia

Abstract

This paper investigates how geographic proximity to competitors impacts firm performance. Leveraging the Text-based Network Industry Classifications (TNIC), we construct a novel, time-varying measure of competitor proximity at the firm level. Our findings show that firms located nearer to their direct competitors exhibit stronger operating performance, higher investment intensity, and a more skilled workforce. Using exogenous shocks from diversified M&A transactions, we find that reduced proximity - both in business similarity and physical distance - leads to a significant decline in performance. These results suggest that geographic concentration confers strategic advantages, enhancing productivity, managerial effectiveness, and employee capability.

*Speaker