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Essays on Corporate Law and Economics

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Essays on Corporate Law and Economics

by

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Dedicated to my children Jorn, Jael, and Jorik.

Essays on Corporate Law and Economics

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This dissertation focuses on how certain changes in the legal and institutional environment for publicly traded corporations in the United States have impacted shareholder wealth and firm performance.

The first chapter focuses the legalization of so-called forum bylaws. By adopting such bylaws, corporate boards can specify an exclusive forum for shareholder lawsuits against the corporation and its managers. Thus, corporate boards are able to put an end to multi-district litigation and forum shopping by shareholder plaintiffs. Starting in 2013, various U.S. states adopted case law or statutes permitting firms to adopt forum bylaws. Using an event study approach, I provide evidence consistent with the idea that the impact of legalizing forum bylaws depends on the state of incorporation. Both the Boilermakers decision that embraced the legality of forum bylaws under Delaware law and subsequent judgments enforcing such bylaws were accompanied by positive abnormal returns for Delaware firms. By contrast, the adoption of forum bylaw legislation in New Jersey was associated with negative abnormal returns for New Jersey firms. Moreover, when

the American Bar Association announced its intention to change the Model Business Corporation Act to allow forum bylaws, firms incorporated in states that were most likely to copy that change experienced statistically significant negative abnormal returns. These findings are consistent with the hypothesis that the legalization of forum bylaws benefits shareholders of Delaware firms, but may harm shareholders of firms incorporated in other states. A possible explanation is that Delaware has a particularly excellent court for corporate litigation, whereas most other states lack that advantage.

The second chapter focuses on the question of whether giving corporations access to high-quality courts for litigating their internal affairs benefits shareholder wealth and firm performance. To shed some light on this question, this paper focuses on the creation of business courts in various states between 1992 and 2017. Relying on an event-study design, I find that stock prices of firms that are both headquartered and incorporated in states creating business courts experience statistically significant abnormal returns of 1.2 % at the time that such business courts are created relative to firms that are only headquartered in the pertinent state, but incorporated elsewhere. Notably, these results are driven by the creation of business courts in those states, whose general court systems fare poorly in court quality rankings. To explore the long-term relationship between business courts and firm performance, I employ a difference-in-differences approach and find that, controlling for headquarters-state year fixed effects, the existence of a business court is associated with a higher return on assets, a higher return on sales, and an increased likelihood for firms to become the target in a merger with pos-

itive abnormal returns for the target shareholders. Finally, using both probit and linear probability models, I find that firms are more likely to incorporate locally if their home state has a business court.

The third chapter focuses on the emerging practice among courts to defer to Delaware precedents in deciding corporate law cases. Delaware is home to more than half of all public corporations, and its market share among initial public offerings is even higher. Not surprisingly, therefore, an extensive body of literature is dedicated to exploring the causes and consequences of Delaware's preeminence as a state of incorporation. There exists, however, a second and largely ignored dimension in which Delaware has come to dominate U.S. corporate law: the common law process. Courts in numerous other states now accord Delaware case law a previously unheard-of level of deference: many state judiciaries have declared explicitly that they will look to Delaware cases in deciding open legal questions. In this paper, I undertake an empirical analysis of Delaware's impact on the corporate common law of other states. Using a hand-collected dataset of state and federal cases, I gain a number of important insights. First, deference to Delaware may be driven in part by functional considerations. States that have based their law on the Model Business Corporation Act (MBCA) and can therefore rely on case law from other MBCA states are less likely to defer to Delaware precedents. Second, firms are more likely to incorporate locally if their home states' courts look to Delaware precedents in corporate law matters. Third, stocks of corporations that are incorporated in the deferring state tend to experience positive abnormal returns at the time of court decisions that introduce the principle of deferring to Delaware case

law. Fourth, there is some, albeit mixed, evidence that that stock price reaction is substantially stronger for those firms where agency conflicts between managers and shareholders are more pronounced. This last finding is intuitive in the sense that well-governed firms, if they stood to benefit from the application of Delaware case law, might already have (re)incorporated in Delaware.

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Chapter 1

Introduction

Corporate litigation, defined as litigation pertaining to a corporation's internal affairs, has a venerable history as a corporate governance mechanism. U.S. corporate law has traditionally relied on shareholder lawsuits as one way of ensuring that corporate directors and officers as well as controlling shareholders abide by their legal obligations (Cox and Thomas, 2009).

However, many scholars perceive shareholder litigation to be in a crisis (Bainbridge, 2015; Korsmo and Myers, 2014; Weitzel, 2013; Myers, 2014). Shareholder lawsuits, which are often powered by plaintiff lawfirms, often produce few benefits for shareholders (Romano, 1991; Weitzel, 2013; Myers, 2014; Korsmo and Myers, 2014). At the same time, they burden firms with litigation costs. Moreover, they have the potential to delay mergers and other important transactions.

This leads to the question how the legal and institutional environment framework for corporate litigation can be improved in such a way as to benefit firm performance and shareholder wealth. Over the last decades, state lawmakers and courts have experimented with a number of legal and institutional changes that had the potential to impact corporate litigation in major ways. These changes include the legalization of so-called forum bylaws, the creation of specialized busi-

ness courts, and the trend among state courts to defer to Delaware precedents in corporate law cases. The present dissertation analyzes these three changes empirically and investigates their impact on firms performance and shareholder wealth.

1.1 Forum Bylaws

Thus, chapter 2 focuses on the legalization of forum bylaws. Such bylaws typically provide that shareholder lawsuits, which are based on state corporate law, can only be brought in the courts of the corporation's state of incorporation. Forum selection bylaws thereby help corporations to put an end to forum shopping and multi-district litigation by shareholder plaintiffs.[1]

From a theoretical perspective, the impact of legalizing forum bylaws is not obvious. On the one hand, they may help corporations to avoid the direct and indirect costs of shareholder litigation. On the other hand, they also make it harder for shareholders to bring meritorious lawsuits and may therefore render it more difficult to protect the rights of shareholders and prevent managerial wrongdoing.[2]

I present evidence consistent with the assumption that the impact of legalizing forum bylaws may depend on the state involved. For Delaware firms, the legalization of forum bylaws is associated with positive abnormal stock market returns. By contrast, for firms incorporated in other states, the legalization of forum bylaws, is associated with negative abnormal returns.

[1] Note, though, that forum bylaws do not extend to lawsuits based on federal securities regulation.

[2] In corporations with controlling shareholder, a similar concern arises in that forum bylaws may make it harder for minority shareholders to prevent wrongdoing by controlling shareholders.

A possible explanation for this finding lies in differences regarding court quality. Delaware boasts a particularly excellent corporate law court, the Delaware Chancery Court. As a result, forcing the shareholders of Delaware corporations to bring suit in Delaware may reduce the costs associated with multi-district litigation and forum shopping without depriving shareholders of the chance to litigate in a highly effective forum for corporate litigation. By contrast, many other states' do not have particularly well-functioning corporate law courts. In those states, the risk that opportunistic boards employ forum bylaws to deprive shareholders of an effective forum for their lawsuits may outweigh the benefits of such bylaws.

1.2 Business Courts

Between 1992 and 2017, more than half of all states created so-called business courts (Coyle, 2012). Yet the desirability of such courts remains controversial. In the legal literature, many scholars have welcomed the creation of such courts (Bach and Applebaum, 2004), whereas others have doubted their usefulness (Coyle, 2012). Interestingly, there have been no attempts to investigate empirically how the creation of business courts impacts shareholder wealth and firm performance. Chapter 3 fills this gap. I find, inter alia, that giving public corporations access to business courts to litigate their internal affairs is associated with positive abnormal stock market returns as well as with an improvement in firm performance as measured by return on assets.

1.3 Deference to Delaware Precedents

Chapter 4 focuses on the increasingly common practice among state and federal courts to defer to Delaware precedents when deciding corporate law cases. In many states, the level of deference accorded to Delaware precedents now goes well beyond the usual regard that states pay to cases from other jurisdictions. It has become common for courts in other states to declare quite openly that they will defer to Delaware law in those cases when their own state's body of precedents fails to provide an answer. Federal courts deciding corporate law cases under diversity jurisdiction reflect this trend as well. I provide evidence consistent with the assumption that this practice tends to increase both shareholder wealth and firm performance.

Chapter 2

Forum Bylaws and Shareholder Wealth

In U.S. corporate law, shareholder litigation traditionally functions as a mechanism for containing the principal-agent conflict between corporate managers and shareholders (Cox and Thomas, 2009). For example, shareholders who believe that managers have enriched themselves at their expense may be able to initiate so-called derivative suits in which they assert that managers have violated their duty of loyalty to the corporation.

However, whereas shareholder lawsuits may produce substantial governance benefits, they also have potential downsides. Frivolous lawsuits powered by plaintiff law firms may cause significant litigation costs and result in settlements that provide for hefty legal fees, but produce few benefits for shareholders (Romano, 1991; Weitzel, 2013; Myers, 2014; Korsmo and Myers, 2014). Moreover, such lawsuits may create substantial indirect costs by distracting managers and directors as well as by delaying or even preventing beneficial mergers or other transactions (idem). In fact, the prevailing view among commentators now is that shareholder litigation, powered by plaintiff law firms, has reached excessive levels (Weitzel, 2013; Myers, 2014; Korsmo and Myers, 2014).

In recent decades, two new and overlapping trends have made shareholder

litigation especially burdensome for corporate defendants. One of these trends was forum shopping by corporate plaintiffs: Instead of suing corporations in the state of incorporation, the traditional forum for such suits, plaintiffs would increasingly sue in other states, based on where their chances of success looked most promising. This trend particularly came at the expense of Delaware, where a majority of all publicly traded firms are incorporated. While the bulk of corporate litigation involving Delaware firms continued to occur in Delaware, an increasing fraction of such lawsuits were brought in other states (Armour et al., 2012a). The second and related trend is known as multi-district litigation: Based on the same underlying facts such as a particular conflict-of-interest transaction, different shareholders would initiate suits in different states, thereby exposing firms to the burden of having to engage in parallel litigation over the same matter (Cain et al., 2017).

Eventually, courts and lawmakers in various states, led by Delaware, responded by allowing so-called forum bylaws (table 2.1). Such bylaws specify the state where shareholder lawsuits must be brought. Because boards can typically adopt bylaws without the participation of shareholders, the ability to include exclusive forum provisions in the bylaws gives boards the unilateral power to put an end to forum shopping and multi-district litigation by shareholder plaintiffs.

A crucial question is whether the availability of forum bylaws benefits shareholders. From a theoretical perspective, that question is difficult to answer: Forum bylaws may reduce the direct and indirect costs of frivolous litigation, but may also make it harder for shareholders to police managerial wrongdoing. Fur-

thermore, the optimal solution may well vary by state depending on the quality of courts in that state. Most public firms are incorporated in Delaware (table 2.2), and Delaware's Chancery Court is widely considered to be a particularly excellent forum for corporate litigation (Dammann and Hansmann, 2008; Fisch, 2000). Some other states have much less highly regarded court systems. Accordingly, it may well be the case that a forum bylaw designating Delaware courts benefits shareholders, whereas a forum bylaw selecting the courts of some other state does not.

In prior research, Wilson (2016) examines how the stock price of Delaware firms reacted to the first Delaware case legalizing forum bylaws, the so-called *Boilermakers* decision. Using an event study approach, Wilson finds that Delaware firms that received a takeover offer in the fiscal year following the *Boilermakers* decision experienced positive abnormal returns at the time of the *Boilermakers* decision relative to other Delaware firms. However, setting aside the possible endogeneity of takeover offers following the treatment event, that research leaves key questions unanswered. First, the pertinent study only includes Delaware firms, all of which are to some extent impacted by the legalization of forum selection clauses. Non-Delaware firms, which arguably constitute a plausible control group, are not included in Wilson's sample. Second and more importantly, it is not clear to what extent insights from Delaware can be extrapolated to other states.

To cast some light on these questions, this paper also employs an event study approach, but focuses on a broader set of events and relies on a more extensive dataset. Crucially, there are different types of events that have a bearing

Table 2.1: Legalization and Enforcement of Forum Bylaws

Panel A: Legalization of forum bylaws in Delaware

Date	Event
6-25-2013	DE Chancery Ct. holds that forum bylaws are legal for DE firms.
5-12-2015	DE forum bylaw statute codifies legality of forum bylaws for DE firms.

Panel B: Legalization of forum bylaws in other states

Date	Event	Legal Implication
06-11-2014	NC forum bylaw statute	Legalizes forum bylaws for NC corporations.
01-28-2015	VA forum bylaw statute	Legalizes forum bylaws for VA corporations.
03-24-2015	KS forum bylaw statute	Legalizes forum bylaws for KS corporations.
02-01-2017	WA forum bylaw statute	Legalizes forum bylaws for WA corporations.
03-10-2017	MD forum bylaw statute	Legalizes forum bylaws for MD corporations.
03-21-2017	OK forum bylaw statute	Legalizes forum bylaws for OK corporations.
05-24-2017	CT forum bylaw statute	Legalizes forum bylaws for CT corporations.
12-07-2017	NJ forum bylaw statute	Legalizes forum bylaws for NJ corporations.

Panel C: Enforcement of forum bylaws by federal courts and state supreme courts

Date	Court
09-19-2014	Federal District Court in OH enforces DE forum bylaw.
03-31-2015	Federal District Court in TX enforces DE forum bylaw.
10-30-2015	Federal District Court CA enforces DE forum bylaw.
12-10-2015	OR Supreme Court enforces DE forum bylaw
12-15-2016	Federal District Court in DC enforces DE forum bylaw.

Note: For forum bylaw statutes, the date indicated in the table is the date at which the state legislature first voted for the enactment of the forum bylaw statute. This may be the vote in the house or in the senate, whichever came first. *An appeal against against the 10-30-2015 dismissal order was rejected by the same court on 8-17-2016.

Table 2.2: Where Do Firms Incorporate If Not Locally? The Top Ten (1994-2017)

State of incorporation	Number	Percent*	State of incorporation	Number	Percent*
Delaware	11,905	75.4%	Minnesota	147	0.9%
Nevada	1,029	6.5%	Colorado	142	0.9%
Maryland	920	5.8%	Florida	127	0.8%
Massachusetts	498	2.3%	New Jersey	84	0.5%
New York	203	1.3%	California & Pennsylvania	77	0.5%
Total number of firms (incorporated locally or out of state): 15,795					
Number of locally incorporated firms: 5,567 (35 % of all firms)					

Note: * Percentages in columns 3 and 6 refer to the percentage of corporations incorporating in a given state out of the total number of corporations incorporating outside their home state. In order to be considered, a firm must have at least one firm-year observation between 1994 and 2017. For the purposes of determining the state of incorporation, I focus on the most recent firm-year observation for each firm.

on the legality and enforceability of forum bylaws, and they can be expected to impact different firms in different ways.

From a legal perspective, forum bylaws are only effective if two conditions are met.

First, the law of a firm's state of incorporation must allow the firm to adopt such a bylaw. That is the issue that Delaware's landmark 2013 *Boilermakers* case addresses for Delaware firms and that the various forum bylaw statutes adopted after *Boilermakers* address for corporations incorporated in the respective states.

Second, federal courts and courts in other states must enforce these bylaws. For example, assume that a Delaware firm has adopted a bylaw designating courts in Delaware as exclusive forums for shareholder lawsuits. If one of the

firm's shareholders now initiates a shareholder lawsuit in a (federal or state) court in California, the crucial question is whether the California court will respect the Delaware firm's forum selection bylaw or ignore it and allow the lawsuit to proceed in California. Accordingly, both the state of incorporation's decision to allow the adoption of forum selection bylaws and the decision of (state and federal) courts in other states to enforce such bylaws are relevant events.

My findings are consistent with the assumption that the desirability of making forum bylaws available depends, to some extent, on the state of incorporation.

Shares of Delaware-incorporated firms experienced statistically significant positive abnormal returns not just when Delaware legalized forum selection clauses in *Boilermakers* (0.4 %, table 2.5 cols. 1-2), but also at the time of later federal court decisions that enforced such bylaws (0.2 %, table 2.5 cols. 3-4). These abnormal returns were particularly large for firms headquartered in the state where the enforcing court was sitting (0.4 to 0.5 %, table 2.5 cols. 5-6).

By contrast, when New Jersey adopted its forum bylaw statute in 2017, New Jersey firms experienced statistically significant negative abnormal returns (-0.8 % to -0.9 %, table 2.8. In other states that adopted forum bylaw statutes, the reaction was negative and significant, too, at least in the baseline regressions (-0.3 %, table A.16 cols. 1 & 2). However, in those other states, the legalization of forum bylaws was bundled with numerous other corporate law reforms, so that it is difficult to interpret the reaction of stock markets.

The use of court decisions and corporate legislation as an exogenous variation for event study purposes is very much in line with the common practice in the corporate finance and corporate law literature. However, as far as the external validity of the resulting findings is concerned, it must be kept in mind that states which adopt forum bylaw statutes are not chosen at random. Rather, one may be worried that stock price reactions to forum bylaw statutes may be explained in part by selection effects.

For example, corporations may be particularly likely to lobby for forum bylaw legislation in those states, in which such bylaws are particularly damaging to shareholder plaintiffs. Or one might hypothesize that lawmakers are more likely to adopt forum bylaw legislation in those states where such legislation is particularly beneficial to shareholders. Either concern suggests that findings on the impact of forum bylaw statutes cannot easily be extrapolated from treatment states to non-treatment states.

To address this issue, I use a novel type of exogenous shock: the announcement of a planned change to the Model Business Corporation Act (MBCA). The MBCA is a model code promulgated by the American Bar Association's Corporate Laws Committee. Originally published in 1950, the MBCA is revised regularly, often multiple times a year. Moreover, some states have a record of revising their corporate law statutes in a timely fashion to reflect changes in the MBCA (cf. figures 2.2 & 2.3).

On March 21, 2016, the ABA publicized its intention to amend the MBCA by adding a provision authorizing forum selection bylaws. Based on past experi-

ence, it is generally safe to assume that once such an intention is announced, the MBCA is amended soon thereafter to reflect these changes. Assuming that markets interpret the ABA's forum bylaw announcement as a signal that additional states will soon adopt such legislation in an effort to update their corporation statutes in line with the MBCA, one might expect stock prices to react. Specifically, one might expect abnormal returns in those states that have not previously enacted forum bylaw statutes, but are known to copy innovations adopted by the MBCA.

In fact, at the time of the ABA announcement, I find negative abnormal returns for firms in states that had not previously adopted forum bylaw statutes and are known to have reliably implemented changes to the MBCA in the past (-0.2 to -0.3 %). This is consistent with the assumption that the markets view the enactment of such statutes by states other than Delaware skeptically.

2.1 Institutional Background

Shareholder litigation is one of the traditional ways by which shareholders police managers. While some scholars have disputed the effectiveness of such litigation (Romano, 1991; Fischel and Bradley, 1985), others believe that shareholder lawsuits play an important role in constraining managerial opportunism (Cox and Thomas, 2009).

Traditionally, the bulk of such lawsuits were brought in the state of incorporation. However, over the last decade, corporations increasingly saw themselves confronted with multi-district litigation and plaintiff forum shopping. This trend has been particularly well documented for Delaware firms (Armour et al., 2012a),

Delaware being the state where a substantial majority of all public corporations are incorporated (cf. table 2.2).

One way for Delaware firms to address this issue is to include an exclusive forum selection clause in their charters, an approach to which the Delaware Chancery Court gave its blessing in its 2010 Revlon decision.[1] However, whereas forum provisions in corporate charters have become quite common among IPO firms, they are far less frequently adopted by existing firms (Romano and Sanga, 2017), presumably because charter amendments require shareholder approval.

A crucial change came with the 2013 *Boilermakers* decision , in which the Chancery Court held that it was legal for Delaware firms to include forum clauses in their bylaws. That decision made it much easier for Delaware firms to adopt such forum provisions. Whereas the legal default rule in Delaware is that only shareholders have the power to change their bylaws, in practice, public corporations generally authorize the board to adopt or change bylaws as well (Klausner, 2013). Thus, by allowing forum clauses to be included in corporate bylaws, *Boilermakers* gave Delaware boards the unilateral power to put an end to forum shopping and multi-district lawsuits.

While *Boilermakers* made it clear that Delaware law allows Delaware corporations to include exclusive forum provisions in their bylaws, it was not immediately obvious whether courts in other states, where shareholders might sue, would enforce these provisions. In fact, in 2011, a federal district court located in

[1] In re Revlon, Inc. Shareholders Litig., 990 A.2d 940, 960 (Del. Ch. 2010)

California had explicitly refused to enforce a forum bylaw adopted by a Delaware corporation.[2] However, following *Boilermakers*, the tide began to turn. Various federal district courts and lower level state courts enforced forum bylaws adopted by Delaware firms (cf. table 2.1).

In 2015, two years after *Boilermakers*, the Delaware legislature adopted a statutory amendment codifying the legality of forum bylaws. Moreover, several other states took the same approach and also adopted statutes explicitly allowing their corporations to adopt such bylaws. Table 2.1 and figure 2.1 summarize the pertinent events and dates.

2.2 Prior Literature

This paper is not the first empirical study to focus on forum selection bylaws. Wilson (2016) examines how stock prices of Delaware firms reacted to the Delaware Chancery Court's *Boilermakers* decision. He finds that Delaware firms which received a takeover offer in the fiscal year following the *Boilermakers* decision experienced statistically significant abnormal returns at the time of *Boilermakers* relative to Delaware firms not receiving takeover offers.

However, compared to Wilson (2016), the present paper makes various distinctive contributions. First, Wilson only includes Delaware firms in his sample, while jettisoning non-Delaware firms that are left unaffected by *Boilermakers* and could therefore serve as a proper control group. By contrast, this study uses non-

[2] Galaviz v. Berg, 763 F. Supp. 2d 1170, 1175 (N.D. Cal. 2011)

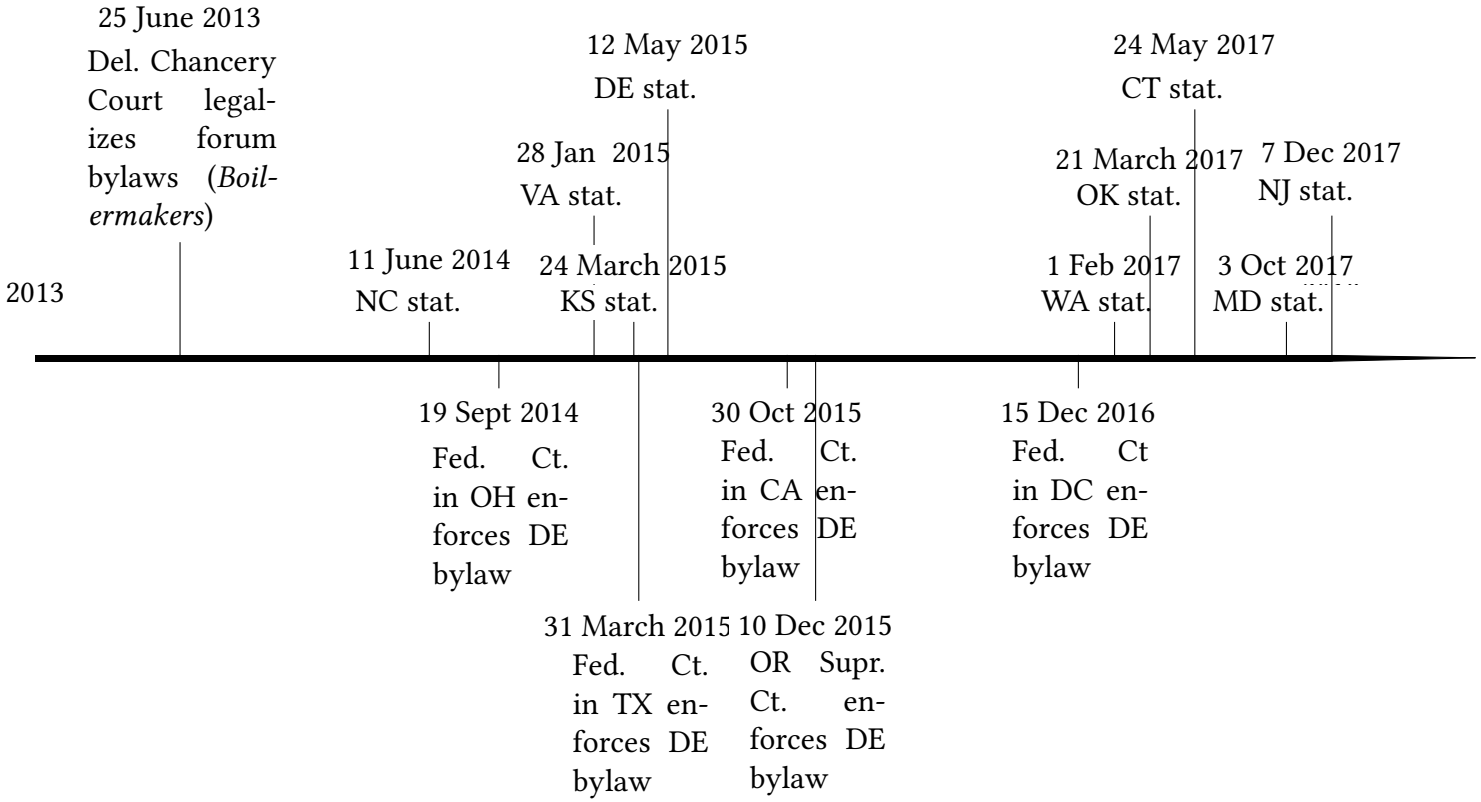

Figure 2.1: Timeline of events impacting enforcement of forum bylaws

Note: The timing of a statute is defined as the first vote on the statute. This may be the vote in the senate or in the house, depending on which vote came first.

Delaware firms as a control group in order to determine the impact of *Boilermakers*. Second, by analyzing decisions by courts in other states that enforced Delaware bylaws, I provide the first evidence consistent with the hypothesis that the enforcement, and not just the legality, of forum bylaws matters. Third, Wilson focuses on a change in Delaware law, namely the *Boilermakers* decision. This paper, by contrast, also studies the impact of *Boilermakers*, but its main focus is on forum bylaw legislation adopted in other states and the impact of said legislation on firms incorporated in those states. As I show, stock prices of those firms may react very differently to the legalization of forum bylaws than stock prices of Delaware firms do. Fourth, I identify a novel type of shock, namely amendments to the Model Business Corporation Act. To date, no paper has analyzed stock price reactions to such amendments. Fifth, for the purpose of determining which states have a record of reliably implementing MBCA amendments, I create a novel dataset of 15 state law variables which I track from 1995 to 2017 (cf. table A.2 & figures 2.2 & 2.3).

In another pertinent paper, Romano and Sanga (2017) examine the determinants of firms' decisions to adopt forum selection clauses in their bylaws or charter. They find that most IPO firms now include forum selection clauses in their charters and that the decision to adopt forum bylaws is largely driven by law firms. Note that the role of law firms does not imply that the adoption of forum selection bylaws at the firm level can be viewed as driven by an exogenous event, given that the choice of law firms by corporations is itself endogenous. Romano and Sanga explore a question that is quite different from the one asked in

the present paper, though I reference their work where relevant.

2.3 Data

I obtain data on stock prices from CRSP and other firm level data from CRSP/ Compustat Merged (CCM). Financial data including cumulative abnormal returns are trimmed at the 1 and 99 percent levels, unless noted otherwise. However, I show that most of my findings are robust to using different cutoffs and to switching from winsorizing to trimming (tables A.6, A.12, & A.18).

Data on forum selection provisions in bylaws are collected by hand from 8K-filings, S-1 filings, and S-1/A filings for the years 1994-2017, those being the years for which complete data are available online. As already documented by Romano and Sanga (2017), almost no forum bylaws were adopted prior to 2010.

Compustat only provides information on the most recent state of incorporation. I therefore rely on data from SEC Analytics to gain information on historical states of incorporation.

Data on legal variables are collected and coded by hand using Westlaw and LEXIS. Precise definitions of any legal variables used are given in the appendix (table A.3). The same is true for any financial variables used (table A.1).

2.4 Summary Statistics

Summary statistics are displayed in table 2.3. As shown in table 2.2, most public corporations in my sample are incorporated outside their headquarters

("home") state, typically in Delaware, whereas only about 23% are incorporated in their home state ("locally"). Table 2.5 therefore distinguishes between those firms that are incorporated locally and those that are not. In keeping with the existing literature (Jagannathan and Pritchard, 2017), I find that firms incorporating locally differ substantially from firms that incorporate in Delaware (table 2.5 cols. 1-3). They also differ from firms that are incorporated in third states other than Delaware (table 2.5 cols. 4-6).

Given that the decision where to incorporate is made by entrepreneurs and firms, differences between locally incorporated firms and firms incorporated elsewhere are unsurprising. From an econometric perspective, however, such differences can present a potential challenge. For most of the events discussed in this study, the treatment of interest occurs at the level of the state of incorporation. Given that locally incorporated firms differ from Delaware firms, there exists at least a theoretical possibility that abnormal returns on a given day are driven by macro level shocks that impact different types of firms differently. Aside from controlling for a number of firm characteristics, I address this problem in a variety of ways, including an analysis of pre- and post-event trends, alternative definitions of treatment groups and control groups, extensive placebo tests, and the use of different types of matched samples.

2.5 Econometric Approach

This paper relies on an event study approach.

Table 2.3: Summary statistics

	Local v. Delaware			Local v. Other		
	Local	Delaware	Diff.	Local	Other	Diff
Firm size						
Market equity †	3840.50	5544.56	-1704.06***	3840.50	2724.88	1115.62**
Assets †	6310.13	6714.71	-404.58	6310.13	5904.69	405.44
Employees ‡	7.73	9.83	-2.09**	7.73	7.10	0.64
Firm performance						
Tobin's q	1.72	2.32	-0.61***	1.72	1.63	0.09
ROA	0.07	0.03	0.04***	0.07	0.03	0.04***
ROE	0.07	-0.01	0.08***	0.07	0.02	0.05**
Other						
Total debt †	1292.76	1571.04	-278.28*	1292.76	1792.71	-499.95**
Div. ov. assets †	0.01	0.01	0.00***	0.01	0.02	-0.00*
Book lev.	0.16	0.21	-0.04***	0.16	0.29	-0.13***
Fin. lev.	0.27	0.21	0.05***	0.27	0.33	-0.07***
Tangibility	0.20	0.21	-0.01	0.20	0.21	-0.01
Observations			3064			1588

Note: Summary Statistics include all firm-year observations used for the baseline regression in table 2.5 col. 1. The number of observations refers to the entire sample, even if values for some variables are missing. The term "Other" refers to firms that are incorporated neither in Delaware nor in their headquarters state.

2.5.1 Abnormal Returns

Unless otherwise noted, cumulative abnormal returns are calculated using the standard Fama-French-Cahart four-factor model:

$$R_{i,t} - R_{f,t} = \alpha_i + \beta_i(R_{m,t} - R_{f,t}) + \gamma_i SMB_t + \delta_i HML_t + \zeta_i UMD_t + \epsilon_{i,t} \tag{2.1}$$

Unless stated otherwise, I rely on a 30-day estimation period [-60,-31] and a 4-day event window [0,3]. Abnormal returns are added to obtain cumulative abnormal returns.

2.5.2 Basic Regressions

In the case of multiple treatment events (e), the effects of such events are estimated using the model:

$$CAR_{i,e,s,c} = \beta_0 + \beta_1 Treated_{e,s} + \beta_2 X_{i,e} + \beta_3 Y_{s,e} + \lambda_c + \gamma_e + \epsilon_{i,e,s,c} \tag{2.2}$$

where i indexes firms, s states of incorporation, c industries, and e particular events. The term $Treated_{e,s}$ captures whether a given firm is part of the treatment group for a particular treatment event, $X_{i,e}$ captures firm level variables at the time of the particular event, $Y_{s,e}$ captures other attributes of the state of incorporation at the time of the particular event, λ_c industry fixed effects, and γ_e captures event fixed effects. In regressions with only a single event, the equation remains the same except that the term γ_e and the subscript e are dropped.

2.5.3 Triple Differences

To explore the channels by which the legalization of forum bylaws may impact firms, I rely on triple differences. I then use the following model:

$$CAR_{i,e,s,c} = \beta_0 + \beta_1 Treated_{s,e} + \beta_2(Treated_{s,e} \times High_i) \quad (2.3)$$
$$+ \beta_3(High_i) + \lambda_c + \gamma_e + \epsilon_{i,e,s,c}$$

As before, i indexes firms, s states of incorporation, c industries, and e particular events. Unless otherwise indicated, the variable $High_i$ indicates whether a firm is part of the group for which one would expect the treatment to have a particularly strong effect. In some cases, I instead use continuous variables instead of binary ones to capture the fact that some firms may be more strongly impacted by the treatment than others.

2.5.4 Time Trends

To explore time trends, I estimate the effect of being part of the treatment group a specified number of days before and after the event. The econometric model used for this purpose depends on whether one is dealing with a single treatment event or multiple treatment events.

For single treatment events, I rely on the following model:

$$AR_{i,s,n,c} = \beta_0 + \sum_{n=-(T-1)}^{T} \beta_n(day_n \times Treated_s) \quad (2.4)$$
$$+ \zeta_{n,c} + \eta_n + \lambda_c + \epsilon_{i,s,c,n}$$

As before, i indexes firms, c industries, and s states of incorporation. The term $AR_{i,s,n,c}$ captures abnormal returns for a given firm on a given day (rather than cumulative abnormal returns). The subscript n indexes the number of days before and after the judgment. The variable $Treated_s$ captures whether a firm is part of the treatment group (either before or after the treatment). Accordingly, the interaction term $day_n \times Treated_s$ captures the effect of being incorporated in the treatment state for each of the days from $(T-1)$ days before the event to n days after the event. The Tth day before the effect serves as reference point. By contrast, the term $\zeta_{n,c}$ alone captures day-industry fixed effects. Because the industry-day fixed effects absorb the simple day fixed effects as well as the simple industry fixed effects, the terms η_n and $_c$ are dropped if the term $\zeta_{n,c}$ is included in the regression.

In those regressions involving multiple treatment events, one has to account for possible event fixed effects (γ_e) and respective interactions, leading to the following equation:

$$AR_{i,e,s,n,c} = \beta_0 + \sum_{n=-(T-1)}^{T} \theta_n(day_n \times Treated_{s,e}) + \zeta_{e,n,c} + \gamma_e + \eta_n + \lambda_c + \epsilon_{i,e,s,n,c} \tag{2.5}$$

where i indexes firms, e treatment events, n days, and c industries. The term day_n takes on the value one if the day equals n, and zero otherwise. The term $\zeta_{e,n,c}$ captures industry-day-event fixed effects. In those regressions in which I use industry-day-event fixed effects, that term absorbs the simple event fixed effects, industry fixed effects, and day fixed effects, so that the separate terms γ_e,

λ_c, and η_n are then omitted.

2.6 Exogenous Shocks

Various exogenous shocks that can be exploited to analyze the impact that the legalization of forum selection bylaws has on shareholder wealth.

2.6.1 Boilermakers

The first pertinent event is the 2013 *Boilermakers* decision in which the Delaware Chancery Court embraced the legality of forum bylaws. The treatment group consists of firms incorporated in Delaware; the control group comprises firms incorporated elsewhere. To the extent that shareholder bylaws benefit Delaware shareholders, one would expect a positive treatment coefficient. Note that the Boilermakers decision did not address any issues other than the legality of forum bylaws, meaning that one does not have to worry about other holdings that might function as confounding factors. At the same time, it is also important to note that immediately after the *Boilermakers* decision, it remained unclear whether Delaware bylaws would actually be enforced by federal and state courts in other states. Accordingly, any positive reaction to the *Boilermakers* decision is unlikely to capture the full benefits (or costs) of forum bylaws.

2.6.2 Federal and State Supreme Court Cases Enforcing Delaware Forum Bylaws

Following the *Boilermakers* judgment, a number of state and federal courts decided to enforce Delaware forum bylaws by dismissing shareholders suits brought in courts outside of Delaware. Given that a 2011 decision by a federal district court in California, *Galaviz v. Berg*, had refused to enforce a Delaware firm's forum bylaw, one would expect a positive reaction to these subsequent state and federal decisions if forum bylaws indeed benefit shareholders of Delaware firms.

Because lower state court decisions are less likely to get much attention in the literature or to serve as lodestars for future decisions by other courts, I limit the set of treatment events to federal decisions and state supreme court decisions. The pertinent cases are listed in panel C of table 2.1.

The treatment group can be defined in two different ways. The most straightforward approach is to include all Delaware firms in the treatment group, since all of the pertinent decisions concerned the enforcement of Delaware bylaws. A drawback of this approach is that there exist a total of 94 federal district courts plus fifty state supreme courts and the DC Court of Appeals, and thus a decision by any single federal court or state supreme court may offer firms and markets limited guidance regarding the future stance of other federal or state courts.

An alternative approach is to define the treatment group more narrowly so as to include only those Delaware firms that are headquartered in the state in which the court enforcing the Delaware bylaw is sitting. There are two reasons to believe that these firms are more likely to experience abnormal returns. First,

plaintiffs hoping to persuade a court to ignore a Delaware forum bylaw are prima facie most likely to succeed in the state where the corporation is headquartered, given that that state typically has the closest connection to the firm aside from the state of incorporation. Second, as a practical matter, lawsuits challenging forum bylaws have typically been brought in the state of incorporation; indeed, this has been true for all of the state supreme court and federal cases listed in table 2.1.

The control group consists of firms incorporated in states that had not, at the time of the pertinent event, legalized forum bylaws and were therefore not impacted by the enforcement of such bylaws.[3]

One feature of the pertinent decisions is particularly noteworthy. When a state court in a state other than the one designated in the forum bylaw enforces such a bylaw, it dismisses the case on the basis of the so-called *forum non conveniens* doctrine. Similarly, when a federal court enforces a forum bylaw, it either dismisses the case on the basis of the so-called *forum non conveniens* doctrine,[4] or, if another federal court has jurisdiction, the original court transfers the case to that other federal court. Either way, the original court does not reach the merits of the case. In other words, the court's decision to enforce the forum bylaw is not bundled with holdings regarding substantive corporate law questions raised by the case that might function as confounding factors.

[3]It might seem tempting to include in the treatment group firms from states other than Delaware that had already legalized forum bylaws at the time of the enforcement decision. However, at this point, the goal is to determine whether the availability of forum bylaws benefits the shareholders of *Delaware* firms, and so I exclude firms from other states that had also legalized forum bylaws.

[4]E.g., Billard v. Angrick, 220 F. Supp. 3d 132, 143 (D.D.C. 2016).

2.6.3 Delaware's Forum Bylaw Statute

In 2015, Delaware's legislature "codified" the Boilermakers decision by including a provision allowing forum bylaws in Delaware's business corporation statute. However, given that the Chancery Court had already endorsed the legality of such bylaws two years earlier, one should expect the enactment of Delaware's forum bylaw statute to have little, if any, impact on stock prices.[5]

2.6.4 New Jersey's Forum Bylaw Statute

Following the *Boilermakers* judgment. various states adopted statutes explicitly legalizing the use of forum bylaw statutes by their corporations (cf. tables 2.1 & A.2). This raises the question to what extent the legalization of bylaw statutes in states other than Delaware has benefited shareholders.

From a theoretical perspective, it is not at all clear that findings for Delaware firms can be extrapolated to firms in other states. The main reason pertains to dif-

[5]This might be different if there had been considerable doubt whether the *Boilermakers* decision, which was not appealed, might subsequently be overruled by the Delaware Supreme Court in a different case. If capital markets had considered such an outcome to be a non-trivial possibility, the Delaware forum bylaw statute might have laid such suspicions to rest. However, it was generally assumed that the Delaware Supreme Court approved of the *Boilermakers* decision (Allen, 2014). Moreover, the Delaware Chancery Court judge responsible for the Boilermakers decision, Leo Strine, was confirmed as the new Chief Justice of the Delaware Supreme Court in January 2014 (Hals, 2014), well before the Delaware bylaw statute was enacted, further minimizing the likelihood that the statute might be necessary to prevent the Delaware Supreme Court from overruling *Boilermakers*. Finally, by the time Delaware's forum bylaw statute was enacted, the Delaware Supreme Court had, on different occasions, cited the *Boilermakers* decision with approval. The earliest such decision is ATP Tour, Inc. v. Deutscher Tennis Bund, 91 A.3d 554, 560 (Del. 2014). Unfortunately, that decision cannot be used for event study purposes, given that the case's main holding concerned another important and highly controversial issue, namely the legality of so-called fee shifting bylaws.

ferences in the quality of state and federal courts. All of the various forum bylaw statutes have in common that they only authorize forum bylaws designating (state and, typically, federal) courts in the state of incorporation as exclusive forums for litigation.[6] By contrast, forum bylaws assigning exclusive jurisdiction to courts in other states are either not authorized or even explicitly prohibited (cf. table A.2).

As a result, shareholders of firms incorporated in states with highly effective courts may have little to fear from forum bylaws: even if their corporation's board adopts such a bylaw, the result is simply that lawsuits have to be brought in an excellent court. By contrast, shareholders of firms incorporated in states with less effective courts may have more to lose. If the state of incorporation's courts are ineffective, then the prospect of having to bring shareholder lawsuits in the courts of that state may undermine the protection of shareholder rights and may therefore reduce shareholder wealth.

Unfortunately, most of the bylaw statutes adopted in other states were bundled with other corporate law reforms, which greatly reduces their usefulness for event study purposes. However, the one exception is New Jersey, which adopted an amendment to its business corporation act that did nothing but legalize forum bylaws. In this section, I therefore focus chiefly on New Jersey's forum bylaw statute, though I consider other states' forum bylaw statutes for the purpose of

[6]For example, the new section 115 of the Delaware General Corporation Law provides that "[t]he certificate of incorporation or the bylaws may require, consistent with applicable jurisdictional requirements, that any or all internal corporate claims shall be brought solely and exclusively in any or all of the courts in this State, and no provision of the certificate of incorporation or the bylaws may prohibit bringing such claims in the courts of this State."

robustness checks.

To analyze the role of New Jersey's forum bylaw statute, I rely on a simple event study approach using equation (2). The main challenge in this context is presented by Delaware firms. Including Delaware firms in the sample is problematic for two reasons. First, as previously noted, Delaware firms (and other non-locally incorporated firms) are systematically different from locally incorporated firms. Second, there are reasons to believe that the enactment of forum bylaw statutes in other states may well have an indirect impact on Delaware firms: once a state has adopted its own forum bylaw statute, it becomes highly unlikely that the courts of that state will deny enforcement to the forum bylaws adopted by Delaware firms. After all, a state cannot reasonably argue that forum bylaws violate public policy or impose an undue burden on shareholders if their own state has adopted the same type of legislation.

Hence, assuming that the enforceability of forum bylaws benefits the shareholders of Delaware firms, one may expect the stock prices of Delaware firms to react positively if another state adopts a forum bylaw statute.[7] Given that Delaware firms represent almost 80% of all firms, even small positive returns for Delaware firms may mask as negative abnormal returns for New Jersey firms if one does not control for the potential indirect impact of New Jersey's forum bylaw legislation on Delaware firms.

[7] This would not be true if the pertinent state's supreme court had already made clear that it considers Delaware forum bylaws to be binding, but the only state for which this is the case, Oregon, has not yet adopted a forum bylaw statute.

To address these concerns, I take a number of steps. For my baseline table, I run the same regressions based on a sample including only locally incorporated firms (table 2.8 cols. 1-2) and, alternatively, based on a sample including all firms (table 2.8 cols. 3-6). To the extent that the entire sample is used, I run the pertinent regressions both with and without a variable controlling for whether a firm is incorporated in Delaware (table 2.8 cols. 3-6). Moreover, for the purpose of robustness checks, I use different types of matched samples (table A.15).

2.6.5 The Model Business Corporation Act

In addition to using court decisions and state legislation as exogenous shocks, this article also introduces a novel type of shock, namely an announced intention to add a forum bylaw provision to the Model Business Corporation Act. The Model Business Corporation Act (MBCA) is the work of the Corporate Laws Committee of the American Bar Association. First published in 1950, it is meant to serve as a model law on which states can base their business corporation statutes. The MBCA is revised frequently, often more than once a year. Fundamental revisions occurred in 1969, 1984, and 2016.

Amendments to the MBCA follow a well-established pattern. First, the Corporate Laws Committee announces its intention to amend the Model Business Corporation Act, presents the wording of the suggested amendment, and solicits comments by a certain date, typically several months after the announcement. In a second step, the Corporate Laws Committee then decides whether to adopt the amendment, possibly including certain changes, and announces the amendment

to the public. In most cases involving revisions of limited scope and complexity, the originally suggested amendment is adopted verbatim or with minor changes.

Both announcements, the one containing the original proposal and the one containing the final amendment, are published in the ABA's traditional business law publication, the "Business Lawyer." The Business Lawyer is published only once per quarter, and the exact publication date varies depending on when all contributions have been completed. However, nowadays, individual contributions, including ABA announcements, are often posted on the Business Lawyer's website well before the actual issue is published in its entirety.

On March 21, 2016, the Business Lawyer posted a contribution by the ABA's Corporate Laws Committee which suggested amending the MBCA by adding a provision authorizing forum selection bylaws. Crucially, the pertinent announcement suggested no other amendments, and no other announcements regarding changes to the MBCA were made either, so there is no reason to be concerned about confounding events.

I use the March 21, 2016 announcement as an exogenous shock to estimate a lower bound for the costs/benefits of forum bylaw legislation. The identification strategy can be summed up as follows. As shown in figures 2.2, 2.3, and 2.4, once the MBCA adopts a legal innovation, the number of states adopting the same innovation often increases. This is true both for states that have based their business corporation statute on the MBCA ("MBCA states") and for states whose corporate law legislation as a whole is more idiosyncratic ("non-MBCA states"). Accordingly, an announcement by the ABA's corporate law committee that the ABA is to be

changed may potentially be viewed by capital markets as a sign that other states, which have not already adopted the relevant legal innovation, but have tended to implement MBCA innovations in the past, now face an increased likelihood of doing so in the future. Hence, one may expect stock prices of firms incorporated in such states to react to an announcement of intended changes to the MBCA.

On the other hand, stock prices have little reason to react to such announcements with respect to firms incorporated in states that have already adopted the pertinent innovation. Nor should one expect a stock price reaction for firms incorporated in states that have not yet adopted the pertinent innovation, but have typically ignored MBCA innovations in the past.

To capture a state's past "compliance" record, I have collected data on 15 legal innovations adopted by the MBCA between 1995 and 2015 (cf. table A.3 & figures 2.2 & 2.3). For each of the pertinent legal innovations, I have coded state law on whether and when each state adopted the pertinent innovation. A state's "past compliance rate" for the year 2016 is then calculated as follows:

$$C_{s,2016} = \frac{\sum_{y=1}^{15} \max\{1, (Years_{s,y,2015}/(YearsAvailable_{y,2015}))}{15} \tag{2.6}$$

where s indexes states and y indexes the various innovations. The variable $Years$ equals 0 if the state had not adopted the pertinent innovation by 2015, and 2015 minus the year in which the state adopted the innovation otherwise. The variable $YearsAvailable$ equals 2015 minus the year that the MBCA adopted a particular innovation. Using the "past compliance rate," I categorize a state as a "complier" if, compared to other states, its compliance rate is at or above the 66th percentile.

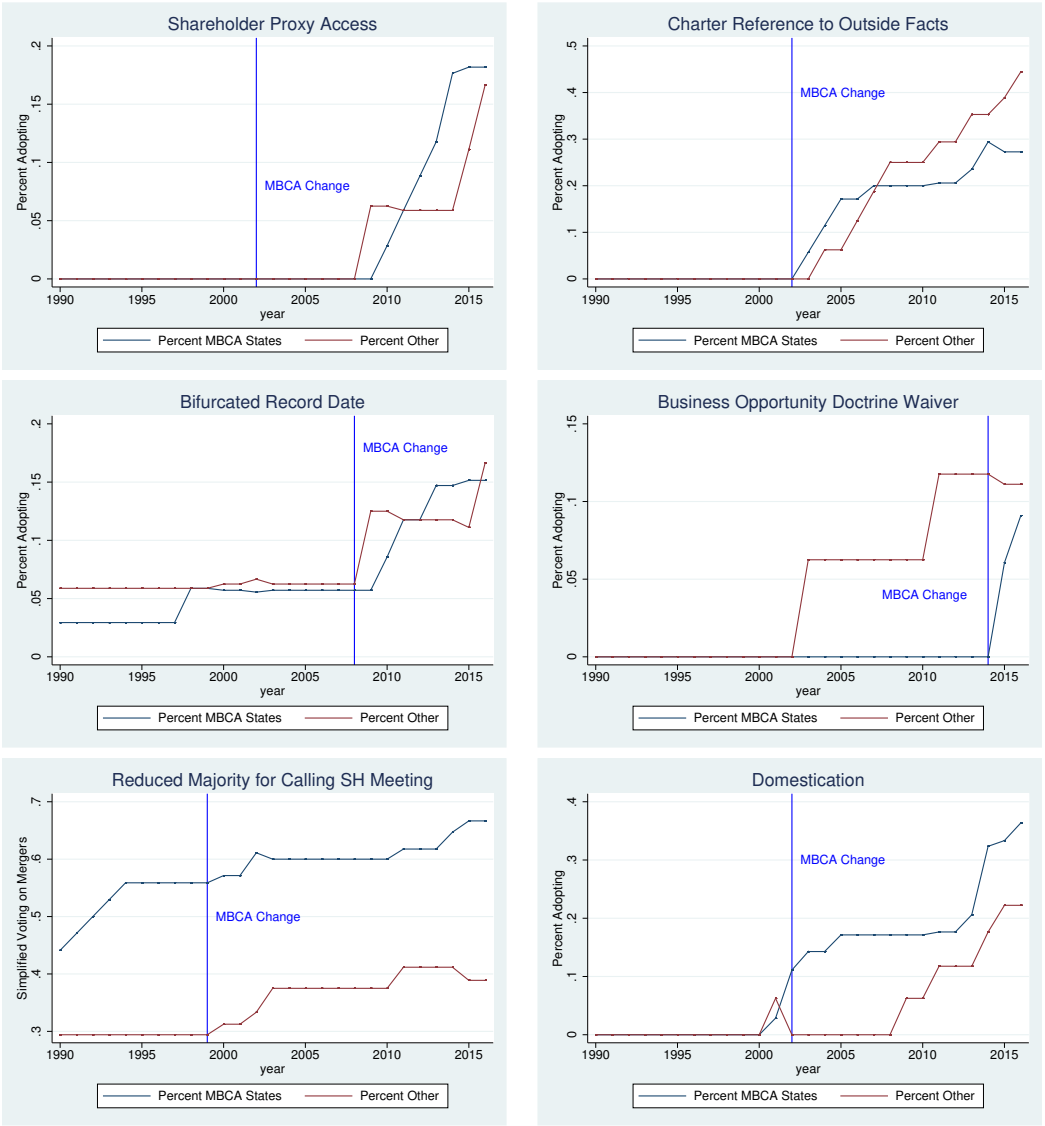

Figure 2.2: MBCA Amendments Part 1

Note: The vertical blue line indicates the year in which the MBCA was amended.

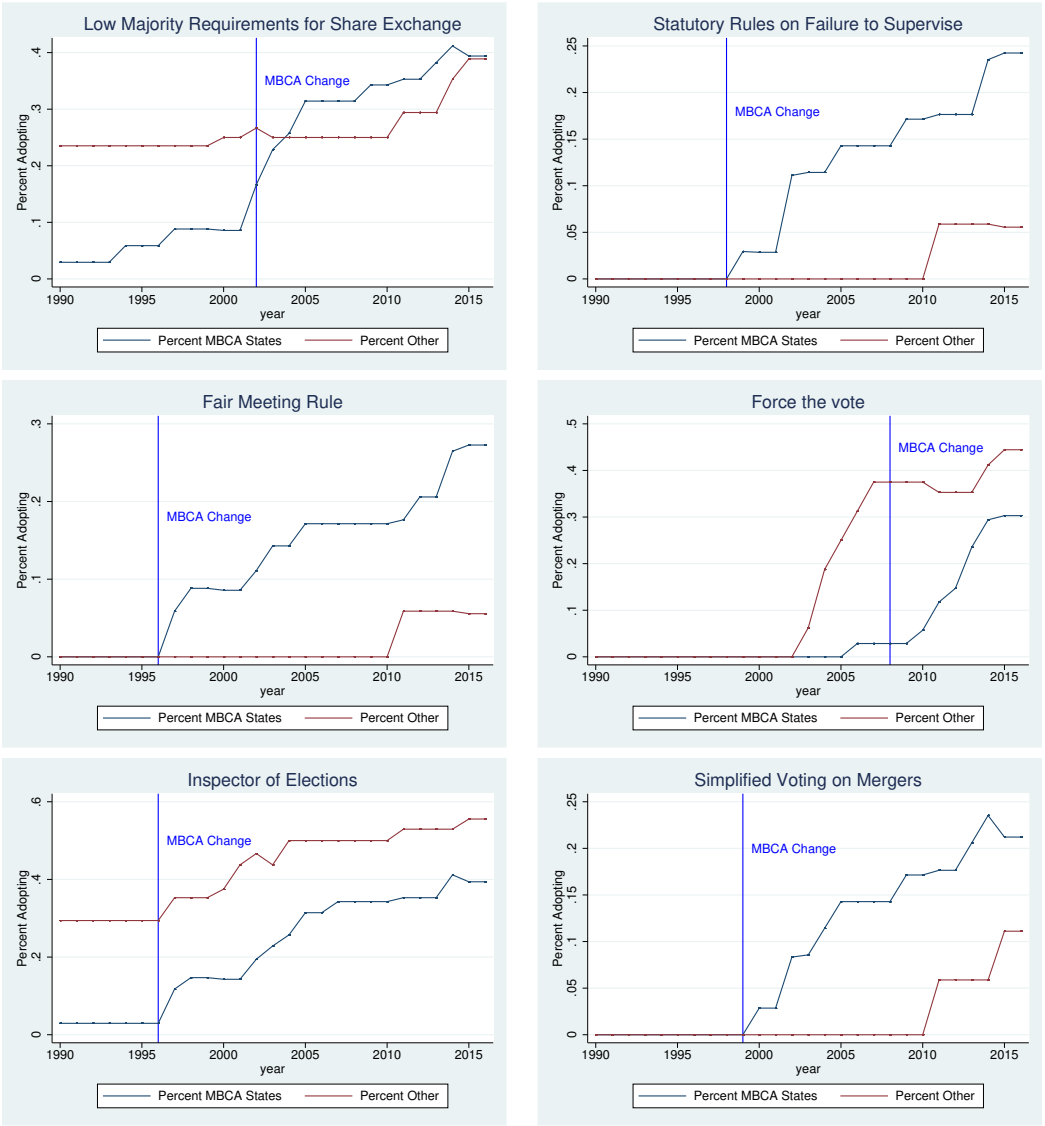

Figure 2.3: MBCA Amendments Part 2

Note: The vertical blue line indicates the year in which the MBCA was amended.

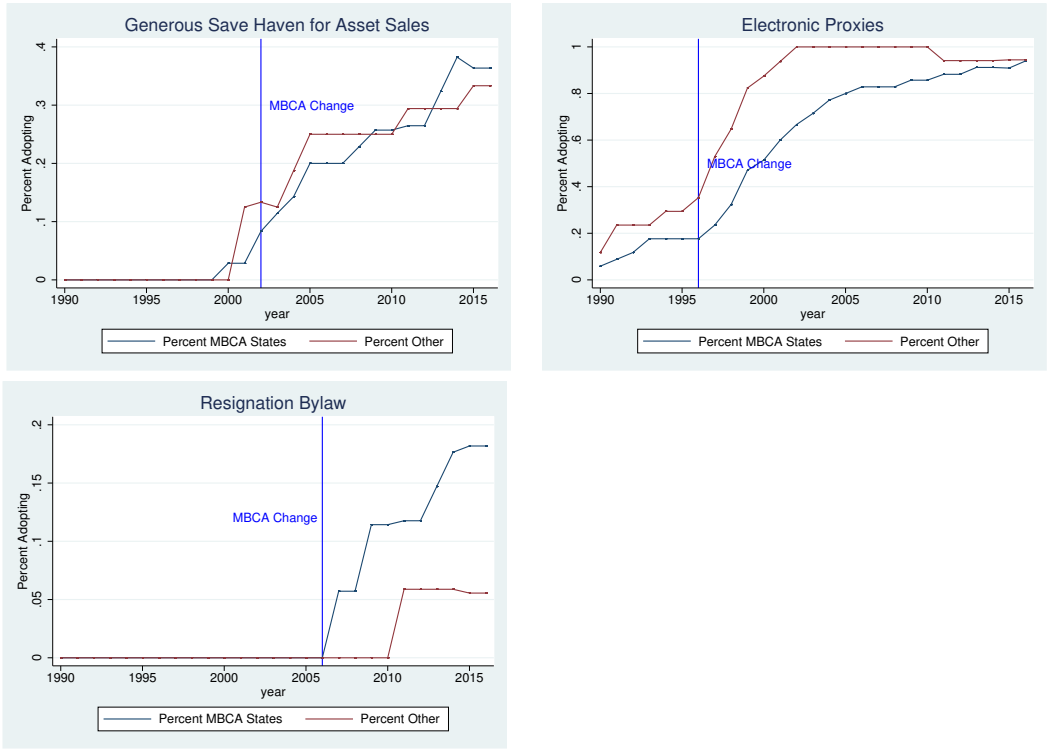

Figure 2.4: MBCA Amendments Part 3

Note: The vertical blue line indicates the year in which the MBCA was amended.

2.7 Hypotheses

According to the prevailing view among commentators, shareholder litigation has reached excessive levels, and most lawsuits benefit plaintiffs' lawyers rather than shareholders (Weitzel, 2013; Myers, 2014; Korsmo and Myers, 2014). Given that forum selection bylaws allow firms to prevent multi-state lawsuits and thereby have the potential to avoid duplicative litigation, I hypothesize that the legalization of forum selection bylaws under Delaware is associated with positive abnormal returns for the treatment group firms.

As explained above, the fact that forum bylaws can legally be adopted under Delaware law does not necessarily imply that courts in other jurisdictions will enforce such bylaws. Accordingly, the post-*Boilermakers* decisions by federal courts in various states to enforce Delaware bylaws were an essential second step towards rendering Delaware forum bylaws effective in preventing multi-jurisdictional lawsuits. I therefore hypothesize that decisions by federal courts to enforce Delaware bylaws should be associated with positive abnormal returns for Delaware corporations.

Moreover, in practice, shareholders of Delaware lawsuits are particularly likely to bring suit in those federal courts where their corporation is headquartered, given that these courts are ex ante more likely to affirm a legitimate connection between the case and the chosen forum and to ignore the forum selection clause on that ground. I therefore hypothesize that the positive abnormal return experienced by Delaware firms should be particularly pronounced for those Delaware firms that are headquartered in the state where the pertinent firm is

located.

Whereas shareholders of Delaware firms are likely to benefit from the legalization of forum bylaws, there is reason to doubt whether this also applies the legalization of forum bylaws in other states. The various statutes legalizing forum bylaws specifically require that the chosen court must be located in the firm's state of incorporation (cf. A.2). For Delaware firms, this is unlikely to constitute much of a burden since Delaware has a corporate law court which is generally believed to be particularly excellent. By contrast, other states do not share this advantage. Accordingly, whereas firms incorporated in other states that allow forum bylaws may also benefit from the reduction in the number of shareholder lawsuits, this advantage may well be outweighed by the fact that shareholders are compelled to bring suit in suboptimal courts. I therefore hypothesize that in states other than Delaware, the legalization of forum selection bylaws is associated with negative rather than positive abnormal returns.

Given the hypothesis that the enactment of statutes legalizing forum bylaws in states other than Delaware harms rather than benefits shareholders, it is reasonable to assume that markets will react negatively to events that make the enactment of such statutes more likely. One potential such event was the American Bar Association (ABA)'s 2016 announcement of its intention to amend the Model Business Corporation Act (MBCA) to legalize forum selection bylaws. Once a legal innovation has been adopted by the Model Business Corporation Act, it is frequently adopted by various state legislatures. Crucially, the likelihood that states would follow the MBCA in legalizing forum bylaws was not the same for all states.

Some states had already legalized forum bylaws before the ABA announced its intention to change the MBCA. Other states had not yet legalized forum bylaws, but also did not have a record of following the MBCA. For both of these groups, the announced intention to change the MBCA was unlikely to have much relevance. By contrast, in those states that had not yet legalized forum bylaws but had a track record of amending their own statutes in line with changes to the MBCA, the enactment of forum bylaw statutes was made presumptively more likely when the ABA announced its intention to amend the MBCA to allow forum bylaws. I therefore hypothesize that firms incorporated in states that had not previously legalized forum bylaws but had a track record of enacting legal innovations adopted by the MBCA experienced negative abnormal returns at the time that the ABA announced its intention to amend the MBCA.

These various hypotheses are summarized in table 2.4

2.8 Results

My results are broadly in line with the hypotheses offered above.

2.8.1 The Boilermakers Decision

To analyze the impact of the legalization of forum selection bylaws on Delaware firms, I first focus on the *Boilermakers* using equation (2). The baseline results are displayed in table 2.5 cols. 1 & 2. By and large, they correspond to the hypothesis offered above: Delaware firms experienced positive cumulative abnormal returns of 0.4% at the time of the *Boilermakers* decision; this finding is both

Table 2.4: Stock Market Reaction and Forum Bylaws: Hypotheses

No.	Event	Treatment group	Control group	Hypothesis	Underlying Intuition
1	Boilermakers decision legalizing forum bylaws under Delaware Law	Delaware firms	Firms incorporated in other states	Positive abnormal returns for the treatment group.	Forum bylaws benefit Delaware firms and their shareholders by reducing exposure to frivolous multi-jurisdiction shareholder lawsuits.
2	State supreme court & federal court decisions enforcing Delaware forum bylaws	Delaware firms	Firms incorporated in states that had not already legalized forum bylaws.	Positive abnormal returns for the treatment group.	Forum bylaws benefit Delaware firms and their shareholders by reducing exposure to frivolous multi-jurisdiction shareholder lawsuits.
3	State supreme court & federal court decisions enforcing Delaware forum bylaws	Delaware firms headquartered in the state where the enforcing court is located	Firms incorporated in states that had not already legalized forum bylaws.	Positive abnormal returns for the treatment group, which should be larger than in case of event No. 2	Forum bylaws benefit Delaware firms and their shareholders by reducing exposure to frivolous multi-jurisdiction shareholder lawsuits. Moreover, decisions by federal courts and state supreme courts enforcing Delaware bylaws are likely to be particularly relevant to Delaware firms headquartered in the state where the enforcing court is located (see main text).
4	Delaware's forum bylaw statute	Delaware firms	Firms incorporated in other states	No abnormal returns	Delaware's forum bylaw statute essentially codified the *Boilermakers* decision.
5	New Jersey forum bylaw statute	New Jersey firms	Locally incorporated firms in other states	Negative abnormal returns for treatment group firms	Forum bylaw statutes are likely to harm rather than benefit shareholders of firms incorporated in states that lack Delaware's excellent judiciary.
6	ABA announcement of amendment to Model Business Corporation ACT (MBCA) legalizing forum bylaws	Firms incorporated in state that have not yet legalized forum bylaws but have a track record of amending their own state corporate laws in accordance with changes to the MBCA	Firms incorporated in other states	Negative abnormal returns for treatment group firms	Forum bylaw statutes are likely to harm rather than benefit shareholders of firms incorporated in states that lack Delaware's excellent judiciary.

economically and statistically significant. Regarding the size of the coefficient, it is noteworthy that other event studies focusing on major changes in corporate law have found effects of similar size. For example, numerous studies have examined how the enactment of antitakeover statutes impacted stock prices, and most of these studies have found a negative impact between -0.1 and -1 % (cf. Bhagat and Romano (2002)), though individual studies have found negative abnormal returns of as much as 5.91 % or positive abnormal returns of up to 1.43 % (idem).

The results regarding the *Boilermakers* decision are fairly robust. Little changes if one adds various firm-level controls such as ln(assets), book leverage, and financial leverage (cf. table 2.5 col. 2), uses the market model rather than the Fama-French-Cahart model to calculate cumulative abnormal returns (table A.4), drops Nevada firms (table A.5), uses different levels for trimming (table A.6), or switches from trimming to winsorizing (table A.6). Using different event windows to calculate cumulative abnormal returns also fails to change the significance of my findings, and the treatment coefficient actually increases in size if one uses a larger event window (table A.7). Moreover, the results are robust to switching from one-way clustering at the level of the state of incorporation to two-way clustering (state of incorporation & headquarters state), cf. table A.8. Finally, the results remain remarkably similar if one uses a matched sample based on one-to-one nearest neighbor matching, and that is true regardless of whether one determines the nearest neighbor by using propensity scores (table A.9) or Mahalanobis distances (table A.10).

I also checked placebo dates. More specifically, I examined on what per-

Table 2.5: Events: Legality and Enforcement of Delaware Bylaws

	Dependent variable: cumulative abnormal returns [0,3]					
	Boilermakers		State supr. ct. and fed. cases enf. DE forum bylaws			
	Treatment group: all Delaware Firms		Treatment group: all Delaware Firms		Treatment group: DE firms headq. in court state.	
	(1) β (SE)	(2) β (SE)	(3) β (SE)	(4) β (SE)	(5) β (SE)	(6) β (SE)
Treatment	0.004***	0.004***	0.002**	0.002***	0.004***	0.005***
	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
Fin. Controls						
Ln(assets)		0.000		0.001***		0.001***
		(0.000)		(0.000)		(0.000)
Book lev.		0.000		-0.007*		-0.007*
		(0.006)		(0.004)		(0.004)
Fin. lev.		0.003		-0.007		-0.007
		(0.007)		(0.004)		(0.004)
Observations	3640	3180	18933	16446	18933	16446
R^2	0.193	0.171	0.036	0.042	0.036	0.042
Adjusted R^2	0.098	0.059	0.016	0.019	0.016	0.019
Industry FE	yes	yes	yes	yes	yes	yes

Note: Event study. Four-day event window [0,3]; 30-day estimation window [-60,-31]. Cumulative abnormal returns (CAR) are caculated using Fama-French-Cahart four-factor model. All regressions cluster at the level of the state of incorporation. Financial controls are lagged by one year. For cols. 1 through 4, the treatment group, for which the variable treatment takes on the value 1, consists of all firms incorporated in Delaware, 0 otherwise. For cols. 5 and 6, the variable treatment takes on the value 1 only if the firm is incorporated in Delaware and headquartered in the state where the (federal or state) court enforcing the bylaw is located. Note that for cols. 3-6, all non-Delaware firms incorporated in a state that had already adopted a forum bylaw statute by the time of the enforcement event (cf. Table 2.1 Panel B), are dropped from the sample. Adoption, in this context, is defined to be the formal vote in the state house or senate, whichever comes first (cf. Table 2.1 Panel C). A firm's industry is given by its four-digit SIC code. * ** *** denote significance at the 10%, 5%, and 1% levels respectively.

centage of days in 2013, the year of the *Boilermakers* decision, Delaware firms experienced cumulative abnormal returns of at least the same magnitude as in the baseline regression[8] that were statistically significant at the 5 % level. Controlling for a firm's industrial classification as given by a firm's four-digit level SIC code, Delaware firms experienced statistically significant abnormal returns of that magnitude on 8.3 % of all days, which is a plausible value given occasional shocks in the form of important corporate law cases or corporate legislation.

To analyze time trends, I rely on equation (4). The results are graphically displayed in figure 2.5. The graph on the left is based on a sample containing all firms, the one on the right relies on a sample containing only firms that are not incorporated locally. In both cases, the treatment group coefficients are not statistically different from zero in the days before the *Boilermakers* decision, but are positive and statistically different from zero on the day of the *Boilermakers* decision.

2.8.2 Non-Delaware Courts Enforcing Delaware Bylaws

To explore the role of state supreme courts and federal courts enforcing Delaware bylaws, I rely on a multiple-events study approach using equation (2). The results are displayed in table 2.5 (cols. 3-6), and they are consistent with the assumption that the enforcement of such bylaws benefits Delaware shareholders.

If the treatment group is defined to include all Delaware firms, a judg-

[8] That is, with a coefficient of at least 0.04 % or less than or equal to -0.04 %.

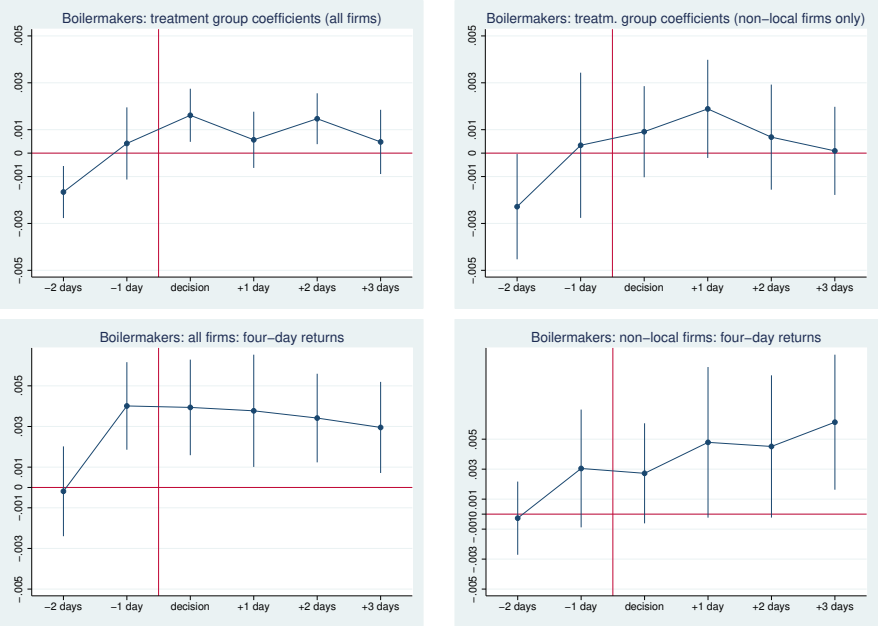

Figure 2.5: The *Boilermakers* decision: treatment group coefficients

Note: Regression as described in equation (4). 95 % confidence interval. The regressions on top use one-day returns as their dependent variable, whereas the graphs on the bottom use four-day returns [0.3] as their dependent variable. In each case, the third day before the event serves as a reference point, so that the pertinent treatment group coefficient is omitted. The graphs on the left are based on a sample including all firms, with the treatment group consisting of all Delaware firms. The graphs on the right are based on a sample consisting only of non-locally incorporated firms, with the treatment group consisting of (non-locally incorporated) Delaware firms. All regressions control for industry-day fixed effects at the four-digit SIC level.

ment enforcing Delaware bylaws is associated with cumulative abnormal returns of 0.2%. If the treatment group is defined more narrowly to include only those Delaware firms that are headquartered in the state where the pertinent court is sitting, the treatment group coefficient becomes substantially larger (0.4 to 0.5 %). This pattern corresponds exactly to what one would expect if forum bylaws benefit Delaware firms (cf. table 2.4). Moreover, both findings are not only economically, but also statistically significant.

Applying the same battery of robustness tests described above for the *Boilermakers* decision (tables A.4 to A.10, I find that these results are quite robust.

Time trends for the enforcement decisions are displayed in figure 2.6. Pre-event treatment group coefficients are not statistically significant from zero, whereas treatment group firms experience statistically significant abnormal returns once the event occurs.

2.8.3 Delaware's Forum Bylaw Statute

As hypothesized (table 2.4), I find no evidence that firms experience statistically significant abnormal returns at the time that Delaware adopted its forum bylaw statute (table 2.6 cols. 1 & 2). This is true even if one switches to a matched sample, using different versions of one-to-one nearest neighbor matching (cf. table 2.6 cols. 3-6).

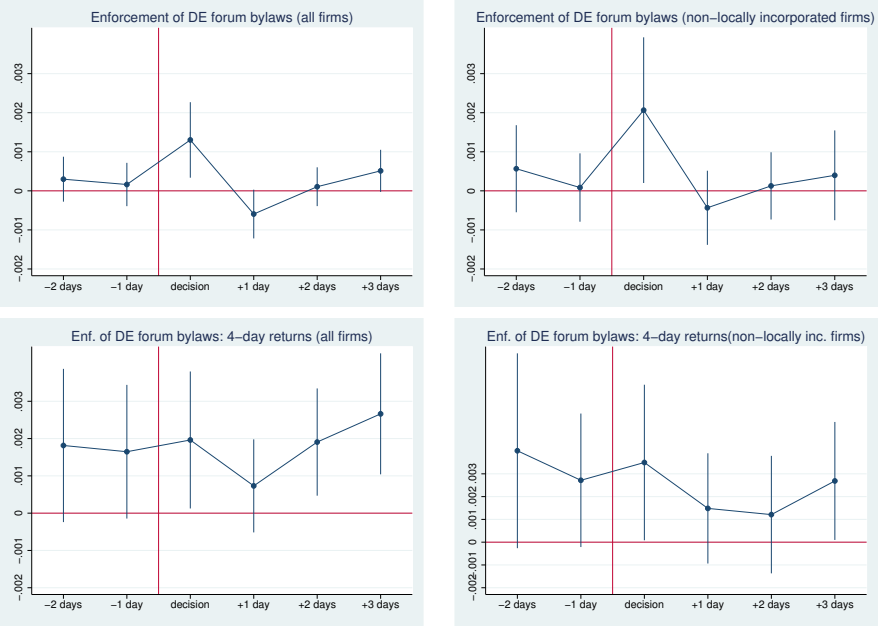

Figure 2.6: Enforcement of Delaware Bylaws

Note: Regressions are based on equation (4). 95 % confidence interval. All regressions control for day-industry-cohort fixed effects, where a firm's industry is determined by its two-digit SIC code. The graph on the left is based on a sample consisting of all firms; the graph on the right is based on a sample consisting of all non-locally incorporated firms. In both cases, the treatment group consists of Delaware firms, and the control group consists of firms that are incorporated in states that had not legalized forum bylaws at the time of the enforcement decision (cf. table 2.1).

Table 2.6: Delaware's Forum Bylaw Statute

	Dependent variable: cumulative abnormal returns [0,3]					
	All firms		Matched sample			
			Propensity score		Mahalanobis distance	
	(1)	(2)	(3)	(4)	(5)	(6)
	β (SE)	β (SE)	β (SE)	β (SE)	β (SE)	β (SE)
Treatment	-0.002	-0.001	0.000	0.000	-0.000	0.000
	(0.001)	(0.001)	(0.002)	(0.002)	(0.001)	(0.001)
Fin. Controls						
Ln(assets)		-0.001***		-0.001***		-0.001***
		(0.000)		(0.000)		(0.000)
Book lev.		0.005		0.004		0.004
		(0.004)		(0.003)		(0.003)
Fin. lev.		-0.007*		-0.002		-0.007*
		(0.004)		(0.004)		(0.004)
Observations	3750	3455	2861	2861	2979	2979
R^2	0.101	0.106	0.107	0.107	0.105	0.106
Adjusted R^2	-0.000	-0.005	-0.023	-0.024	-0.021	-0.020
Industry FE	yes	yes	yes	yes	yes	yes

Note: Event study. Cumulative abnormal returns (CAR) are calculated using Fama-French-Cahart four-factor model. Four-day event window [0,3]; 30-day estimation window [-60, -31]. All regressions cluster at the level of the state of incorporation. All financial controls are lagged by one year. The variable treatment takes on the value 1 if a firm is incorporated in Delaware, 0 otherwise. The sample used for cols. 1 and 2 includes all firms. Cols. 3-6 use matched samples, using one-to-one matching with common support and with replacement. A strict match is required for the firm's two-digit SIC code. Within two-digit SIC codes, each firm is matched with its nearest neighbor. To determine the nearest neighbor, cols. 3-4 rely on propensity score matching, whereas cols. 5-6 rely on Mahalanobis distance matching. Both the propensity score for cols. 3-4 and the Mahalanobis distance for cols. 5-6 are calculated using lagged values for ln(assets), book leverage, and financial leverage. A caliper of 0.1 is applied. * ** *** denote significance at the 10%, 5%, and 1% levels respectively.

2.8.4 Triple Differences

At the time of the *Boilermakers* decision, about 1 % of Delaware firms had already adopted forum bylaws, and this percentage increased steadily over time. By the time that state and federal courts started enforcing Delaware forum bylaws in subsequent years, that percentage had steadily grown.

Should one expect the firms that had already adopted forum bylaws to react differently from other firms to the *Boilermakers* decision and subsequent enforcement decisions, and if so, how? There are three possible narratives that would explain such a different reaction, and each of them leads to different predictions.

First, it is conceivable that early adopters of forum bylaws are more likely to be poorly governed firms that use such bylaws for nefarious reasons, such as to undermine shareholders' efforts to police managers, rather than to reduce litigation costs. If that were the case, early adopters should fare worse than other firms both at the time of the *Boilermakers* decision and later on when federal courts and state courts in other states started enforcing Delaware forum bylaws. However, this narrative is hard to reconcile with prior empirical evidence regarding the determinants of forum bylaw adoption. As Romano and Sanga (2017) show in great detail, firms that adopt forum bylaws seem to score no worse on a variety of measures meant to capture the quality of corporate governance than firms failing to adopt such bylaws.

Second, one could argue that early adopters may have selected to be early adopters because they are likely to derive above-average benefits from such by-

laws, e.g. because they face an unusually high likelihood of shareholder lawsuits. In that case, one would expect early adopters to fare better than other Delaware firms both at the time of the *Boilermakers* decision and at the time of subsequent enforcement decisions.

A third possible narrative focuses on the costs of legal uncertainty. Before *Boilermakers*, markets may have viewed the likelihood of forum bylaws being legal and enforceable as low. Thus, for firms that had already adopted forum bylaws at the time of the *Boilermakers* decision, *Boilermakers* may actually have increased legal uncertainty, since it was now clear that forum bylaws were legal in Delaware, but unclear whether Delaware forum bylaws would be enforced by federal courts and courts in other states. Note that this increase in legal uncertainty did not, or at least not to the same extent, concern firms that had not yet adopted forum bylaws at the time of *Boilermakers*. Firms falling into the latter category could simply wait for enforcement decisions in other states before adopting forum bylaws. According to this narrative, the early adopters among Delaware firms should have fared worse than other Delaware firms at the time of the *Boilermakers* decision (due to a disproportionate increase in legal uncertainty), but better at the time of later enforcement decisions (due to a disproportionate increase in legal certainty).

To explore these different possibilities, I use a triple differences framework based on equation (3). The high impact group is composed of those Delaware firms that had already adopted a forum bylaw prior to the pertinent event. The results are displayed in table 2.7, and they are somewhat consistent with the legal uncertainty narrative: early adopters fared much worse than other Delaware firms

at the time of the Boilermakers decision and in fact experienced overall negative abnormal returns at that time (cols. 1-2), though the relevant results are not statistically significant. At the time of later enforcement decisions, firms that had adopted bylaws fared substantially better than other Delaware firms, but if they were headquartered in the state where the enforcing court was sitting (cols. 3-6). The results are only significant in the latter scenario.

2.8.5 New Jersey's Forum Bylaw Statute

The results for New Jersey's forum bylaw statute are displayed in table 2.8. They are consistent with the hypothesis that New Jersey's forum bylaw statute does not benefit the shareholders of New Jersey corporations. In the baseline regression, being incorporated in New Jersey at the time that New Jersey's legislature voted to adopt New Jersey's forum bylaw statute, is associated with a negative abnormal return of -0.8 to - 0.9 % (table 2.8 cols. 1-2). This result remains almost identical if one extends the sample to include all firms instead of just locally incorporated firms (cols. 3-4) or if, in the latter case, one adds a variable controlling for whether firms are incorporated in Delaware (cols. 5-6). Note as well that the coefficient for the Delaware-incorporation variable is positive, as hypothesized, though not statistically significant (cols. 5-6).

More generally, my findings on New Jersey are highly robust. Little changes if one switches to the market model for calculating abnormal returns (table A.11), changes the size of the event window (table A.13), winsorizes or trims at different levels (table A.12), or uses matched samples (table A.15). For the purpose of

Table 2.7: Legality and Enforcement of Forum Bylaws: Triple Differences

	Dependent variable: cumulative abnormal returns [0,3]					
	Boilermakers		State supr. court and fed. cases enforcing DE forum bylaws			
	Treatment group: all Delaware Firms		Treatment group: all Delaware Firms		Treatment group: DE firms headq. in court state.	
	(1) β (SE)	(2) β (SE)	(3) β (SE)	(4) β (SE)	(5) β (SE)	(6) β (SE)
Treatment						
Treatment group	0.004***	0.004***	0.002**	0.002***	0.004***	0.005***
	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
Forum bylaw	-0.013	-0.012	0.002	0.001	0.000	-0.000
	(0.017)	(0.017)	(0.003)	(0.003)	(0.001)	(0.001)
F. byl. x Treatm. gr.	0.001	-0.003	-0.002	-0.002	0.006***	0.007***
	(0.017)	(0.017)	(0.003)	(0.003)	(0.001)	(0.001)
Fin. Controls						
Ln(assets)		0.000		0.001***		0.001***
		(0.000)		(0.000)		(0.000)
Book lev.		0.000		-0.007*		-0.007*
		(0.006)		(0.004)		(0.004)
Fin. lev.		0.003		-0.007		-0.007
		(0.007)		(0.004)		(0.004)
Observations	3640	3180	18933	16446	18933	16446
R^2	0.194	0.172	0.036	0.042	0.036	0.042
Adjusted R^2	0.098	0.059	0.016	0.019	0.016	0.019
Industry FE	yes	yes	yes	yes	yes	yes

Note: Event study. Four-day event window [0,3]; 30-day estimation window [-60,-31]. Cumulative abnormal returns (CAR) are caculated using Fama-French-Cahart four-factor model. All regressions cluster at the level of the state of incorporation. * ** *** denote significance at the 10%, 5%, and 1% levels respectively.

Table 2.8: Enactment of New Jersey's Forum Bylaw Statute

	Dependent Variable: Cumulative Abnormal Returns [0,3]					
	Sample includes…					
	Domestic firms		All firms			
	(1)	(2)	(3)	(4)	(5)	(6)
	β (SE)	β (SE)	β (SE)	β (SE)	β (SE)	β (SE)
Treatment	-0.009***	-0.008**	-0.008***	-0.009***	-0.008***	-0.008***
	(0.003)	(0.004)	(0.001)	(0.001)	(0.001)	(0.002)
Fin. Controls						
Ln(assets)		0.002*		-0.000		-0.000
		(0.001)		(0.000)		(0.000)
Book lev.		-0.011		-0.005		-0.005
		(0.013)		(0.004)		(0.004)
Fin. lev.		-0.009		-0.002		-0.002
		(0.013)		(0.006)		(0.006)
Del. firm					0.002	0.002
					(0.002)	(0.002)
Observations	663	601	2543	2212	2543	2212
R^2	0.134	0.135	0.046	0.047	0.047	0.048
Adjusted R^2	0.058	0.044	0.022	0.018	0.022	0.018
Industry FE	yes	yes	yes	yes	yes	yes

Note: Event study. Four-day event window [0,3]; 30-day estimation window [-60,-31]. Cumulative abnormal returns (CAR) are caculated using Fama-French-Cahart four-factor model. All regressions cluster at the level of the state of incorporation. All financial controls are lagged by one year. A firm's industry is determined by its two-digit SIC code. The variable treatment takes on the value 1 if the firm is incorporated in New Jersey. Cols. 1 & 2 rely on a sample consisting only of firms that are incorporated in their state of incorporation. Cols. 3-6 are based on a sample that includes all firms. * ** *** denote significance at the 10%, 5%, and 1% levels respectively.

placebo tests, I analyze on what fraction of days in 2017, the year that the New Jersey statute was adopted, New Jersey firms experienced cumulative abnormal returns of the same magnitude as in the baseline regression including all firms (table 2.5 col. 3) that were significant at the 5% level. Including industry fixed, I find that this was only true on 11.7 % of all trading days in 2017, a number that includes the actual treatment date.

Moreover, the general tendency remains the same if one broadens the focus beyond New Jersey's forum bylaw statute and uses equation (2) to include all non-Delaware forum bylaw statutes (cf. table 2.1). In this case, the treatment coefficient remains negative and significant both for a sample consisting of locally incorporated firms and for a matched sample, though it becomes positive and is no longer significant if one includes all firms (table A.16). It must be kept in mind, though, that the findings on other forum bylaw statutes are of limited usefulness due to the presence of confounding factors in the form of other changes to the pertinent states' business corporation statutes.

Time trends for New Jersey's forum bylaw statute, obtained using equation (4), are displayed in figure 2.7. Note that the treatment group coefficients are positive and only partly statistically different from zero on the days before the event, but negative and statistically significant on the day after the New Jersey legislature voted to adopt the forum bylaw statute.

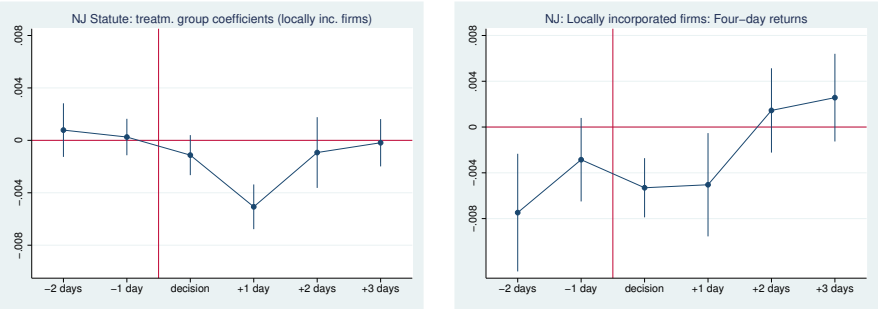

Figure 2.7: New Jersey's Forum Bylaw Statute

Note: Regressions are based on equation (4). The regression on the left uses abnormal one-day returns as a dependent variable, the regression on the right uses four-day returns[0,3] as a dependent variable. The third day before the event serves as a reference point, so that the pertinent treatment group coefficient is omitted. Both graphs use a 95 % confidence interval. Abnormal returns are calculated using a 30-day estimation Window [-60,-31]. Both regressions control for industry-day fixed effects, where a firm's industry is determined by its 2-digit level SIC code.

2.8.6 MBCA

The results regarding the Model Business Corporation Act are displayed in table 2.9. Being incorporated in a state that has not yet adopted a forum bylaw statute and is categorized as a "complier" based on its past compliance rate is associated with negative abnormal returns of about -0.3 % (table 2.9). As hypothesized, except in one specification (table 2.9 col. 6), merely being incorporated in a state that had yet adopted forum bylaw legislation at the time of the announcement, or merely being incorporated in a "complier" state, is not associated with statistically significant abnormal returns.

Table 2.9: Events: MBCA Change

	Dependent Variable: Cumulative Abnormal Returns [0,3]					
	Sample includes…					
	Locally incorporated firms		All firms			
	(1) β (SE)	(2) β (SE)	(3) β (SE)	(4) β (SE)	(5) β (SE)	(6) β (SE)
Treatment						
Complier	0.002	0.001	0.001	-0.000	-0.000	-0.003***
	(0.003)	(0.003)	(0.001)	(0.001)	(0.001)	(0.001)
No statute	0.004*	0.004	0.001	-0.001	0.001	-0.001
	(0.003)	(0.003)	(0.001)	(0.001)	(0.001)	(0.001)
Complier x no statute	-0.009**	-0.007*	-0.008***	-0.005***	-0.006***	-0.002
	(0.003)	(0.004)	(0.002)	(0.002)	(0.002)	(0.002)
Financials						
Ln(assets)		-0.001**		-0.002***		-0.002***
		(0.001)		(0.000)		(0.000)
Book lev.		-0.010		-0.010***		-0.010***
		(0.013)		(0.004)		(0.004)
Fin. Lev.		0.022**		0.030***		0.030***
		(0.010)		(0.005)		(0.005)
Del. firm					0.001	0.003**
					(0.002)	(0.001)
Observations	926	860	3629	3262	3629	3262
R^2	0.133	0.134	0.096	0.109	0.096	0.110
Adjusted R^2	0.071	0.063	0.079	0.090	0.079	0.090

Note: Event study. Four-day event window [0,3]; 30-day estimation window [-60,-31]. Cumulative abnormal returns (CAR) are caculated using Fama-French-Cahart four-factor model. A firm's industry is determined by its two-digit SIC code. All regressions cluster at the level of the state of incorporation. All financial controls are lagged by one year. All regressions are based on a sample including all firms. * ** *** denote significance at the 10%, 5%, and 1% levels respectively.

2.8.7 Robustness

My findings regarding the MBCA are fairly, though not entirely robust. Adding various firm-level controls (table 2.9 cols. 3-6), including non-locally incorporated firms firms (table 2.9 cols. 3-6), or switching from one-way clustering to two-way clustering (table A.20) are all steps that have relatively little impact on the result. Moreover, similar results obtain if one uses matched samples using propensity score matching (tables A.21). Changing the event window from [0,3] to [0,1] or [0,10] also changes relatively little (table A.19 panel A), though it is noteworthy that the results are no longer significant if one extends the event window to include days before the event (table A.19 panel B). Using different cutoffs for trimming (table A.18) or switching from trimming to winsorizing A.18) does not seem to have much of an impact in most cases either, though the results are no longer significant if one trims at the 5 % and 95 % levels. Furthermore, the results are no longer significant (in most or all specifications) if one calculates abnormal returns using the market model (table A.17) or switches to matched samples using Mahalanobis distances.

For the purpose of placebo testing, I examine on what percentage of days in 2016 the following conditions were met: (1) the interaction term "No statute x complier" is statistically significant and has an absolute value of at least 0.9 % and (2) the sum of the treatment group coefficients "complier", "no statute," and "no statute x complier" has an absolute value of at least 0.3 %. I find that this is true for only 5.6 % of all trading days in 2016.

2.8.8 Time Trends

Time trends are displayed in figure 6, which defines as a treatment group those firms that are both headquartered and incorporated in the treatment state. Note that if one focuses solely on firms incorporated in states categorized as compliers, there is a statistically significant dip on the day of the treatment, whereas the coefficients for days prior to the treatment, though negative on the day preceding the treatment, are not different from zero in a statistically significant way. By contrast, no clear pattern emerges if one focuses on firms incorporated in states that are not compliers.

2.9 Conclusion

Since Delaware's Chancery Court held that Delaware corporations could legally adopt forum bylaws in 2014, a growing number of states have enacted forum bylaw statutes that explicitly authorize such bylaws.

These reforms are in line with the positive echo that forum bylaws have found in much of the literature (Romano and Sanga, 2017; Wilson, 2016). In this study, I have presented evidence consistent with the claim that the availability of forum bylaws under Delaware law benefits shareholders.

However, this does not imply that other states should continue to rush to adopt forum bylaw statutes. As a theoretical matter, there is reason to doubt whether shareholders benefit if the board can unilaterally force shareholder plaintiffs to bring suit in the state of incorporation, regardless of how effective the courts

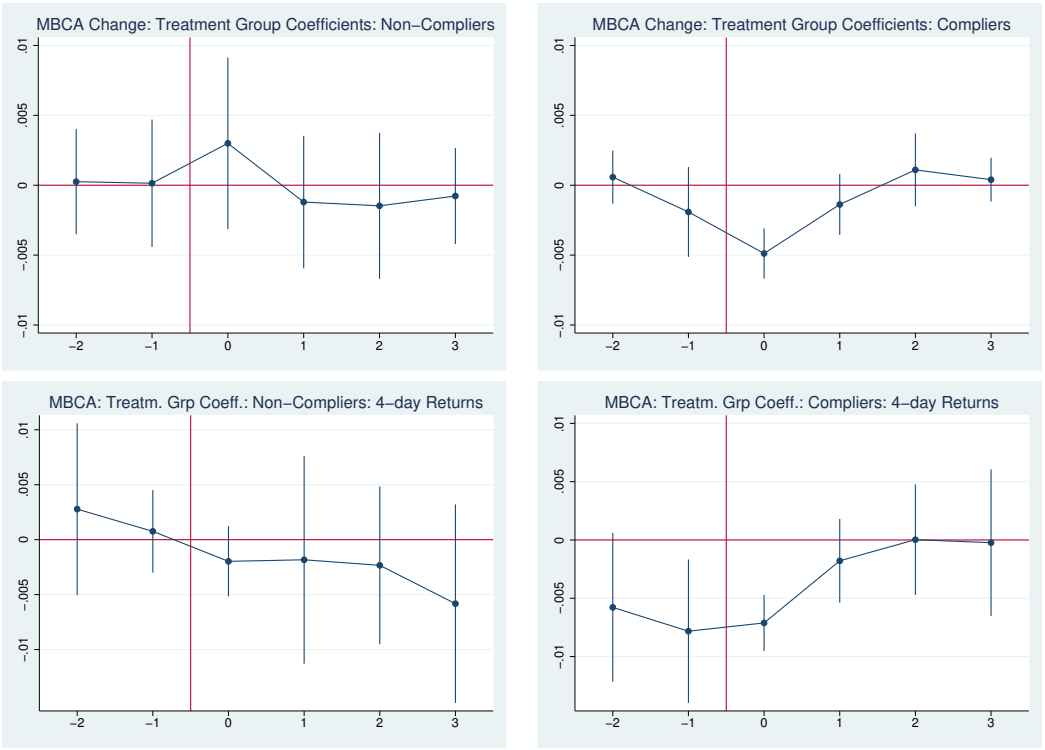

Figure 2.8: MBCA Change: Firms in Complying States v. Firms in Non-Complying States

Note: Regressions are based on equation (4). The two regressions on top use abnormal one-day returns as a dependent variable, the two regressions on the bottom use four-day returns[0,3] as a dependent variable. All graphs use a 95 % confidence interval. Abnormal returns are calculated using a 30-day estimation window [-60,-31]. The treatment group consists of firms incorporated in states that have not yet adopted a forum bylaw statute. The control group consists of all other firms. The graph on the is based on a sample consisting only of firms incorporated in states that are categorized as compliers (as defined in main text). The graph on the right is based on a sample consisting only of firms incorporated in states that are not compliers. The third day before the announcement serves as a reference day. For all regressions, the third day before the event serves as a reference point, so that the pertinent treatment group coefficient is omitted.

of that state are. Indeed, in this paper, I have presented findings that are very much consistent with the idea that forum bylaw statutes may reduce shareholder wealth if they are adopted by states without an appropriate judicial infrastructure.

Moreover, this paper has introduced a novel type of exogenous shock, namely amendments to the MBCA. Because states vary in their willingness to copy legal innovations embraced by the MBCA, announcements by the ABA that it intends to change the Model Business Corporation Act have a greater impact on firms in some states than in others. This differential impact can be used to determine if capital markets welcome or fear certain legislative changes. This shock is particularly helpful for two reasons. First, announcements regarding changes to the MBCA very often contain very narrow changes, making it possible to isolate the impact of individual rule changes. Second, observing the market's reaction to changes in the MBCA allows lawmakers to draw inferences regarding the desirability of certain legal rules even before they have been enacted in any state.

Chapter 3

Business Courts, Firm Performance, and Shareholder Wealth

3.1 Introduction

The central question of this paper is whether giving publicly traded corporations access to business courts to litigate their internal corporate affairs benefits shareholder wealth and firm performance.

Why should courts matter in this context? One of the main goals of corporate law is to prevent managers from benefiting themselves at the expense of shareholders.[1] Such behavior, which I will loosely refer to as "opportunism," can take many different forms. It may range from shirking, illegal self-dealing transactions, and self-serving empire building to illicit self-entrenchment in the face of hostile takeover attempts. Yet while it is easy for the law to prohibit managerial opportunism, enforcing such prohibitions is much harder: a common feature of the legal principles governing managerial self-enrichment is that they are often vague and fact-intensive standards that are notoriously difficult for courts to apply (Kamar, 1998).

[1] Some firms have controlling shareholders so that the dominating conflict of interest is the one between minority shareholders and controlling shareholders. That does not profoundly change my analysis, however, except that in those firms, a central role of corporate law is to prevent controlling shareholders from benefiting themselves at the expense of minority shareholders.

In theory therefore, much hinges on the availability of high-quality courts. Access to such courts should make it easier to ascertain managerial opportunism, thereby deterring such conduct in the first place or, in some cases, reversing it after it has occurred. The lack of high quality courts, on the other hand, creates a potential friction in the market for managerial labor. Corporations and managers might well be willing to conclude contracts which pay the manager a premium for abiding strictly by his legal obligations, but that contract may not be made if the manager, for lack of good courts, is unable to make a credible commitment.

By reducing managerial opportunism, high-quality courts could benefit both corporate performance and shareholder wealth. In fact, there are two main channels through which such a link might be expected. First, managerial opportunism can directly affect the corporation's bottom line, such as when the manager uses illicit means to obtain an excessive salary or when he lets large shareholders deal on favorable terms with the corporation in exchange for their support. Second, the manager's conduct may indirectly harm the corporation's performance, most notably in the case of managerial self-entrenchment: a manager who knows that he will get away with thwarting hostile takeover attempts for the purpose of entrenching himself has less incentive to work hard.

But does the quality of courts as fora for corporate litigation actually matter to firm performance? The empirical literature is silent on this issue, most likely because the impact of courts is notoriously difficult to assess (Ponticelli, 2015). Even if well-functioning courts go hand in hand with high-performing firms, the direction of any causal link may be unclear: perhaps jurisdictions with flourishing

businesses start spending more on their courts such that high performance causes increases in court quality and not the other way around. Moreover, jurisdictions with good courts are also likely to have above-average institutions more generally, making it potentially difficult to disentangle the judiciary's effect.

To overcome these problems and assess the impact of courts on shareholder wealth and firm performance, this paper makes use of the peculiar rules governing jurisdiction in corporate law matters. Starting in the early nineties, almost half of all states have created special business courts (table C.5). These courts were designed to avoid some of the core weaknesses that ordinary state courts faced. Most notably, they typically offer speedy proceedings, the use of advanced case management techniques, and judges experienced in business matters (Bach and Applebaum, 2004).

On a theoretical level, the relationship between business courts and firm performance as well as shareholder wealth is far from obvious. As explained above, business courts have some advantages. At the same time, one may speculate that business courts may be more vulnerable to industry capture, or may by inclination tend to be more management friendly at the expense of shareholders. It is not a priori inconceivable that these drawbacks outweigh any benefits that business courts may offer.

The goal of this article is to explore empirically the relationship between access to business courts for corporate litigation and shareholder wealth as well as firm performance. To do so, I rely on both an event-study approach and a difference-in-differences design.

For both approaches, it is crucial that the creation of business courts does not impact all businesses in the relevant states alike. Rather, due to the peculiar rules governing jurisdiction in corporate law matters, the impact of business courts depends on where firms are incorporated.

Table 3.1: Business Courts and Complex Litigation Programs

Year	State	Type	Year	State	Type
1992	IL	Business	2006	CO	Business (until 2015)
1993	NY	Business	2007	ME	Business
1993	NJ*	Business	2007	SC	Business
1995	NC	Business	2008	NH	Business
1998	CT	Complex Litigation	2008	OH	Business
1999	MA	Business	2009	AL**	Business (until 2013)
1999	CA	Complex Litigation	2010	WV	Business
1999	PA	Business	2010	DE***	Business
2000	NV	Business	2011	MI	Business
2001	RI	Business	2012	IA	Business
2002	AZ	Complex Litigation	2013	MN	Complex Litigation
2002	MD	Business	2015	AZ	Business
2003	FL	Business	2015	TN	Business
2005	GA	Business	2016	IN	Business
2006	OR	Complex Litigation	2017	WI	Business

Note: For each state, the date indicates the year in which the business court or complex litigation program was first created, typically by administrative order. This study focuses solely on business courts, though the existence of complex litigation programs is used as a control variable in some regressions. * New Jersey's business court generally does not handle corporate cases and is therefore excluded from the analysis. ** Alabama's commercial litigation docket was suspended on May 11, 2013 following lawsuits that questioned its constitutionality. *** Delaware created a complex commercial litigation division in 2010 (Admin. Dir. No. 2010-3). However, this program is excluded from the analysis since Delaware's Chancery court has traditionally been (and continues to be) Delaware's specialized court in corporate law matters; indeed, in the literature, the Delaware Chancery Court is often referred to as the nation's first business court (Drahozal, 2008).

Note that the "state of incorporation" is the state under whose corporate

law the corporation has been formed ("incorporated") and whose corporate law therefore governs the corporation's internal affairs. It must be distinguished from the headquarters state ("home state") where the corporation's actual headquarters is located. The state of incorporation and the headquarters state may coincide, but do not have to.

In practice, public corporations are typically incorporated either in the state where they are headquartered, or in Delaware (table 4.1). One of the main reasons for Delaware's popularity as a state of incorporation is believed to lie in its judiciary. Delaware boasts a particularly excellent court for corporate litigation, the Delaware Chancery Court (Dammann and Hansmann, 2008), and many public firms are thought to incorporate in Delaware in large part in order to be able to litigate their corporate affairs in the Chancery Court (Dreyfuss, 1995; Fisch, 2000; Kahan and Kamar, 2002; Pritchard, 2009). Accordingly, public corporations incorporated in Delaware have traditionally litigated a large part of their corporate cases in Delaware rather than in their headquarters state (Romano, 1993). And while, for some types of corporate lawsuits, Delaware's popularity as a forum appears to have declined somewhat after 2001, Delaware still retains much of the relevant litigation (Armour et al., 2012b).

Against that background, when individual states create business courts, the impact on public corporations headquartered in the relevant state depends on where such corporations are incorporated. All public corporations headquartered in the state creating the business court obtain a new forum for "external litigation" such as commercial disputes or tort cases. But those public corporations that are

Table 3.2: Where Do Firms Incorporate If Not Locally? The Top Ten (1988-2017)

State of incorporation	Number	Percent*	State of incorporation	Number	Percent*
Delaware	13,117	75.4%	Colorado	187	1.1%
Nevada	1,099	6.3%	Minnesota	164	0.9%
Maryland	937	5.4%	Florida	141	0.8%
Massachusetts	510	2.9%	New Jersey	108	0.6%
New York	245	1.4%	Pennsylv. & Utah	91	0.5%
Total number of firms (incorporated locally or out of state): 23,909					
Number of locally incorporated firms: 6,500 (27.2 % of all firms)					

Note: * Percentages in columns 3 and 6 refer to the percentage of corporations incorporating in a given state out of the total number of corporations incorporating outside their home state. In order to be considered, a firm must have at least one firm-year observation between 1988 and 2017. For the purposes of determining the state of incorporation, I focus on the most recent firm-year observation for each firm.

not just headquartered, but also incorporated in the state creating the business court also stand to gain something else, namely a high-quality forum for litigating their internal affairs, i.e., matters of corporate law. By contrast, firms incorporated elsewhere often litigate their internal affairs in the courts of their state of incorporation and therefore typically stand to gain much less on this dimension. This is particularly true where, as in in most cases, the firms that are not incorporated locally have chosen Delaware as their corporate domicile and therefore already enjoy access to Delaware's excellent Chancery Court.[2]

This differential impact makes it possible to define both a treatment group and a control group. The treatment group consists of firms incorporated and head-

[2] A more detailed account of the pertinent jurisdictional rules is given in appendix A.

quartered in the state creating the business court. The control group is composed of those firms that are headquartered in the state creating the business court, but incorporated in some other state and therefore likely to litigate their internal affairs in the courts of that other state. One can even go a step further. As long as one controls for the headquarters state, one can extend the control group to all public corporations incorporated in other states.[3] I make use of both approaches.

Note that firms headquartered in the state creating a business court can either be part of the treatment group (if they are incorporated in that state) or part of the control group (if they are incorporated elsewhere). As a result, it is possible to disentangle the effect of business courts from that of other state-specific policies or economic trends that may tend to coincide with the creation of business courts. Additionally, it is noteworthy that the vast majority of business courts have been created by the pertinent states' judiciaries rather than by state legislatures (cf. table B.3). Given the independence of state judiciaries, this fact greatly reduces the likelihood that the creation of business courts went hand in hand with other state policies adopted by the legislative or executive branches.

By and large, my findings are consistent with the assumption that giving

[3] I intentionally omit from the definition of the treatment group those firms that are incorporated in the treatment state but headquartered elsewhere. The effects of business courts on such firms would be hard to interpret. For example, if, as one study suggests, business courts compete for plaintiffs (Cain et al., 2015), they may also turn out to be biased in favor of plaintiffs, and the creation of a business court may well be bad news for firms that are only incorporated, but not headquartered, in the treatment state: given that a disproportionate number of their business partners/customers may be located in their headquarters state, these business partners/customers gain a more favorable forum for their claims while these customers/business partners, in turn, may not be exposed to litigation in the firm's place of incorporation.

firms access to business courts to litigate their internal affairs increases shareholder wealth and benefits firm performance. Most notably, I find that at the time that business courts are created, firms incorporated and headquartered in the pertinent states experience positive abnormal returns of 1.2 % relative to firms that are merely headquartered in the relevant state (table 3.5 cols. 1 & 2). In interpreting the size of this coefficient, it must be kept in mind that the creation of a business court is often preceded by commissions or panels recommending such a change; hence, markets may anticipate the establishment of such courts at least to some extent. Accordingly, the average abnormal return of 1.2 %, rather than capturing the full benefits of business courts, can reasonably be interpreted as a lower bound.

It is also noteworthy that the positive stock price reaction appears to be driven by the creation of business courts in those states whose ordinary courts fare poorly in court quality rankings. In particular, if one focuses solely on business courts that were created in states whose general courts are ranked in the bottom third of states (cf. section IV), then the cumulative abnormal return for treatment group firms lies between 2.9 and 3.4 %, and the association is statistically significant at the 1 % level. By contrast if one focuses on the creation of business courts in states whose court systems are ranked above the bottom third, the treatment group coefficient becomes much smaller (0.3 %) and is no longer statistically significant. This finding is intuitive in the sense that firms in states with weak courts should have much more to gain from the creation of business courts than firms in states that already have a well-functioning judiciary.

I also find some evidence consistent with the assumption that business

courts play a role in firms' choices where to incorporate. Using both probit and linear probability models, I show that firms are more likely to be incorporated locally if their home state has a business court (tables 3.8 & 3.9).

Furthermore, I find a positive and statistically significant long-term association between the existence of business courts and firms' return on assets (ROA) and return on sales (ROS). Focusing on the 30-year period from 1988 to 2017,[4] the creation of business courts is associated with a 2 to 2.6 percentage point increase in ROA (table 3.11). This amounts to a 5 % to 6 % increase vis-a-vis the baseline mean. These findings, too, appear to be driven by the creation of business courts in states whose general court systems are ranked poorly. For the same time period, I find a statistically significant 5.2 to 9.5 percentage point increase in return on sales (ROS). That corresponds to a 4 % to 8 % increase (table 3.12).

Finally, to better understand whether courts benefit shareholders by preventing managerial opportunism, I focus on the takeover context. The creation of a business court is associated with a 0.5 percentage point higher likelihood of being the target in a completed merger that produces positive abnormal returns for the target's shareholders (table B.2). This result, too, is both economically and statistically significant.

[4] I include four years prior to the first business court both in order to have a non-trivial number of pre-treatment years for the first business courts and because the resulting total of 30 years provides a "round" number.

3.2 Literature Review

This paper touches upon various strands of the legal and economic literature. Most importantly, there exist a growing number of papers on the relationship between courts and firms. Visaria (2009) relies on the gradual introduction of special debt tribunals in India in the 1990s to show that access to these tribunals was associated with lower loan default rates and lower interest rates. Chemin (2012) focuses on variation in court quality in India to show that better courts are associated with fewer breaches of contract, higher investment, and more lending. Ponticelli (2015) uses a difference-in-differences approach to examine whether the beneficial impact of Brazil's 2005 bankruptcy reform on firm investment and productivity depended on whether corporations had access to uncongested courts. Brown et al. (2015) examine the effect of a 1953 statute that shifted jurisdiction from certain tribal courts in Native American reservations to state courts, and find an increase in small business lending. Most recently, Colonnello and Herpfer (2016) examine how a 2010 change in the rules governing diversity jurisdiction impacted stock prices. What these studies have in common is that they focus on the role of courts in enforcing contracts between firms and third parties, most notably lenders. By contrast, this paper concentrates on the importance of having access to good courts in matters internal to the corporation. Moreover, this paper is the first empirical study to analyze the impact of granting firms access to U.S. business courts for litigating their internal affairs on firms performance and shareholder wealth.

At the macro level, there exists a much broader literature on the relation-

ship between institutions and economic growth or development including works such as Rodrik (2000), Glaeser et al. (2004), Rodrik et al. (2004), Valeriani and Peluso (2011), or Nawaz (2015). These studies typically include broadly defined judicial institutions in their analysis. Moreover, some authors go further and single out courts as a factor in economic growth (Feld and Voigt, 2003; Hayo and Voigt, 2008). The present paper complements these macro-level studies by identifying one particular channel in which better courts may contribute to economic growth.

Furthermore, various authors have commented from a legal perspective on the merits of U.S. business courts (Bach and Applebaum, 2004; Coyle, 2012). However, there is almost no empirical work on such courts. Miller (2015) asks the unrelated question of how the introduction of business courts affects forum choices in major contracts. More specifically, the author analyzes if the creation of business courts is associated with a decrease in the percentage of contracts using arbitration clauses and/or an increase in the percentage of contracts opting into the state court system. Cain et al. (2015) examine to what extent state courts compete for corporate litigants and find, in this context, that states with business courts tend to compete for corporate litigation by adjusting attorneys' fees.

Finally, some authors have analyzed the factors that determine whether firms incorporate locally or in other states. In that context, it has been shown that, all else equal, public corporations headquartered in a state with poorly rated courts are more likely to incorporate out of state (Kahan, 2006). The same has been demonstrated for large privately held corporations (Dammann and Schündeln, 2011) and large privately held limited liability companies (Dammann and Schündeln,

2012). On the other hand, a recent study of venture-capitalist backed start-ups finds no statistically significant evidence that judicial quality matters to incorporation choices (Broughman et al., 2014). By and large, these findings are consistent with the assumption that corporations value having access to highly rated courts. They differ from this paper in that they focus on the quality of the court system in general rather than on the existence of business courts and also in that they do not examine the impact that courts have on corporate performance or shareholder wealth.

3.3 Institutional Background

Business courts are typically created by state judiciaries via administrative order (cf. table B.3). Only a few states have enacted formal legislation, either to create business courts or to expand business courts originally created by the judiciary.

What motivated the creation of business courts? State judiciaries, bar associations, and government officials mainly argued that business courts would help states attract or retain businesses. For example, in North Carolina, a 2004 report by the state judiciary argued that an "expansion of our Business Court is critical to maintaining North Carolina's competitive advantage in attracting new businesses to the State" (Maryland State Bar Association, 2003). Similar statements can be found in many other states (Coyle, 2012; Bach and Applebaum, 2004). In at least some states, the hope to become a forum for high profile commercial litigation also played a role (Coyle, 2012; Bach and Applebaum, 2004). Most notably, one

of the declared goals of New York's commercial division was to "return the New York courts to a leadership role in adjudicating major commercial disputes" (NY-SUCS, 1999). A few legal scholars have ventured that the creation of a business court may help a state become more attractive as a state of incorporation (Loewenstein, 2000; Roe, 2009). However, whether or not one shares this assessment, there is scant evidence that this consideration motivated state court and lawmakers to create business courts (Coyle, 2012) and, as shown by Kahan and Kamar (2002), most states have structured their franchise taxes in such a way that they have very little to gain from attracting corporate charters.

It is also noteworthy that only two business courts, namely Alabama's Commercial Litigation Docket and Colorado's Commercial Docket, ended their activities during the years of interest (1988-2017). Alabama's Commercial Litigation Docket was not closed for economic reasons, but because of legal concerns regarding its constitutionality. Colorado's case is more complex. Colorado's original pilot commercial docket was followed by the Civil Access Pilot Project (CAPP) that included special rules for business actions. The CAPP, which was thought to be quite successful (Gerety and Cornett, 2014), ended in 2015. However, it led to significant changes to the Colorado Rules of Civil Procedure, which took effect on July 1, 2015.

In many states, business courts now play an important role in business litigation. Obviously, the number of cases that business courts decide varies with the size of their jurisdiction as well as with the number of assigned judges. Thus, North Carolina's business court only disposed of 131 cases in 2014, whereas, in

2015, the relevant number for New York's commercial division was 3,363. What observers agree on, though, is that at least some business courts have brought great improvements in terms of both expertise and speed. For example, within less than ten years of its creation, New York's commercial division had reduced the average disposition time for contract cases by 55% (Bach and Applebaum, 2004).

There are also some, albeit very tentative, signs suggesting that business courts may lead to more effective policing of managerial conduct. In particular, New York's commercial division has been taking a notably shareholder-friendly stance in dealing with so-called derivative suits, which are a central mechanism for policing managerial self-enrichment.[5] This is consistent with a recent finding by Cain et al. (2015) that business courts compete for corporate litigation by increasing attorney's fees. Because shareholder litigation is typically driven by attorneys seeking to maximize their fees, higher fees are likely to lure more and better law firms into the field of shareholder litigation, thereby contributing to more effective judicial scrutiny of managerial conduct.

A few states, concerned that creating special business courts might seem like a privilege for corporations over ordinary citizens, failed to create business court, but opted instead to establish "complex litigation" programs (table C.5). Complex litigation programs have a different focus in that they target complex litigation regardless of whether it is business-related. As a result, they may be much less likely to develop the particular expertise in business matters that busi-

[5]Examples include Weiser v. Grace, 683 N.Y.S.2d 781 (1998) (refusing to dismiss a derivative suit); Araiz v. EQSF Advisers, Inc., Index No. 9908 (1999) (refusing to dismiss a derivative suit).

ness courts are meant to achieve. While I use the existence of such programs as a control variable in some regressions, the focus of this paper is on business courts and not on complex litigation programs. I also exclude New Jersey's Complex Business Litigation Program from my analysis, because it does not handle corporate cases. Furthermore, with respect to Delaware, I focus on the Chancery Court, which was first established in 1792, rather than on Delaware's Complex Commercial Litigation Division, since it is the Chancery Court that handles most of Delaware's corporate litigation.

3.4 Data

Data on stock prices are obtained from CRSP; other firm level data are obtained from CRSP/Compustat Merged (CCM) for the event study and from Compustat Fundamentals Annual for the difference-in-differences approach. Because Compustat and CRSP/Compustat Merged only indicate the most recent state of incorporation, I rely on SEC Analytics to obtain historical state of incorporation data.[6] Data on mergers stem from SDC Platinum. Firm level corporate governance

[6]To incorporate SEC Analytics Data, I proceed in two steps. First, using a dataset derived from SEC Analytics alone, I identify those cases where firms changed their state of incorporation between 1994 (the first year for which SEC Analytics data are available) and 2017. In an effort to minimize the impact of erroneous data, I eliminate from the relevant list those firms that are reported to have switched their state of incorporation five or more times. For the resulting subsample of firms that changed their state of incorporation, I then adjust the Compustat data. Since the SEC Analytics data are only available beginning in 1994, I extrapolate them to earlier years by making the assumption that the state of incorporation did not change between 1988 and 1994. For example, if Compustat shows that the current state of incorporation is Delaware, and the SEC Analytics data indicate that a corporation was incorporated in Oklahoma from 1994 to 2010 before reincorporating in Delaware in 2011, then, for lack of better information, I presume the state of incorporation to be Oklahoma not only from 1994 to 2011, but also in the years before 1994.

data are obtained from Institutional Shareholder Services (ISS). In coding states' antitakeover statutes, I rely entirely on Cain et al. (2017).[7]

Unless otherwise noted, cumulative abnormal returns, financial ratios, and all other financial data are winsorized at the 1 % and 99 % levels to reduce problems of incorrect data.[8] However, for the purpose of robustness checks, I use other cutoffs and switch from winsorizing to trimming (table C.18).

3.4.1 Data on the Creation of Business Court

Data on the creation of business courts were researched by hand; the pertinent laws and administrative orders are detailed in table B.3. For both the event study and the difference-in-differences approach, I generally focus on the first known formal vote or other official act of approval.[9] If the court was created by statute, I focus on the passing vote in the house or in the senate, whichever came first. If the court was created by administrative order, I generally focus on the date that the administrative order creating the business court was adopted. In the case of Nevada, the Supreme Court's Chief Justice was pushing for the creation of a

[7]Because the regressions used for the difference-in-differences approach include state-of-incorporation fixed effects, I include only those takeover variables for which the law changed in at least one state between 1994 and 2017. I also omit some takeover variables due to collinearity with other takeover variables. Moreover, I generally limit my controls to statutory takeover law rather than accounting for case law as well. The reason is that a state's case law is likely to be at least to some extent a function of the state's court structure. However, I show that my baseline results are robust to controlling for takeover case law (table B.14).

[8]Because different regressions are based on different sample (depending, for example, on whether one includes or excludes reincorporating firms), I winsorize, for each regression, the sample underlying that particular regression. In the context of the event study, I winsorize by event, each event being the creation of a business court. When using panel data, I winsorize by year.

[9]I disregard endorsements by state bar associations or other interest groups.

business court, and it was the state's district court judges who first voted on the project, so I focus on the day that that vote was publicized. In a few cases, newspaper reports indicate that the impending creation of a business court was publicly announced before the court was actually created by administrative order. In those cases, I focus on the announcement date rather than on the subsequent creation of the court.

Even in cases without prior announcement, focusing on the date of adoption is a less than perfect approach since, in practice, it may take a couple of days for such orders to be publicized, typically via announcement on the pertinent state supreme court's website or by press release (cf. table B.3). On the other hand, relying on the publication date of subsequent newspaper articles is also unsatisfying, since the adoption of the relevant administrative order may well have reached interested audiences via blogs or word by mouth even before being reported in national or local newspapers. To address this dilemma, I proceed as described above, but use a four-day event window [0,3] for my baseline regression, thereby allowing for a small delay in disclosure or information dissemination. However, I also demonstrate that my findings are largely robust to using other event windows (cf. table B.5).

3.4.2 Data on the Quality of States' General Courts

One might hypothesize that business courts have a greater impact in those states where the court system in general is particularly overburdened or otherwise dysfunctional. While there exists no universally recognized measure of ju-

dicial quality, the U.S. Chamber of Commerce Institute for Legal Reform (ILR) has been periodically surveying attorneys working for large companies regarding the quality of state court systems, and the pertinent data have been used by various authors in the corporate law literature, e.g., Kahan (2014); Dammann and Schündeln (2012); Colonnello and Herpfer (2016). Admittedly, there can be little doubt that the ILR survey results are biased given that they reflect the views of lawyers working for large firms rather than those of, say, consumer advocates. However, for the purpose of this study, this bias may not be a disadvantage. Precisely because most of the respondents work for public corporations, the ILR surveys may offer useful insights into how state court systems are viewed by the type of firms that are analyzed in this paper. Moreover, the ILR data have the advantage that they exist for several years (2002, 2003, 2004, 2006, 2008, 2010, 2012, 2015, and 2017). I therefore use them as the main proxy for the "quality" of a state's general court system. More specifically, for each event, I focus on a state's overall rank in the most recent study undertaken prior to that event.[10] For those business courts whose creation preceded the earliest such study, I rely on the rank in the 2002 study.[11] Unless stated otherwise, a state's court system is categorized as poorly rated if it is ranked in the bottom third of states.[12]

[10]To determine whether a study was undertaken before a particular event, I focus on the date by which the survey underlying the study was completed.

[11]Admittedly, this raises potential endogeneity concerns since it is not inconceivable that the creation of business courts in the years prior to 2002 had some impact on a state's performance in the 2002 survey. However, for at least two reasons, this concern should not be overstated. First, the relevant rankings focus on civil litigation more generally, rather than on business courts. Second, the relevant rankings have proven to be quite stable over time.

[12]The relevant ILR studies are available at https://www.instituteforlegalreform.com/research/2017-lawsuit-climate-survey-ranking-the-states-.

For the purpose of robustness checks, I also rely on an alternative measure of judicial quality developed in the legal literature, namely the frequenccy of out-of-state citations to majority opinions (Choi et al., 2008).[13] That ranking has the additional advantage that it focuses exclusively on "high courts," thereby excluding business courts from its scope. This greatly reduces concerns that a state's rank might be influenced by the prior creation or non-creation of a business court.

3.5 Incorporation Decisions and Endogeneity

Given that this study defines treatment and control groups based on firms' states of incorporation, one potential concern lies in the endogeneity of firms' incorporation choices.

Firms are thought to incorporate in Delaware rather than locally precisely because they seek access to Delaware's excellent Chancery Court for their corporate litigation (Kahan, 2006; Kahan and Kamar, 2002; Fisch, 2000; Dreyfuss, 1995). Moreover, it is not just Delaware's Chancery Court that may play a role in incorporation choices, but also other business courts. As shown below, data on incorporation choices suggest that firms are more likely to incorporate locally if their

[13] Choi et al. (2008) also offer other measures on judicial quality, namely independence and number of opinions per judge. However, the fact that Delaware achieves awful to mediocre scores on both measures, despite being widely recognized as a particularly excellent forum for business related litigation, suggests that these measures may not be particularly useful in evaluating the litigation environment for corporations. Furthermore, the number of judicial opinions per judge may indicate a high caseload which may be a negative rather than positive sign when it comes to evaluating the litigation environment. Needless to say, this is not meant as a criticism of the pertinent criteria but merely as an argument as to why they are not appropriate for the project at hand.

own state has established a business court (cf. table 3.8).

For an event study design that focuses on stock price reactions to the creation of business courts, this selection effect is less of a problem than it may seem. In part, this is because the resulting bias implies that my results are likely to understate the actual benefits of business courts for the average public corporation: given that the firms most likely to benefit from excellent courts are also most likely to incorporate in Delaware (or at least some other state with a business court), those firms for which one observes a treatment effect, namely firms in states that create new business courts, are firms that tend to benefit less from such courts. Second, and more importantly, from a policy perspective, the interesting question is precisely how the creation of business courts affects those firms which, for whatever reason, have *not* already opted to incorporate in Delaware (or some other business court state).

A difference-in-differences approach relying on panel data, faces potentially more serious endogeneity concerns. It is not overly troublesome that those firms that stand to benefit most from the creation of business courts may already have incorporated in Delaware prior to the first sample year. This selection effect should only biases my results downwards, and, in any case, the interesting question is how the creation of business courts affects those firms that have not already reincorporated. However, to the extent that firms are newly formed or reincorporate during the years under observation, the composition of treatment and/or control groups change, which may bias the results in unpredictable ways. To address this issue, I exclude from my baseline sample those firms that reincor-

porated or were newly formed during the period of interest (1988-2017). It is worth noting though that my results are largely robust to including reincorporating as well as newly formed firms (tables B.12, B.13, B.17 B.18, B.20, B.21).

3.6 Event Study

The central hypothesis underlying this paper is that giving courts access to business courts to litigate their internal affairs may improve shareholder wealth. To explore this hypothesis, I employ an event study design that focuses on how stock prices react at the time that business courts are created.

3.6.1 Empirical Framework

This section summarizes the equations underlying my event study analysis.

3.6.1.1 Abnormal Returns

Abnormal returns are calculated based on the Fama-French-Cahart four-factor model:

$$R_{i,t} - R_{f,t} = \alpha_i + \beta_i(R_{m,t} - R_{f,t}) + \gamma_i SMB_t + \delta_i HML_t + \zeta_i UMD_t + \epsilon_{i,t} \tag{3.1}$$

I also show that my results are robust to calculating abnormal returns under a so-called market model (table B.8), according to which the abnormal return on a given day is given by the difference between the actual return (ret) and the return on the value weighed index including all distributions (vwretd).

Cumulative abnormal returns are obtained by adding daily abnormal returns. The estimation period covers 30 days [-60,-31]. Unless noted otherwise, the event window covers 4 days [0,3], though my results are largely robust to using different event windows (table B.5).

3.6.1.2 Basic Regression

The effects of business courts are estimated using the following model:

$$CAR_{i,e,s,c,h} = \beta_0 + \beta_1 Court_{e,s,h} + \beta_2 X_{i,e} + \lambda_{c,e} + \gamma_h + \epsilon_{i,e,s,c,h} \tag{3.2}$$

where i indexes firms, s states of incorporation, c industries, h headquarters states, and e particular events, each event being the creation of a particular business court. The term $Court_{e,s,h}$ captures whether a given firm is part of the treatment group for a particular treatment event. The treatment group consists of firms that are both headquartered and incorporated in the state creating the court. The term $X_{i,e}$ captures firm level variables at the time of the particular event, the term $\lambda_{e,c}$ captures event-industry fixed effects, and γ_h captures headquarters state fixed effects. In my baseline regressions, I include, for each event, only those firms that are headquartered in the treatment state. The term γ_h is then dropped.

3.6.1.3 Triple Differences

To better understand whether the creation of business courts impacts well-governed firms differently from poorly governed firms, I use a triple differences approach, relying on the following model:

$$
\begin{aligned}
CAR_{i,e,s,c,h} = \beta_0 &+ \beta_1 Court_{e,s,h} \\
&+ \beta_2(Court_{e,s,h} \times AgencyCosts_{i,e}) \\
&+ \beta_3(AgencyCosts_{i,e}) + \beta_4 X_{i,e} + \lambda_{c,e} + \gamma_h + \epsilon_{i,e,s,c,h}
\end{aligned} \tag{3.3}
$$

As before, i indexes firms, s states of incorporation, c industries, h headquarters states, and e particular events. The term $AgencyCosts_{i,e}$ captures certain firm-level proxies for agency costs at the time of a particular event.

3.6.1.4 Time Trends

To explore time trends, I rely on the following model:

$$
\begin{aligned}
AR_{i,s,e,c,n} = \beta &+ \sum_{n=-(T-1)}^{T} \gamma_n(day_n \times Treated_{s,e,h}) \\
&+ \eta_n + \lambda_{e,c} + \epsilon_{i,s,e,c,n}
\end{aligned} \tag{3.4}
$$

Once again, i indexes firms, s states of incorporation, e events, and c industries. The term $AR_{i,s,e,c,n}$ captures abnormal returns for a given firm on a given day. The subscript n indexes the number of days before and after the judgment.

The variable $Treated_{s,e,h}$ captures whether a firm is part of the treatment group for a particular event (be it before or after the treatment). Thus, the interaction term $(day_n \times Treated_{s,e,h})$ captures the effect of being incorporated in the treatment state for each of the days from $(T-1)$ days before the event to T days after the event. The term η_n captures day fixed effects, and the term $\lambda_{e,c}$ captures event industry fixed effects.

3.6.2 Sample Composition and Summary Statistics

For my baseline regressions, I include, for each event, only those firms that are headquartered in the treatment state. Thus, for each event, the treatment group consists of firms headquartered and incorporated in the treatment state, whereas the control group consists of firms headquartered in the treatment state, but incorporated elsewhere.[14]

For a few potential events, either the baseline treatment group or the baseline control group or both are empty. I therefore discard the pertinent events entirely.[15]

I drop financial firms (Fama and French, 1992) as well as public utilities and firms in the area of public administration.[16]

Summary statistics for my baseline regression are displayed in table 3.3. As shown in that table, the firms in the treatment groups vary quite strongly from those in the control groups with regard to various characteristics. This is consistent with findings in the prior literature that firms incorporating in Delaware, the main destination for non-locally incorporated firms, are quite different from firms incorporating locally (Jagannathan and Pritchard, 2017).

[14] As a robustness check, I include firms headquartered in other states while controlling for headquarters-state event industry fixed effects (table B.4). In this case computational limitations make it necessary to switch from the 2-digit to the 1-digit sic level. The results are quite similar to those in table 3.5, though the main coefficient of interest is reduced from 1.2 % to 0.9 %.

[15] Specifically, this concerns the creation of business courts in Alabama, Maine, New Hampshire, West Virginia, and Wisconsin.

[16] Doing so reduces by baseline sample by 755, 68, and 16 observations respectively, resulting in a total sample size of 1785 firms.

For any empirical study relying on a treatment event at the level of the state of incorporation, such differences are a potential source of concern. One might conjecture that different stock prices reactions on different days could be explained on the ground that, on any given day, different types of firms react differently to macro level shocks. To address this concern, I use various techniques such as time trend analysis, placebo testing, and matched samples.

3.6.3 Event Study Hypotheses

In light of the importance that the legal literature attaches to good corporate law courts, I hypothesize that the creation of business courts is associated with positive abnormal returns for firms in the treatment group. Moreover, the importance of business courts ought to be more pronounced for states whose general courts perform poorly, since firms in those states have more to gain from the creation of good courts. Accordingly, I hypothesize that the positive stock market reaction should be greater in the case of those business courts that are created in states whose general courts fare poorly in court quality rankings.

Finally, one might expect the impact of newly created business courts to be stronger for poorly governed firms that for well-governed firms. One reason is that firms with greater agency costs may have more to gain from an institution, namely a business court, that helps to reduce agency costs. Another reason has to do with incorporation choices. To the extent that well-governed firms stand to profit substantially from business courts, they should already have reincorporated in Delaware (or in some other jurisdiction with a well-functioning business

Table 3.3: Event Study: Summary Statistics

	Treatment Group	Control Group	Difference
Firm size			
Market equity [mill.]	1270.08	1153.11	116.98
Assets [mill.]	2815.31	2568.09	247.23
Employees [thous.]	7.17	5.45	1.73**
Firm performance			
Retun on assets (ROA)	0.03	0.07	-0.05***
Tobin's q	1.94	1.63	0.31***
Return on equity (ROE)	0.12	0.25	-0.13***
Other			
Book leverage	0.24	0.20	0.04***
Financial leverage	0.27	0.30	-0.04***
Total debt [mill.]	792.72	569.70	223.02**
Dividends over assets	0.01	0.01	-0.00
Tangibility	0.22	0.18	0.04***
Observations	1708	877	2585

Note: This table include all firm-event observations underlying the baseline regression in table 3.5 col. 1. Column 1 refers to those firm-event observations that are part of the treatment group for one of the treatment events, column 3 refers to the observations that are part of a control group. Note that because firms' headquarters remain constant and there exists at most one treatment event for each headquarters state, each firm only has one observation in the entire sample, and no firm can be part of both treatment groups and control groups. The number of observations refers to all observations for which data on abnormal returns are available. * ** *** denote significance at the 10%, 5%, and 1% levels respectively.

court). By contrast, poorly governed firms may have abstained from reincorporating and instead remained in a state with poorly functioning courts precisely because of the agency conflicts that these firms face: their managers may actually prefer courts that make it difficult for shareholders to enforce managers' fiduciary duties. I therefore hypothesize that the positive stock price reaction associated with the creation of business courts is less pronounced for well-governed firms than for poorly governed firms. These various hypotheses are summarized in table 3.4.

3.6.4 Event Study Results

The results of my baseline regression are displayed in table 3.5. They are consistent with the hypothesis that giving corporations access to business courts to litigate their internal affairs benefits shareholders. Those firms that are not just headquartered, but also incorporated in the treatment state experience abnormal returns of 1.2 % relative to firms that are headquartered in the same state, but incorporated elsewhere. This finding is statistically significant at the 5 % level.

As hypothesized, that result is largely driven by the creation of business courts in states whose ordinary courts are ranked poorly and which therefore have more to gain from creating well-functioning specialized courts. If one focuses on those business courts that were created in states with court systems ranked in the bottom third, the cumulative abnormal returns increase from 1.2 % to between 2.9 and 3.2 % and the result is significant at the 1 % level. By contrast, if one focuses on states with court systems ranked in the top two thirds, the cumulative abnormal

Table 3.4: Stock Market Reaction and Business Courts: Hypotheses

No.	Event	Treatment Group	Control group	Hypothesis	Underlying Intuition
1	Creation of Business Courts	Firms incorporated and headquartered in the state creating the business court.	Firms headquartered in the treatment state but incorporated elsewhere.	Positive abnormal returns for the treatment group.	Good courts reduce agency costs resulting from the conflict of interest between managers and shareholders
2	Creation of Business Courts in States with Poorly Ranked General Courts	Firms incorporated and headquartered in the state creating the business court.	Firms headquartered in the treatment state but incorporated elsewhere.	Positive abnormal returns for the treatment group. Positive abnormal returns should be larger than in case of No. 1.	Good courts reduce agency costs resulting from the conflict of interest between managers and shareholders, and the change brought by business courts should be more pronounced in states where the general courts perform poorly.
3	Creation of Business Courts	Triple Differences: Firms incorporated and headquartered in the state creating the business court. Highly treated group: Firms with high agency costs (as indicated by various proxies).	Firms incorporated elsewhere.	Positive abnormal returns for the treatment group and even higher positive abnormal returns for firms with high agency costs.	Good courts reduce agency costs resulting from the conflict of interest between managers and shareholders, and firms that have agency costs have a higher potential for agency cost reduction. Moreover, among those firms that stand to benefit most from business courts, firms with high agency costs are less likely than well-governed firms to have already reincorporated in a state with a business court.

returns are quite small (0.3 %) and no longer statistically significant.

These findings are quite robust. Adding various financial controls changes very little (table 3.5 cols. 2, 4 & 6). The same is true if one chooses different cut-offs for winsorizing the data (table C.18 panel A). Switching from winsorizing to trimming reduces the significance of the findings for the entire sample, but not if one focuses on states with poorly ranked court systems (table C.18 panel B).

Using two-way clustering at the levels of the state of incorporation and firms' two-digit SIC codes leads to more significant results (table B.7). Exchanging the the Fama-French-Cahart four-factor model for the market model does not change the significance of the results, though it reduces the size of the coefficients of interest by about half (table B.8).

Changing the size of the event window changes little (table B.5), except in one case: the results are no longer significant if one selects a [0,1] event window. This is unsurprising, given that there is often a delay of at least one or two days before an administrative order creating a business court is publicly disclosed or makes it into the papers.

Relying on an alternative criterion for measuring the quality of a state's judicial system, namely the frequency of out-of-state citations, also changes little (table B.9).

Finally, similar results obtain if one uses a matched sample based on one-to-ten nearest neighbor matching, and that is true regardless of whether one determines the nearest neighbor by using propensity scores (table B.10 cols. 1-3) or

Mahalanobis distances (table B.10 cols. 4-6).

Table 3.5: Event Study: Baseline Regressions

	Dependent variable: cumulative abnormal returns [0,3]					
	All business courts		Business courts in states whose general court system is ranked…			
			in the bottom third		in the top two thirds	
	(1) β (SE)	(2) β (SE)	(3) β (SE)	(4) β (SE)	(5) β (SE)	(6) β (SE)
Treatm. Group	0.012**	0.013**	0.029***	0.034***	0.003	0.003
	(0.005)	(0.006)	(0.006)	(0.004)	(0.003)	(0.004)
Fin. Controls						
Ln(assets)		0.002		0.006*		0.000
		(0.002)		(0.003)		(0.001)
Book lev.		-0.018		0.002		-0.030
		(0.016)		(0.022)		(0.022)
Fin. lev.		0.032**		0.019		0.042**
		(0.013)		(0.022)		(0.016)
Observations	1786	1688	622	583	1164	1105
R^2	0.226	0.229	0.164	0.179	0.271	0.272
Adjusted R^2	-0.028	-0.033	-0.055	-0.051	0.005	-0.004
Industry-event FE	yes	yes	yes	yes	yes	yes

Note: Event study. Cumulative abnormal returns (CAR) are calculated using Fama-French-Cahart four-factor model. Four-day event window [0,3]; 30 day estimation window [-60,-31]. All regressions control for industry-event fixed effects (2-digit sic level) and cluster at the level of the state of incorporation. Financial controls are lagged by one year. Sample includes only those firms that are headquartered in the state adopting the business court. For each event, the treatment group includes those firms that are not only headquartered, but also incorporated in the relevant state. Events for which the treatment group or control group or both are empty are omitted. * ** *** denote significance at the 10%, 5%, and 1% levels respectively.

3.6.5 Event Study: Triple Differences

From a theoretical perspective, one might expect the impact of newly created business courts to be stronger for poorly governed firms that for well-governed firms.

To explore this hypothesis, I rely on a triple-differences design using equation (3.3). I use several proxies for the extent of a firm's agency problem. These include the degree of managerial entrenchment as measured by Bebchuk's entrenchment index ("E-Index") (Bebchuk et al., 2009), firms' book leverage (Ang et al., 2000),[17] insider ownership (O'Sullivan, 1997), total executive compensation (Donelson et al., 2016), and high (sales, general, and administrative) expenses (Jensen, 1986; Chen et al., 2012).

Why should one expect these variables to capture the extent of a firm's agency costs? Well-entrenched managers are less likely to be fired for poor performance and therefore have less to fear from self-serving behavior. Low leverage may translate into lower monitoring efforts by outside creditors and also reduces the threat of insolvency in case of poor performance. High expenses may be a sign of organizational slack. High executive compensation may suggest that managers are able to engage in self-serving behavior.

The results are displayed in table 4.9. As a preliminary matter, note that

[17]Note that book leverage cannot easily be used as a proxy of agency costs if agency costs are defined to include those arising in the firm-creditor relationship. That is because high leverage may actually exacerbate the conflict of interest between the firm and its creditors (Titman, 1984; Donelson et al., 2016). However, in the context at hand, the focus is solely on the conflict of interest between managers and shareholders.

because most of the agency cost variables are available for a relatively low number of firms, I include not only firms headquartered in the treatment state, but all firms, while controlling for headquarters state-industry-event fixed effects.[18]

The results are somewhat mixed. As long as one focuses on the entire sample, the signs of the interaction terms all point in the expected directions, but none of them is significant. By contrast, if one solely focuses on business courts created in states with poorly rated courts, two of the interaction coefficients, the one for entrenchment and the one for executive compensation, become highly significant and still have the expected sign. By contrast, the two remaining interaction terms, the one for expenses and book leverage, are still not statistically significant at conventional levels, and they no longer have the expected sign.

3.6.6 Event Study: Time Trends

To explore time trends, I rely on equation (3.4). The results are displayed in figure 3.1. The coefficients are not statistically different from zero until the third day after the event. This is consistent with the assumption that it often takes a few days for the relevant news to reach the market since administrative orders are often not disclosed to the public the day they are signed.

[18]In unreported regressions, I use the much smaller baseline sample that only includes, for each event, firms headquartered in the state creating the business court, but none of the interaction terms are significant.

Table 3.6: Events Study: Triple Differences

	Dependent variable: cumulative abnormal returns [0,3]									
	All business courts					Business courts in states whose general court system is ranked in the bottom third				
	(1) β (SE)	(2) β (SE)	(3) β (SE)	(4) β (SE)	(5) β (SE)	(6) β (SE)	(7) β (SE)	(8) β (SE)	(9) β (SE)	(10) β (SE)
Treatm. group	0.0094**	-0.0128*	0.0106	-0.0039	0.0157***	0.0252***	-0.0439***	0.0399***	0.0067	0.0284***
	(0.004)	(0.006)	(0.008)	(0.004)	(0.005)	(0.005)	(0.009)	(0.011)	(0.004)	(0.006)
Agency Costs										
Entrenchment		-0.0002					0.0003			
		(0.000)					(0.001)			
Treatm. x Entrenchm.		0.0055					0.0422***			
		(0.005)					(0.004)			
Expenses			0.0020					-0.0007		
			(0.002)					(0.002)		
Treatm. x Expenses			0.0080					-0.0291*		
			(0.019)					(0.015)		
Exec. comp.				-0.0000					-0.0000	
				(0.000)					(0.000)	
Treatm. x Exec. comp.				0.0004					0.0012***	
				(0.000)					(0.000)	
Book lev.					-0.0026					0.0025
					(0.002)					(0.003)
Treatm. x Book lev.					-0.0117					0.0081
					(0.023)					(0.021)
Observations	61342	10922	55418	21469	53072	28132	5085	25372	10076	24233
R^2	0.07742	0.20528	0.08329	0.19199	0.08507	0.06562	0.16840	0.06783	0.14114	0.07025
Adjusted R^2	0.00011	0.01070	0.00005	0.02712	-0.00112	0.00695	0.02472	0.00484	0.01749	0.00518
Industry-event FE	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes

Note: Event study. Cumulative abnormal returns (CAR) are calculated using Fama-French-Cahart four-factor model. Four-day event window [0,3]; 30 day estimation window [-60,-31]. All regressions control for industry-event fixed effects (2-digit sic level) and cluster at the level of the state of incorporation. Financial controls are lagged by one year. The treatment group includes those firms that are not only headquartered, but also incorporated in the relevant state. Events for which the treatment group is empty (since no firm in the sample was incorporated in the pertinent state at the relevant time) are omitted. * ** *** denote significance at the 10%, 5%, and 1% levels respectively.

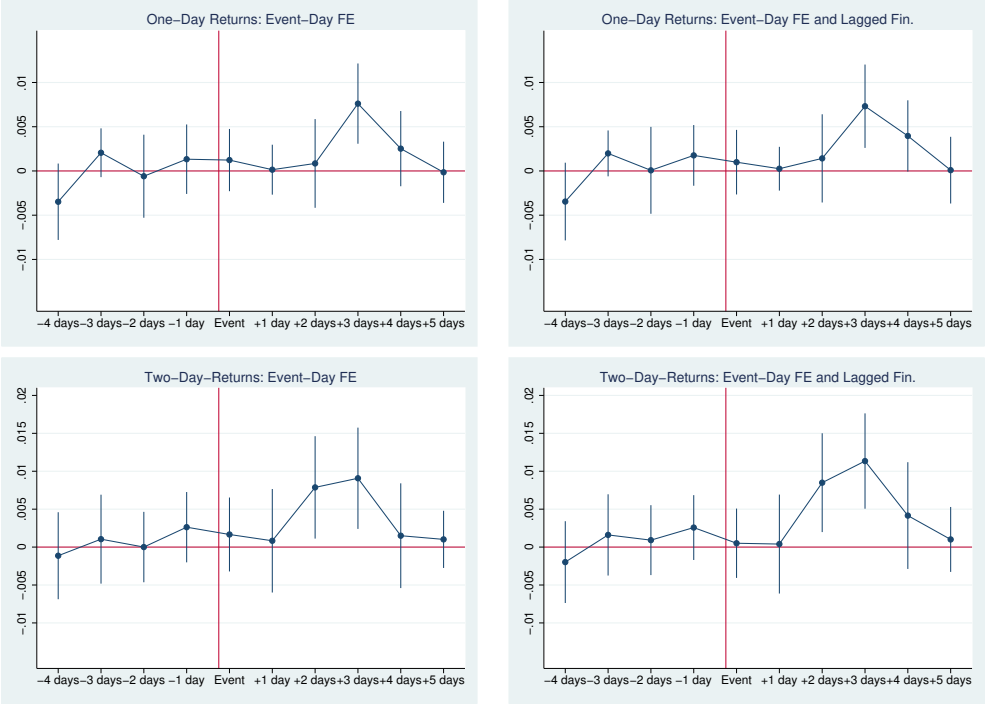

Figure 3.1: Daily abnormal returns: treatment group coefficients over time

Note: Regression based on equation (3.4). The two regressions on top use one-day abnormal returns as their dependent variable, whereas the regressions on the bottom instead use four-day abnormal returns [0.3] as their dependent variable. The third day before the event serves as a reference point, so that the pertinent treatment group coefficient is omitted. For each event, all included firms are headquartered in the state creating the business court. All regressions include event-day fixed effects. The regressions on the right additionally include a set of basic financial controls, each lagged by one year, including book leverage, financial leverage, and ln(assets). All regressions cluster at the level of the state of incorporation.

3.6.7 Placebo Tests

For the purpose of placebo testing, I shift all pertinent event dates by adding, to each event date, the same number of days, and then construct the baseline sample based on these placebo dates. I repeat this procedure for a total of 982 different placebo samples, where the number of added days ranges from -500 to -11 and from 11 to 500. (I exempt the first ten days before and after the actual treatment dates to avoid picking up any effect of the real treatment). Running the baseline regression on these 980 placebo samples yields statistically significant results of a magnitude at least equal to that in the true sample (+/- 1.2 %) in only 8.4 % of cases. Given the occasional shock in form of corporate legislation or significant judgments, this is not an implausibly high value.

As an additional placebo test, I create placebo treatment groups by rotating states in alphabetical order based on state abbreviations (table C.14). For example in the "+1" column, the firms headquartered in Alaska ("AK") are treated as though they were headquartered in Alabama ("AL"), whereas firms headquartered in Alabama ("AL") are treated as though they were headquartered in Arkansas ("AR"). The same is done with the state of incorporation. Thus, if a firm is headquartered and incorporated in Alabama, it is treated as though it were headquartered and incorporated in Arkansas. If it is really headquartered in Alaska and incorporated in Alabama, I treat it as though it were headquartered in Alabama and incorporated in Arkansas. Based on these placebo treatment groups, I then run the baseline regression. This procedure is repeated for ten different rotations (from "+1" to "+10"). The results are displayed in table (table C.14). The treatment coefficient is statisti-

cally significant at conventional levels in only one of the rotations, and treatment group coefficient never reaches the size of the treatment group coefficient for the true sample (cf. table 3.5).

Table 3.7: Stock Price Reaction for Placebo Treatment Groups

	Dependent Variable: Cumulative Abnormal Returns				
	+1	+2	+3	+4	+5
	(1)	(2)	(3)	(4)	(5)
	β (SE)	β (SE)	β (SE)	β (SE)	β (SE)
Treatment	-0.001	-0.004	-0.006	0.002	-0.001
	(0.004)	(0.005)	(0.005)	(0.005)	(0.004)
Observations	1401	681	891	1278	1755
R^2	0.024	0.023	0.046	0.007	0.013
Adjusted R^2	0.012	-0.002	0.029	-0.005	0.004
	+6	+7	+8	+9	+10
	(1)	(2)	(3)	(4)	(5)
	β (SE)	β (SE)	β (SE)	β (SE)	β (SE)
Treatment	0.002	-0.009*	-0.006**	0.011	-0.004
	(0.006)	(0.004)	(0.003)	(0.007)	(0.005)
Observations	1241	702	1415	642	1169
R^2	0.020	0.025	0.015	0.030	0.016
Adjusted R^2	0.008	0.003	0.005	0.006	0.005

Note: Regressions as in table 3.5 col. 1. All regressions include industry-event fixed effects. However, states are rotated as described in text. * ** *** denote significance at the 10%, 5%, and 1% levels

3.7 Incorporation Choices

If, as hypothesized in this article, business courts benefit firms and their shareholders, one might expect the existence of a business court to be one of the factors driving incorporation choices. I therefore hypothesize that firms are more likely to incorporate locally if their home state has a business court.

There are different ways of exploring this hypothesis: one can either focus solely on IPO firms, or one can extend the analysis to firms that are already publicly traded. From a theoretical perspective, focusing on IPO firms has two key advantages. First, the choices of IPO firms are less likely to be distorted by inertia. While scholars have voiced different views regarding the direct costs associated with reincorporation (Romano, 1993; Black, 1990), the act of reincorporating requires both a board resolution and a shareholder vote and thus necessitates a non-trivial amount of planning and effort. Second, and perhaps more importantly, the incorporation choices of IPO firms are prima facie less likely to be distorted by principal-agent conflicts. The reason is that share ownership in public corporations is more dispersed than in pre-IPO firms, resulting in greater collective action problems. Assuming that business courts are more adept at policing corporate managers, the board of a public corporation may choose not to reincorporate in a state with a business court despite the fact that such a move might maximize shareholder wealth. By contrast, pre-IPO firms are prima facie more likely to select a state of incorporation that maximizes shareholder wealth and thus promises

to maximize the share price at the time the firm goes public.[19]

To analyze the incorporation choices of IPO firms, I rely on a probit model where the dependent variable takes on the value 1 if an IPO firms chooses to incorporate locally, and zero otherwise. The results are displayed in table 3.8. As hypothesized, firms are more likely to incorporate in their headquarters state if that state has created a business court. The average marginal effect is 4.9 %, and this finding is both economically and statistically significant. Moreover, the relevant marginal effect becomes even larger (5.7 %) once one controls for state takeover legislation, which some authors (Bebchuk and Cohen, 2003), though not others (Daines, 1999), have previously found to be a determinant of firms' decisions where to incorporate.

I also use a linear probability model to examine firm's long-term incorporation and reincorporation choices between 1994 and 2017.[20] The results are displayed in table 3.9. The direction of the coefficient is the same, and the relationship remains highly significant; only the size of the coefficients is much smaller: the existence of a business court is associated with a 0.8 % higher likelihood of being incorporated locally (cols. 1-2).

[19]This does not mean that IPO firms always make choices that maximize shareholder wealth. In fact, scholars have suggested various reasons why this may not be the case (Bebchuk, 2003).

[20]Historical state-of-incorporation data and hence information on reincorporation choices are unavailable prior to 1994.

Table 3.8: Incorporation Choices: Probit Model

	(1) locally incorporated		(2) locally incorporated	
	β (SE)	Mfx	β (SE)	Mfx
Treatment				
Business Court	0.175***	0.049***	0.214***	0.057***
	(0.028)		(0.043)	
Takeover Statutes				
Mand. stag. board			0.409**	0.109**
			(0.176)	
Constituency			-0.100*	-0.027*
			(0.054)	
Bus. combination			0.188***	0.050***
			(0.037)	
Poison pill			0.107**	0.029**
			(0.050)	
Strong poison pill			0.051	0.014
			(0.073)	
Fair price statute			-0.109**	-0.029**
			(0.047)	
Greenmail			-0.329***	-0.088***
			(0.060)	
Golden parachute			0.168	0.045
			(0.103)	
Cash-out			0.324*	0.087*
			(0.192)	
Control share acquisition			0.578***	0.154***
			(0.037)	
Tin parachute			-0.586***	-0.157***
			(0.177)	
Disgorgement			-0.116	-0.031
			(0.100)	
Other				
MBCA			0.068*	0.018*
			(0.037)	
Observations	12228		12228	
Pseudo R^2	0.025		0.077	
LR chi^2	306.626		890.645	
Prob $>$ chi^2	0.000		0.000	
Baseline predicted probability	0.205		0.205	

Note: Probit model. Years 1994-2017. Only firm-year observations for firms aged zero years are included (cf. table B.2). Unlike in most other regressions in this paper, the question of whether there exists a business court program and the takeover law variables refer to the headquarters state rather than to the law of the state of incorporation. All firms headquartered in Delaware or Nevada were dropped. Takeover variables are defined in table B.2. * ** *** denote significance at the 10%, 5%, and 1% levels respectively.

Table 3.9: Incorporation Choices: Linear Probability Model

	Dependent variable: incorporated...			
	locally?		in Delaware or Nevada?	
	(1)	(2)	(3)	(4)
	β (SE)	β (SE)	β (SE)	β (SE)
Treatment				
Business Court	0.008***	0.008***	-0.006***	-0.005***
	(0.002)	(0.002)	(0.002)	(0.002)
Takeover Statutes				
Mand. stag. board		0.004		-0.003
		(0.003)		(0.004)
Bus. combination		-0.005		0.008*
		(0.004)		(0.005)
Constituency		-0.011*		0.010*
		(0.006)		(0.005)
Poison pill		0.012*		-0.008
		(0.007)		(0.007)
Other				
MBCA		0.004		-0.007
		(0.006)		(0.005)
Firm FE	yes	yes	yes	yes
Region-year FE	yes	yes	yes	yes

Note: Linear Probability Model. 1994-2017. All industries are included. All firms headquartered in Delaware or Nevada were dropped. For columns 1 & 2, the dependent variable takes on the value 1 if the firm is incorporated locally in a given year, and 0 otherwise. For columns 3 & 4, the dependent variable takes on the value 1 if the firm is incorporated in Delaware in a given year, and 0 otherwise. Unlike in most other regressions in this paper, the question of whether there exists a business court program and the takeover law variables refer to the headquarters state rather than to the law of the state of incorporation. Takeover variables are defined in table B.2. All regressions include firm fixed effects and region-year fixed effects. Headquarters state fixed effects are omitted since they are absorbed by the firm fixed effects. All regressions cluster at the level of the headquarters state. * ** *** denote significance at the 10%, 5%, and 1% levels respectively.

3.8 Difference-in-Differences Using Panel Data

To explore the relationship between the creation of business courts and firm performance, I use a difference-in-difference approach relying on panel data for the 30-year time period from 1988 to 2017.

3.8.1 Panel Data: Econometric Framework

My baseline regression is based on the following equation:

$$Y_{i,h,s,t} = \beta_0 + \beta_1 \text{Court}_{h,s,t} + \beta_2 X_{s,t} + \alpha_s + \gamma_{h,t} + \zeta_t + \mu_i + \epsilon_{i,h,s,t} \tag{3.5}$$

As before s indexes states of incorporation, h indexes headquarters states ("home states"), i indexes firms. In addition, t indexes time periods (years). $\text{Court}_{h,s,t}$ captures whether a corporation is both headquartered and incorporated in a state with a business court in a particular year. $X_{s,t}$ captures other characteristics of the state of incorporation's legal system in a particular year, such as the state of incorporation's law on takeovers. The term μ_i captures firm fixed effects. The term $\gamma_{h,t}$ captures headquarters-state year fixed effects. The term α_s captures state-of-incorporation fixed effects, and the term ζ_t captures year fixed effects.

A few clarifications are in order. First, note that even in those regressions that do not include headquarters-state year fixed effects, it is not necessary to include headquarters-state fixed effects: because the headquarters does not change for the firms in my sample, any headquarters-state fixed effects are absorbed by the firm fixed effects. Second, the simple year fixed effects and headquarters-state

fixed effects are absorbed by the headquarters-state year fixed effects and are therefore omitted where the latter are included. Third, in order to reduce endogeneity concerns, my baseline regressions include only those firms that did not reincorporate between 1988 and 2017 and had at least one firm-year observation prior to 1988, though I include reincorporating firms and newly formed firms to check the robustness of my results. To the extent that reincorporating firms are dropped, the state-of-incorporation fixed effects are absorbed by the firm fixed effects and are therefore omitted from the regression.

I also examine time trends. The pertinent equation is given by:

$$y_{i,s,h,t,n} = = \beta_0 + \sum_{n=-(T-1)}^{T} \lambda_n(year_n \times Treated_{s,h}) + \zeta_{h,t} + \eta_n + \epsilon_{i,s,h,t,n} \tag{3.6}$$

As before s indexes states of incorporation, h indexes headquarters states ("home states"), i indexes firms, and t indexes calendar years. Additionally, n indexes year before and after the treatment event. Thus, the term $(year_n \times Treated_{s,h})$ captures the effect of being headquartered and incorporated in the treatment state n years after the event (or before the event if n is negative).

3.8.2 Panel Data: Sample Composition and Summary Statistics

The baseline sample includes firm-year observations for the years 1988-2017. To address endogeneity concerns, I drop all firms that reincorporated between 1988 and 2017. Moreover, I include only those firms that had at least one firm-year observation prior to 1988.

The requirement that a firm was formed more than 30 years ago and never reincorporated since 1988 has the obvious drawback that it tends to lead to very small treatment groups for many of my treatment states. To address this issue and maximize the number of firms treatment and control groups, I include all industries in my baseline regressions. However, for the purpose of robustness checks, I drop financial firms, public utilities, and firms related to public administration in some regressions (cf. fig. 3.2 & table B.15).

Summary statistics for my panel data are displayed in table 3.10. The table includes all firm-year observations that are used for the baseline regression in table 3.11. Note that firms that incorporate locally differ substantially from firms incorporated elsewhere.

3.8.3 Panel Data: Hypotheses

The central hypothesis in this paper is that business courts help to reduce reduce agency costs arising from the conflict of interest between shareholders and managers.[21] If this hypothesis is correct, one would expect a positive impact of business courts on firm performance for two reasons.

First, managerial opportunism can directly affect the corporation's bottom line, such as when the manager uses illicit means to obtain an excessive salary or when he lets large shareholders deal on favorable terms with the corporation in exchange for their support. Better courts should help to reduce such opportunism

[21] In firms with a controlling shareholder, one would expect courts to help reduce agency costs arising from the conflict of interest between controlling and minority shareholders.

Table 3.10: Panel Data: Summary statistics

	Local v. Delaware			Local v. Other		
	Local	Delaware	Diff.	Local	Other	Diff
Firm size						
Market equity [mill. USD]	1746.93	2178.60	-431.67***	1746.93	1226.12	520.82***
Assets [mill. USD]	3607.94	4876.18	-1268.24***	3607.94	3514.43	93.51
Employees [thous.]	4.99	7.02	-2.03***	4.99	4.50	0.49***
Firm performance						
ROA	-0.48	-0.89	0.41*	-0.48	-3.95	3.47***
ROE	0.19	0.63	-0.44	0.19	1.28	-1.09**
Tobin's q	18.02	19.62	-1.60	18.02	79.37	-61.35***
Other						
Book lev.	0.99	0.87	0.12	0.99	2.84	-1.84***
Fin. lev.	0.26	0.24	0.02***	0.26	0.28	-0.02***
Total debt [mill. USD]	1268.81	1533.37	-264.56**	1268.81	1694.16	-425.35*
Div. ov. assets	0.05	0.03	0.02	0.05	0.02	0.03
Tangibility	0.25	0.23	0.02***	0.25	0.26	-0.00*
			Total			Total
Observations	55890	107572	163462	55890	28300	84190

Note: Summary Statistics include all firm-year observations used for the baseline regression in table 3.5 col. 1. The number of observations refers to the entire sample, even if values for some variables are missing. The term "Other" refers to firms that are incorporated neither in Delaware nor in their headquarters state.

and thereby protect corporate performance.

The second reason has to do with takeovers. According to the conventional narrative, the threat of hostile takeovers disciplines managers, given that falling stock prices may make the company vulnerable to takeover attempts and thus cause incumbent managers to lose their jobs. Opportunistic managers may seek to reduce this threat by relying on anti-takeover defenses such as staggered boards and poison pills to entrench themselves and prevent even those takeovers that would be in the best interest of the firm's shareholders. However, corporate law imposes fiduciary duties on managers that limit managers' ability to use defensive techniques for selfish purposes (Revlon, Unocal). Crucially, these fiduciary duties are notoriously vague, and it may therefore take well-functioning courts to apply them effectively (Kamar, 1998). It follows that the creation of business courts may preserve the usefulness of takeovers as a disciplining device and thereby increase managerial efforts to maximize firm performance.

Accordingly, I hypothesize that the availability of business courts is associated with improved firm performance as measured by return on assets (ROA) and return on sales (ROS).

Furthermore, given the potential role of business courts in reducing managerial entrenchment efforts, one would expect that in the presence of business courts, target managers find it more difficult to prevent mergers that are in the interest of the target corporation's shareholders. Accordingly, I hypothesize that business courts are associated with an increase in the number of completed mergers that are associated with positive abnormal returns for target shareholders at

the time of their announcement.

3.8.4 Panel Data: Results (1988-2017)

My results are broadly in line with the hypotheses outlined above.

3.8.4.1 Return on Assets

Table 3.11 is based on equation 3.5 and uses return on assets (ROA) as a dependent variable. Being headquartered and incorporated in a state with a business court is associated with an 2 to 2.6 percentage point higher return on assets. This amounts to a 5 % to 6 % increase. This finding is both economically and statistically significant.

Moreover, this result is fairly robust. Not much changes if one controls for takeover legislation (table 3.11 cols. 3 & 6), and that remains rue if one also controls for case law on takeovers (table B.14 cols. 1, 3, & 6). Similarly, dropping all firm-year observations before 1994, the first year for which historical state-of-incorporation data are available, has little impact (table B.11). Moreover, the relationship between the existence of business courts and firms' return on assets remains positive and significant if one includes firms that reincorporated between 1988 and 2017 (table B.12) or if one additionally includes firms formed after 1987 (table B.13).

Table 3.11: Panel Data: Return on Assets (1988-2017)

	Dependent variable: return on assets (ROA)					
	(1) β (SE)	(2) β (SE)	(3) β (SE)	(4) β (SE)	(5) β (SE)	(6) β (SE)
Treatm. group	0.020**	0.027**	0.026**	0.014*	0.009	0.008
	(0.008)	(0.013)	(0.012)	(0.008)	(0.009)	(0.010)
Poorly ranked court system x treatm. group				0.039***	0.092**	0.095***
				(0.010)	(0.035)	(0.034)
Takeover statutes						
Mand. stag. board			0.016			0.010
			(0.017)			(0.017)
Bus. combination			-0.018			-0.020
			(0.018)			(0.018)
Control share acq.			0.017			0.019
			(0.014)			(0.014)
Constituency statute			-0.009			-0.008
			(0.010)			(0.010)
Poison pill stat.			-0.016			-0.016
			(0.018)			(0.018)
Observations	80623	80623	80623	80623	80623	80623
R^2	0.017	0.040	0.040	0.017	0.040	0.040
Adjusted R^2	0.017	0.023	0.023	0.017	0.023	0.023
Firm FE	yes	yes	yes	yes	yes	yes
Year FE	yes	no	no	yes	no	no
HQ-state year FE	no	yes	yes	no	yes	yes

Note: Regression based on equation (3.5). Years 1988-2017. The treatment group includes firms incorporated in a business court state and headquartered in the same state. To be included, a firm must have at least one firm-year observation prior to 1988. All industries are included. All regressions cluster at the level of the state of incorporation. * ** *** denote significance at the 10%, 5%, and 1% levels respectively.

3.8.4.2 Return on Sales

To explore the association between business courts and firms' return on sales (ROS), I again rely on equation 3.5, while using ROS as a dependent variable. The results are displayed in table 3.12. Being headquartered and incorporated in a state with a business court is associated with an 5.2 to 9.5 percentage point higher return on assets. This finding is both economically and statistically significant.

Table 3.12: Panel Data: Return on Sales (1988-2017)

	Dependent variable: return on assets (ROA)					
	(1) β (SE)	(2) β (SE)	(3) β (SE)	(4) β (SE)	(5) β (SE)	(6) β (SE)
Treatm. group	0.052**	0.096***	0.095**	0.042*	0.065**	0.063**
	(0.022)	(0.032)	(0.036)	(0.025)	(0.027)	(0.029)
Poorly ranked court system x treatm. group				0.057	0.159	0.168*
				(0.035)	(0.096)	(0.099)
Takeover statutes						
Mand. stag. board			0.023			0.012
			(0.045)			(0.045)
Bus. combination			-0.069			-0.072
			(0.049)			(0.048)
Control share acq.			0.043			0.046
			(0.036)			(0.036)
Constituency statute			-0.010			-0.010
			(0.036)			(0.036)
Poison pill stat.			0.001			0.000
			(0.031)			(0.031)
Observations	79077	79077	79077	79077	79077	79077
R^2	0.007	0.028	0.028	0.007	0.028	0.028
Adjusted R^2	0.006	0.011	0.011	0.006	0.011	0.011
Firm FE	yes	yes	yes	yes	yes	yes
Year FE	yes	no	no	yes	no	no
HQ-state year FE	no	yes	yes	no	yes	yes

Note: Regression based on equation (3.5). Years 1988-2017. The treatment group includes firms incorporated in a business court state and headquartered in the same state. To be included, a firm must have at least one firm-year observation prior to 1988. All industries are included. All regressions cluster at the level of the state of incorporation. * ** *** denote significance at the 10%, 5%, and 1% levels respectively.

The results on ROS are relatively robust as well. Nothing much changes

if one controls for antitakover statutes (table 3.12 cols. 3 & 6) and case law on takeovers (table B.14). Dropping pre-1994 observations does not change the significance of the findings, as long as one controls for state-year fixed effects (table B.16), although the main coefficients become larger in this case, and there also appears to be a small but significant positive correlation between the availability of business courts and the likelihood of negative-CAR mergers. Moreover, the picture remains similar if one includes reincorporating firms (table B.18). If one additionally adds newly formed firms, the main coefficients are no longer significant, but the interaction term between the treatment variable and the variable that captures whether the state's general courts are poorly ranked is still positive, significant, and has a very large coefficient (table B.18). The most likely explanation for this latter result lies in the endogeneity of incorporation choices.

If one drops financial firms, firms in the area of public administration, and public utilities, the picture is still similar (table B.15): The coefficients are no longer significant if one treats all states alike, but one still observes a statistically significant increase for those firms that are incorporated in states with poorly rated general courts.

3.8.4.3 Takeovers

One area in which self-serving managerial behavior is thought to be particularly prevalent is takeovers. Broadly speaking, the concern is that managers may take defensive measures against hostile takeover attempts not to benefit their shareholders, but in order to protect their own jobs. Or, if forced to sell, they may

decide to sell to a friendly bidder rather than to the highest bidder.

Crucially, though, the law provides nontrivial protections to target shareholders, both if managers refuse to sell at all and if managers attempt to sell the corporation to anyone but the highest bidder (Unocal, Revlon). Moreover, the relevant norms are classical examples of vague standards Kamar (1998), so that the existence of a high-quality court should increase the effectiveness with which shareholders are protected.

To examine the relationship between business courts and corporate acquisitions, I rely on merger data from SDC Platinum as well as on stock data from CRSP.[22]

The results are displayed in table 3.14, and they are in line with what one would expect. The creation of a business court is associated with a statistically significant 0.5 percentage point higher likelihood of a corporation becoming the target in a completed merger (cols. 1-2). This finding remains essentially the same if one focuses solely on mergers with positive cumulative abnormal returns (CAR) for the target shareholders, whereas there appears to be no positive or negative association with respect to negative CAR mergers.

Moreover, once again, the impact of business courts appears to be much stronger in states whose general courts are rated poorly (table 3.14). For example,

[22]I include deals with a value of at least one million in which both acquirer and target are public. I exclude leveraged buyouts, exchange offers, repurchases, spinoffs, minority stake purchases, recapitalizations, acquisitions of remaining interest, self-tenders, and privatizations. Cumulative abnormal returns are calculated relative to the value-weighed CRSP index for a [+1,-1] window around the announcement.

Table 3.13: Panel Data: Completed Mergers

	Binary dependent variable: did corporation become a merger target					
	in any merger		in a merger with			
			positive CAR for target shareholders		negative CAR for target shareholders	
	(1) β (SE)	(2) β (SE)	(3) β (SE)	(4) β (SE)	(5) β (SE)	(6) β (SE)
Treatm. group	0.005**	0.005**	0.006**	0.005**	-0.000	-0.000
	(0.002)	(0.002)	(0.003)	(0.002)	(0.001)	(0.001)
Takeover statutes						
Mand. stag. board		-0.006		-0.009*		0.003***
		(0.005)		(0.004)		(0.001)
Bus. combination		0.001		0.003		-0.002*
		(0.003)		(0.003)		(0.001)
Control share acq.		-0.008**		-0.004		-0.005
		(0.004)		(0.004)		(0.003)
Constituency statute		-0.002		-0.003**		0.001
		(0.002)		(0.001)		(0.001)
Poison pill stat.		0.003*		0.002*		0.001
		(0.002)		(0.001)		(0.001)
Observations	91314	91314	91314	91314	91314	91314
R^2	0.018	0.018	0.018	0.018	0.017	0.017
Adjusted R^2	0.002	0.002	0.002	0.002	0.001	0.001
Firm FE	yes	yes	yes	yes	yes	yes
Year-state FE	yes	yes	yes	yes	yes	yes

Note: Regressions are based on equation (3.5) All regressions cluster at the level of the state of incorporation. To be included, firms must have at least one firm-year observation before 1988. Firms that reincorporated between 1988 and 2017 were dropped. The treatment group consists of firms that are incorporated in a state that has a business court and are headquartered in the same state. * ** *** denote significance at the 10%, 5%, and 1% levels respectively.

Table 3.14: Completed Mergers: Controlling for the Quality of General Courts

	Binary dependent variable: did corporation become a merger target					
	in any merger		in a merger with			
			positive CAR for target shareholders		negative CAR for target shareholders	
	(1) β (SE)	(2) β (SE)	(3) β (SE)	(4) β (SE)	(5) β (SE)	(6) β (SE)
Treatm. group	0.004***	0.004***	0.004**	0.004**	0.000	0.001
	(0.001)	(0.001)	(0.002)	(0.002)	(0.001)	(0.001)
Poorly ranked court system x treatm. group	0.005*	0.005*	0.009***	0.009***	-0.004**	-0.004**
	(0.003)	(0.003)	(0.003)	(0.003)	(0.002)	(0.002)
Takeover statutes						
Mand. stag. board		-0.006***		-0.010***		0.003***
		(0.002)		(0.002)		(0.001)
Bus. combination		0.001		0.003		-0.002*
		(0.003)		(0.003)		(0.001)
Control share acq.		-0.008***		-0.004		-0.005*
		(0.002)		(0.004)		(0.003)
Constituency statute		-0.002**		-0.003***		0.001
		(0.001)		(0.001)		(0.000)
Poison pill stat.		0.003**		0.002		0.001
		(0.002)		(0.001)		(0.001)
Observations	91314	91314	91314	91314	91314	91314
R^2	0.018	0.018	0.018	0.018	0.017	0.017
Adjusted R^2	0.002	0.002	0.002	0.002	0.001	0.001
Firm FE	yes	yes	yes	yes	yes	yes
Year-state FE	yes	yes	yes	yes	yes	yes

Note: Regressions are based on equation (3.5) All regressions cluster at the level of the state of incorporation. To be included, firms must have at least one firm-year observation before 1988. Firms that reincorporated between 1988 and 2017 were dropped. The treatment group consists of firms that are incorporated in a state that has a business court and are headquartered in the same state. * ** *** denote significance at the 10%, 5%, and 1% levels respectively.

the likelihood of a positive CAR merger increases by 0.4 percentage points in state whose courts are not poorly ranked, but by 1.3 percentage points in a state whose courts are poorly ranked (id. col. 4).

These results on takeovers are fairly robust. They remain largely unchanged if one controls for various types of antitakeover legislation (table 3.14 cols. 2, 4, & 6). Limiting the years under observation to 1994-2017 also does not change much, although in this case, the likelihood of negative CAR-mergers appears to increase as well, though by much less than the likelihood of positive CAR mergers (table B.19).

Moreover, at least for states with poorly ranked courts, the results look similar to the baseline results if one includes reincorporating firms (table B.20). This is particularly important, since firms often reincorporate in the context of a merger. Moreover, the overall image remains the same if one includes both reincorporating firms and newly formed firms (table B.21).

3.8.4.4 Panel Data: Parallel Trends Assumption

Given that corporations self-select into their state of incorporation, it is of particular importance to see if the parallel trends assumption can be falsified. Based on equation (3.6), figures 3.2 figures 3.3 capture the treatment group coefficients over time. For ROA, the treatment group coefficients are not significantly different from zero before the event, but eventually become statistically significant and positive after the treatment event, especially if one focuses on the full sample. For ROS, the picture is more ambiguous. The treatment group coefficient is pos-

itive and statistically significant in the year the business court is formed, at least for the full sample, but are mostly not significantly different from zero thereafter.

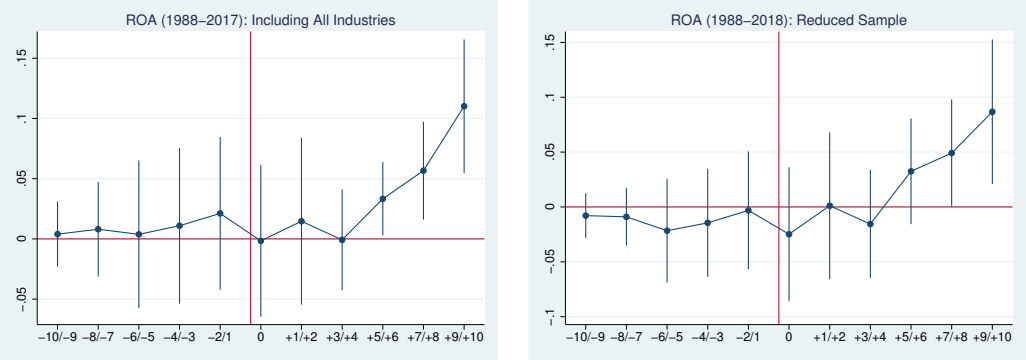

Figure 3.2: Treatment Group Coefficients by Year. Dependent variable: Return on Assets

Note: Regressions are based on equation (3.6). 95 % confidence interval. Dependent variable is return on assets. All regressions control for headquarters-state year fixed effects and firm fixed effects. To be included, a firm must have had at least one firm-year observation before the first year in the sample. Firms that reincorporated during the sample years are dropped. All regressions cluster at the level of the state of incorporation. The reduced sample drops firms in the area of public administration, public utilities, and financial firms.

3.9 Conclusion

Overall, the results presented in this paper are broadly consistent with the assumption that giving corporations access for litigating their internal affairs benefits both shareholder wealth and firm performance.

The importance of these findings is substantial. Establishing good courts is a relatively cheap undertaking. For example, according to Delaware's state budget for the fiscal year 2016, the annual cost of running Delaware's famous Chancery Court is about $ 4.9 million. Hence, the costs of expert courts seem a small price

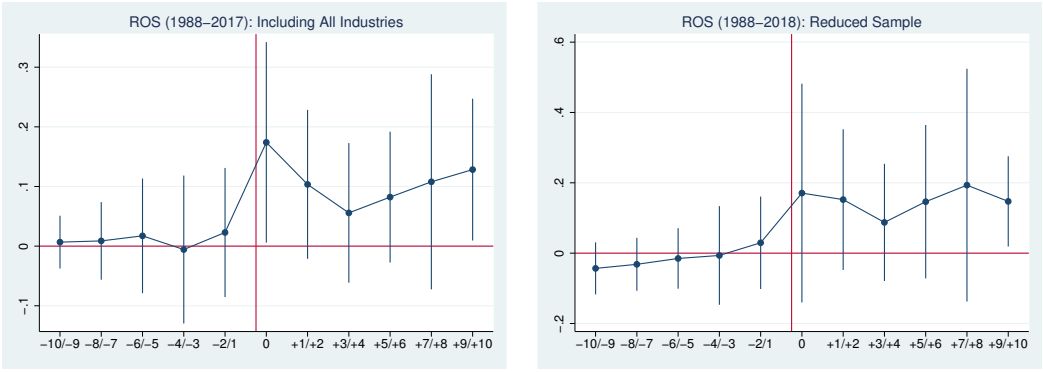

Figure 3.3: Treatment Group Coefficients by Year. Dependent variable: Return on Sales

Note: Regressions are based on equation (3.6). 95 % confidence interval. Dependent variable is return on sales (ROS). All regressions control for headquarters-state year fixed effects and firm fixed effects. To be included, a firm must have had at least one firm-year observation before the first year in the sample. Firms that reincorporated during the sample years are dropped. All regressions cluster at the level of the state of incorporation. The reduced sample drops firms in the area of public administration, public utilities, and financial firms.

to pay for the benefits of better corporate law courts.

Chapter 4

Deference to Delaware Precedents, Firm Performance, and Shareholder Wealth

Delaware dominates the market for corporate charters: more than half of all existing public corporations are incorporated in Delaware (cf. table 1). Among firms filing for an IPO, Delaware's market share is even higher; in recent years, almost ninety percent of firms going public chose Delaware as their corporate domicile (Dammann and Schündeln, 2011).

Unsurprisingly, Delaware's dominance in the charter market has garnered a great deal of interest among corporate law scholars. Much of their attention has traditionally been focused on the effects of regulatory competition on the quality of corporate law.

According to Delaware's critics, Delaware and other states compete for corporate charters by making their law more management-friendly in an effort to increase revenues from incorporation fees (Cary, 1973; Bebchuk and Ferrell, 2001). Delaware's supporters, on the other hand, believe that states compete by making their law more shareholder-friendly, the intuition being that capital markets pressure firms to incorporate in states with shareholder-friendly law (Romano, 1993, 2002).

Table 4.1: Where Do Firms Incorporate If Not Locally? The Top Ten (1994-2017)

State of incorporation	Number	Percent*	State of incorporation	Number	Percent*
Delaware	11,905	75.4%	Minnesota	147	0.9%
Nevada	1,029	6.5%	Colorado	142	0.9%
Maryland	920	5.8%	Florida	127	0.8%
Massachusetts	498	2.3%	New Jersey	84	0.5%
New York	203	1.3%	California & Pennsylvania	77	0.5%
Total number of firms (incorporated locally or out of state): 15,795					
Number of locally incorporated firms: 5,567 (35 % of all firms)					

Note: * Percentages in columns 3 and 6 refer to the percentage of corporations incorporating in a given state out of the total number of corporations incorporating outside their home state. In order to be considered, a firm must have at least one firm-year observation between 1994 and 2017. For the purposes of determining the state of incorporation, I focus on the most recent firm-year observation for each firm.

This attention bestowed on Delaware's success in the charter market is both justified and unsurprising. It has, however, helped to obscure the fact that Delaware also dominates U.S. corporate law in a very different way: courts across the nation cite Delaware's precedents when deciding their own corporate law cases. In many states, this deference now goes well beyond the usual regard that states pay to decisions from other jurisdictions. Numerous state courts have declared openly that they will look to Delaware precedents

when faced with gaps in their own state's case law, and federal courts in diversity cases have echoed this trend (table 4.2).

While the particular terminology varies from court to court, this type of deference can generally be characterized as follows: Unlike the state's own prece-

dents, Delaware decisions are not considered to be formally binding by the courts of the deferring state. However, when encountering gaps in their own state's body of precedent and statutory law, courts will look to Delaware decisions. By way of example, consider the Rhode Island case *Lynch v. Kennedy*.[1] There, the Superior Court of Rhode Island faced the task of reviewing a CEO's compensation package under the business judgment rule. The court's thoughts on the role of Delaware law are short and to the point:

> The business judgment rule has been adopted in Rhode Island; however, it has received minimal treatment by our Courts. This Court, therefore, will turn to Delaware law for guidance and support when considering corporate law issues, such as the business judgment rule, that have yet to be fully developed in this jurisdiction.

Thus, Delaware precedents often enjoy a special status: not quite on par with a state's own case law, yet well above that of other states. In practice, that special status proves highly relevant; since many states lack a body of corporate precedent even remotely as well developed as Delaware's, especially when it comes to issues facing public corporations, opportunities to invoke Delaware law arise quite frequently. In many states, therefore, Delaware precedents are now a key factor shaping the corporate common law process.

As a result, Delaware now dominates U.S. corporate law on two different dimensions: aside from (directly) governing those corporations that are actually

[1] Lynch v. John W. Kennedy Co., No. PB 03-3355, 2005 WL 1530469, at *6 (R.I. Super. Ct. June 23, 2005).

incorporated in Delaware, it also (indirectly) determines the fate of many corporations incorporated elsewhere via its influence on the common law process of other states.

The practical importance of this second, indirect dimension of Delaware's dominance can hardly be overstated. To begin, despite Delaware's dominance as a state of incorporation, many public corporations continue to be incorporated locally (cf. table 4.1). Furthermore, while public corporations and very large privately held firms are drawn to Delaware, the vast majority of privately held corporations are incorporated in the state where their primary place of business is located (Dammann and Schündeln, 2012). The willingness of state courts across the nation to apply Delaware common law means that these firms, too, are ultimately subject to Delaware's grasp.

Interestingly, though, Delaware's influence on the corporate common law of other states has not yet attracted any attention in the empirical literature. While legal scholars acknowledge that courts in other states are prone to citing Delaware law and often decide cases the same way as Delaware courts (Armour et al., 2012a; Fisch, 2000), no systematic analysis of this issue has been attempted. In order to shine some light on the matter, this article undertakes a comprehensive empirical analysis of Delaware's impact on the corporate common law of other states. To this end, I use a hand-collected dataset of federal and state cases deferring to Delaware precedents. This allows me to gain several key insights.

To begin, using survival analysis, I present evidence consistent with the idea that deference to Delaware corporate law is driven at least in part by func-

tional considerations. States that have based their law on the Model Business Corporation Act (MBCA), and can thus rely on a rich set of cases from other MBCA states, are much more hesitant to embrace deference to Delaware precedents (table 4.4).

Moreover, incorporation choices by public corporations are consistent with the idea that firms appreciate deference to Delaware case law. Even controlling for various other pertinent factors, public corporations are more likely to incorporate locally if their home states' courts openly pursue a policy of looking to Delaware precedents when confronted with unresolved issues of corporate law (tables 4.5 & 4.6).

This paper's main finding concerns the impact of deference on stock prices. Using event study analysis, I show that stock prices of firms incorporated in deferring states tend to experience positive abnormal returns at the time of court decisions introducing a general and explicit policy of following Delaware cases: a state supreme court or federal district court decision embracing deference to Delaware corporate law precedents for a particular state law is associated with positive cumulative abnormal returns of 0.6 to 0.9 % for firms incorporated in the relevant state (table 4.7 cols. 1-6).

In interpreting these numbers, it is important to note that the announcement of a policy of following Delaware case law is often not completely surprising. At least in some cases, a similar position was previously embraced by one or more lower courts of the pertinent state, which may have shaped the market's expectations to some extent. In fact, the treatment coefficients are substantially larger (1.1

to 1.4 %) if one focuses solely on federal cases and state supreme court decisions that were not preceded by any lower state court cases endorsing a general policy of following Delaware case law (table 4.8 cols. 1-6).

I also show that those firms where agency conflicts between managers and shareholders do not seem to be well-controlled experience particularly large cumulative abnormal returns (table 4.9). This finding is intuitive in the sense that if well-governed firms stood to benefit substantially from the application of Delaware law, they might already have reincorporated in Delaware, whereas agency conflicts may prevent poorly governed firms from undertaking such a step.[2]

My analysis has important implications for various practical and theoretical debates in corporate law. On a practical level, state judiciaries may want to reevaluate their position on whether or not to defer to Delaware precedents. As a matter of corporate law theory, my results suggest, in particular, that existing analyses of state competition in corporate law may be substantially incomplete to the extent that they fail to consider the impact of Delaware's judiciary on the common law process in other states.

[2]Needless to say, there are other potential reasons why firms may choose to remain incorporated locally, even if Delaware corporate law is better suited to their needs. Inertia may be one reason. Moreover, the act of reincorporating requires shareholder approval, and depending on the original state of incorporation's voting rules and the specific firm's ownership structure, such an approval requirement may constitute a nontrivial obstacle. Delaware also imposes substantial yearly franchise taxes on public corporations, though in light of the current upper limit of $ 200,000, these franchise taxes should not present an undue burden for most public corporations. To put this amount into perspective, it is worth keeping in mind that top corporate attorneys now charge fees that may well reach or exceed $1,500 per hour (Randazzo and Palank, 2016).

Finally, relying on panel data for the years 1994 to 2017 and using a difference-in-differences approach, I focus on the long-term relationship between deference to Delaware precedents and firm performance. Deference to Delaware law is associated with a 1.1 to 1.7 percentage point increase in return on assets (table 4.10). This finding is both statistically and economically significant.

4.1 Institutional Framework

Courts in other states frequently cite Delaware precedents and often end up deciding issues the same way (Armour et al., 2012a; Fisch, 2000). This fact per se is not particularly remarkable. Given that Delaware is home to more than half of all publicly traded corporations, a disproportionate number of important corporate cases end up in Delaware courts. Hence, even if courts in other states did not accord Delaware precedents any special status, one would expect Delaware cases to be cited with disproportionate frequency. However, courts in many states now go well beyond simply citing Delaware precedents. Instead, they explicitly embrace a general policy of following Delaware precedents to fill gaps in their own case law (cf. table 4.2).

4.1.1 Justifications for Deference

What reasons do courts give for this type of deference? Justifications diverge. Many decisions emphasize the particular expertise of the Delaware Chancery Court and the Delaware Supreme Court in corporate law matters. The Delaware

Table 4.2: When Did Courts Embrace Deference to Delaware Precedents?

Panel A: State Supreme Courts & (All) Federal Courts Embracing Deference

State Law	Court	Date	State Law	Court	Date
CT	Federal District Court	08-08-2011	MO	Federal District Court	06-17-1999
FL	Federal Court of App.	06-07-1989	NJ	Federal District Court	01-23-1997
IN	Federal District Court	04-17-1986	NV	Federal District Court*	03-26-2007
KS	State Supreme Court	03-25-1981	OH	Federal District Court	03-24-2004
MD	Federal District Court	11-03-2005	OK	Federal Court of Appeals	08-05-2015
MI	Federal District Court	08-16-1989	WI	State Supreme Court	03-20-2002
MN	Federal District Court	06-23-1998	TX	Federal District Court	04-29-2016

Panel B: Federal Courts Embracing Deference Without State Precedents

State Law	Court	Date	State Law	Court	Date
IN	Federal District Court	04-17-1986	MN	Federal District Court	06-23-1998
MI	Federal District Court	08-16-1989	OH	Federal District Court	03-24-2004

Note: The dates indicate, when, for a particular state, a court decision stated that a state's courts follow Delaware precedents to fill gaps in their own state's case law. Panel A considers decisions by federal courts of appeals and state supreme courts. Panel B considers only those decisions, in which federal courts embraced deference for a particular state corporate law without being able to rely on prior state court cases announcing such a principle. * Nevada is a special case in that the Nevada Supreme Court had clarified in a prior 2003 decision that it looked to Delaware precedents, but also to to the MBCA and to New York law. Against this background (and because of other potentially confounding holdings in the pertinent judgment), both the 2003 Nevada Supreme Court judgment and the 2007 federal district court judgment concerning Nevada corporation law are omitted from my baseline regressions.

Chancery Court, the argument runs, is the "mother court of corporate law,"[3] and deference to Delaware is justified because of the "wealth of experience" collected by Delaware courts.[4] In a similar vein, some courts note that Delaware is where important corporate law cases tend to be litigated.[5] A related argument focuses on the fact that Delaware has developed a coherent set of precedents,[6] the underlying intuition presumably being that state courts can opt into this set of precedents by simply following Delaware cases.

There are other stated reasons for deferring to Delaware. Two states, Kansas and Oklahoma, have corporate law codes that were copied almost word for word from the Delaware General Corporation Law (Treadway, 1971; Cleveland, 2014), and as a result of continual legislative amendments, these statutes are still exceedingly similar to Delaware's statute today. Unsurprisingly, therefore, Kansas and Oklahoma courts defend their general deference to Delaware precedents by reference to the similarity between their codes and Delaware's. [7]

[3]In re Life Partners Holdings, Inc., DR-11-CV-43-AM, 2015 WL 8523103, at *11 (W.D. Tex. Nov. 9, 2015) (citing Kamen v. Kemper Fin. Serv., Inc., 908 F.2d 1338, 1343 (7th Cir. 1990)).

[4]In re Wachovia Shareholders Litig., 01 CVS 10075, 2003 WL 22996328, at *14 (N.C. Super. Ct. Dec. 19, 2003), rev'd, 607 S.E.2d 48 (N.C. Ct. App. 2005).

[5]Von Seldeneck v. Great Country Bank, CV89 02 98 86S, 1990 WL 283729, at *5 (Conn. Super. Ct. Oct. 5, 1990.

[6]E.g., Argush v. LPL Fin. LLC, CIV. 13-7821, 2014 WL 3844822, at *6 (D.N.J. Aug. 5, 2014).

[7]Nevada also famously copied Delaware statutory law, but this occurred in 1925, and since then, Nevada law and Delaware law have diverged substantially. Nowadays, Nevada is famous for offering corporate law rules that are different from Delaware's, most notably by offering much laxer rules on officer and director liability. Tellingly, the Nevada Supreme Court has taken a much more cautious approach with respect to Delaware precedents. While Nevada courts will look to Delaware law to fill gaps in their own state's case law, the Nevada Supreme Court has made it clear that it will also consult the Model Business Corporation Act and New York Law. Cohen v. Mirage Resorts, Inc., 62 P.3d 720, 727 (Nev. 2003).

Finally, some courts have justified their deference to Delaware precedents on the ground that "everyone else is doing it." Under this line of reasoning, Delaware courts deserve deference because they tend to be widely followed by courts in other jurisdictions.[8]

4.1.2 Federal Courts

While many state courts now openly acknowledge a general policy of following Delaware precedents in matters of corporate law, federal courts in diversity cases have also played a decisive role in creating this trend. Federal courts frequently assert a general state policy of deferring to Delaware law despite the fact that the relevant states' courts have not yet done so. Thus, federal courts have claimed the existence of a general policy of deference to Delaware precedents with respect to Indiana, Michigan, Minnesota, and Ohio, even though one looks in vain for prior cases by courts from these states explicitly announcing such a policy (cf. table 4.2). This does not mean that the pertinent federal decisions are wrong. Rather, the relevant federal cases have in common that they interpret prior citations to Delaware precedents as indicative of a general policy of deference. Frequently, federal decisions attributing such a policy to various states are later cited by other courts. Thus, federal courts have been a central catalyst in crystallizing Delaware's dominance of corporate common law.

[8] Matter of Prudential Ins. Co. Derivative Litig., 659 A.2d 961, 969 (N.J. Super. Ct. Ch. Div. 1995).

4.2 Literature

In the legal literature, it has not gone unnoticed that courts in other states often cite Delaware cases (Armour et al., 2012a; Fisch, 2000). However, no systematic analysis of this issue has been undertaken. Thus, this paper is the first empirical study of the practice of other state courts of following Delaware corporate law precedents.

The most closely related area of the empirical literature consists of those papers that study the so-called "Delaware effect" or "Delaware premium." In one of his seminal papers on Delaware law, Daines (2001) famously showed that firms incorporated in Delaware have a higher Tobin's q than similar firms incorporated elsewhere, though a later study by Subramanian (2004) claimed that this "Delaware effect" was limited to certain years. Fox (2018) focuses on controlled firms and finds incorporation in Delaware to be associated with a 4.5 % lower Tobin's q, though that finding is not statistically significant .

A general challenge for the literature on the "Delaware effect" lies in the endogeneity of firm's incorporation choices: it is not clear whether the "Delaware effect" is attributable to Delaware law or to selection bias. The present study avoids this conundrum, since the decision to defer to Delaware law is made by courts rather than by firms. To be clear, the existence of an exogenous variation does not change the fact that locally incorporated firms and Delaware incorporated firms are self-selected groups that differ substantially from each other (cf. table **??**). However, the very purpose of this study is to ascertain the effect of applying Delaware case law to those firms that have not already chosen Delaware as a state

of incorporation on their own accord.

Other authors have examined how stock prices react when firms announce their decision to reincorporate in Delaware. Reported findings vary widely in terms of both effect size and statistical significance. Across studies, reported abnormal returns range from a not statistically significant -0.15 percent (Hall and Liebman, 1998) to a highly significant +4.18 percent (Romano, 1985). Bhagat and Romano (2002) provide a survey of the pertinent papers. A challenge for this type of study lies in the fact that the announcement of a reincorporation decision may convey to the market information other than the intended change in corporate law. For example, reincorporation in Delaware may signal the intention to prepare for a possible merger or some other event that the market views favorably.

There are also various studies that have examined the determinants of firms' decisions to incorporate locally or in Delaware (Kahan, 2006; Bebchuk and Cohen, 2003; Dammann and Schündeln, 2012; Daines, 1999; Broughman et al., 2014). In particular, scholars have analyzed the impact of takeover legislation on the incorporation choices of public corporations (Bebchuk and Cohen, 2003; Daines, 1999). However, none of these studies touch upon the question of whether a policy of deference to Delaware precedents has any impact on incorporation choices.

4.3 The Costs and Benefits of Deference

From a policy perspective, a crucial question is whether a general policy of deference to Delaware case law benefits shareholders. On a theoretical level, the

answer depends on numerous factors, and the optimal solution may not necessarily be the same for all states.

The most obvious issue in this context is the efficiency of Delaware case law. The prevailing view among legal scholars now seems to be that Delaware law is fairly efficient (Rasmussen and Thomas, 1999; Romano, 1993). If one embraces that view, it is intuitive to hypothesize that other states are well advised to defer to Delaware precedents. If, on the other hand, one believes that Delaware case law is biased in favor of managers (Stevelman, 2009) or overly vague (Kahan and Kamar, 2000), deference to Delaware law may seem prima facie less attractive.

There are other factors to consider, however. Even if Delaware law were quite suboptimal, deference to Delaware case law might nonetheless be the best choice for courts in other states. One reason is that courts in other states may quite simply fail to do better on their own. Moreover, there are network effects to be considered. As Klausner (1995) has famously argued, firms may well derive substantial benefits from being incorporated under the same corporate law as other firms. For example, if the number of firms governed by the same law is sufficiently large, one can expect new legal questions to be litigated and thereby resolved fairly quickly. Recent empirical work is consistent with the importance of network benefits in corporate law (Sanga, 2018). Copying Delaware precedents may allow locally incorporated firms to reap some of the network benefits of Delaware law without having to reincorporate in Delaware. Accordingly, courts in other states may find it rational to copy Delaware law even if they believe Delaware's law to be suboptimal.

On the other hand, even if one believes Delaware case law to be quite efficient, it does not necessarily follow that a general policy of following Delaware cases is a good idea. To begin, the corporate landscape in other states may be sufficiently different to make Delaware law a poor fit. A substantial body of empirical literature suggests that Delaware firms are systematically different from non-Delaware firms (Jagannathan and Pritchard, 2017). The summary statistics in table **??** are consistent with this claim. Accordingly, a legal system that works great for the type of firm incorporated in Delaware may not also be a good choice for the type of firm incorporated locally.

Moreover, in order to function well, Delaware law may require a judicial infrastructure that other states lack. For example, Kamar (1998) has argued that Delaware law can afford to rely on fact-intensive standards only because it has a highly experienced corporate law court in the form of the Chancery Court. Other states lacking a similarly qualified court, Kamar suggests, may therefore not find it in their interest to copy Delaware law.

A lack of similarity between corporate law statutes may be another pertinent factor. Assuming that Delaware courts are seeking to optimize Delaware corporate law, they do so within the framework of a given set of statutory rules. Hence, to the extent that other states' statutory law on business corporations differs substantially from Delaware's, copying Delaware case law may potentially produce inefficient results. Consider, for example, the judicial review of corporate mergers. The optimal level of judicial scrutiny may well depend on the extent to which shareholders are protected by other means. For example, if mergers are sub-

ject to particularly harsh majority voting requirements, less judicial scrutiny may be needed. Yet majority voting rules for corporate mergers differ wildly across states. Hence, Delaware's stance on the judicial review of corporate mergers may well be a better fit for some states than for others.

In sum, while there are good reasons to hypothesize that deference to Delaware law may be beneficial, theoretical considerations fail to provide a definitive answer to the question of whether courts in other states ought to follow Delaware precedents.

4.4 Data

The data used in this paper stem from a variety of sources. Data on stock prices are obtained from CRSP, other firm level data from CRSP/ Compustat Merged (CCM). Unless stated otherwise, all financial data are winsorized at the 2 and 98 % levels. However, my findings are robust to using different cutoffs or relying on trimming instead of winsorizing (table C.9).

Since Compustat only provides information on the most recent state of incorporation, I complement the Compustat data with information on historical states of incorporation from SEC Analytics. Unfortunately, SEC Analytics data is only available starting in the year 1994. I therefore limit my baseline regressions to events between 1994 and 2017 and include earlier events only for the purpose of robustness checks. To the extent that I analyze stock price reactions to pre-1994 events, I assume that the earliest known state of incorporation did not change prior to 1994.

I drop public utilities, firms in the area of public administration, and financial firms.[9] The reason for excluding the financial firms is that they are subject to special legislation (Baxter, 2002), which has the potential to change the role that Delaware corporate law precedents play.

In a handful of cases, either the plaintiff or the defendant in the case is identical with one of the firms in my dataset. Given that any stock price or other reaction for that firm might simply be the result of winning or losing the case, I remove these firms from the sample.

In order to determine which states have embraced a general policy of following Delaware precedents, I searched federal and state cases on Westlaw. A case is coded as endorsing a general deference to Delaware cases if it contains a general statement to the effect that the state's courts will look to Delaware cases to resolve open questions in the area of corporate law. By contrast, merely following a particular Delaware case or holding that a state will follow Delaware precedents with respect to a particular area of corporate law is not sufficient. For example, a statement that the state's courts will look to Delaware law for questions pertaining to derivative suits does not suffice to conclude that the state defers to Delaware corporate precedents in general. Moreover, I exclude those state cases in which a court from one state claims that the courts of some other state follow Delaware law.

[9]Dropping public utilities, firms in the area of public administration, and financial firms reduces my baseline sample by 546 observations, 134 observations, and 5,134 observations respectively, leaving me with 13,100 observations.

With respect to federal cases, I focus on those decisions that assert a general policy by courts of a particular state to look to Delaware cases. As before, merely citing Delaware law in a particular case or with respect to a particular issue is not enough.

I further distinguish between different levels of courts. For my baseline regressions, I include decisions by state supreme courts as well as federal diversity cases at all levels. By contrast, I exclude decisions by lower state courts. The reason is that lower state court opinions are much less likely to receive much attention by either scholars or practitioners. They may also provide very limited guidance on how other courts in the same state will decide future cases.

Regarding takeover legislation and cases, I rely on the coding by (Cain et al., 2017). Other state variables are coded by hand using LEXIS and Westlaw. Detailed information on the financial and legal variables used is provided in the appendix (tables C.1, C.3, & C.2).

4.5 Summary Statistics

Summary statistics for the firms in my baseline event study sample are displayed in table **??**. Table **??** distinguishes between firms incorporated in their headquarters state ("locally"), firms incorporated in Delaware (without also being headquartered in Delaware), and firms incorporated elsewhere. In line with prior results in the literature (Jagannathan and Pritchard, 2017), I find that Delaware firms differ substantially from locally incorporated firms. Furthermore, there exist stark differences between locally incorporated firms and firms incorporated in

third states other than Delaware.

These differences are a potential cause for concern. The treatment at issue in this paper (deference to Delaware case law) occurs at the level of the state of incorporation. To the extent that firms differ substantially across states of incorporation, one may wonder if abnormal returns on a given day simply reflect the fact that different types of firms may fare differently on any given day. To address this issue, I take a variety of steps. Aside from controlling for various firm-level characteristics, I rely on pre- and post-event trends, alternative definitions of treatment and control groups, placebo treatment dates, and matched samples.

4.6 Determinants of Deference

What drives deference to Delaware law? One can advance several hypotheses in this context.

4.6.1 Similarity of Statutory Corporate Law

To begin, states whose statutory law is similar to Delaware's may be particularly likely to defer to Delaware precedents. Delaware's courts may have optimized Delaware case law within the framework of Delaware's corporation statute, and states with a similar statutory framework may therefore find Delaware case law to be a particularly good fit. I therefore hypothesize that states whose statutory law is similar to Delaware's are more likely to defer to Delaware precedents.

To investigate this possibility, I design two variables that capture the similarity of a given state's statutory corporate law in a given year to that of Delaware.

Table 4.3: Summary statistics

	Local v. Delaware			Local v. Other		
	Local	Delaware	Diff.	Local	Other	Diff
Firm size						
Market equity [mill. USD]	2338.42	2744.01	-405.60***	2338.42	1887.02	451.39**
Assets [mill. USD]	1721.61	2264.48	-542.86***	1721.61	1871.06	-149.45
Employees [thousands]	7.35	7.15	0.20	7.35	7.10	0.25
Firm performance						
Tobin's q	2.03	2.24	-0.21***	2.03	2.05	-0.02
ROA	0.08	-0.00	0.08***	0.08	-0.01	0.08***
ROE	0.21	0.10	0.11***	0.21	0.09	0.12***
Other						
Total debt [mill. USD]	483.01	696.13	-213.12***	483.01	584.12	-101.12**
Div. ov. assets	0.01	0.01	0.00***	0.01	0.01	0.00***
Book lev.	0.19	0.22	-0.03***	0.19	0.23	-0.04***
Fin. lev.	0.16	0.17	-0.02***	0.16	0.20	-0.04***
Tangibility	0.26	0.22	0.03***	0.26	0.28	-0.02***
Observations	3132	8618	11750	3132	1347	4479

Note: Summary Statistics include all firm-year observations used for the baseline regression in table 4.7 col. 1. The number of observations refers to the entire sample, even if values for some variables are missing. The term "Other" refers to firms that are incorporated neither in Delaware nor in their headquarters state. * ** *** denote significance at the 10%, 5%, and 1% levels respectively.

The first of these variables, which I name "Takeover Similarity," focuses on statutory takeover law; the second, which I name "Other Similarity" covers other statutory corporate law. [10]

For the purpose of constructing the variable *Takeover Similarity*, I rely on the coding of takeover statutes by (Cain et al., 2017), which yields 13 different takeover variables (Tables C.2). For each year and each state, the value of the variable Takeover Similarity equals the fraction of such takeover variables for which a state's law takes on the same values as Delaware's law.

For the purpose of constructing the variable *Other Similarity*, I first code 25 legal variables for the years 1990-2017, covering various other aspects of state corporate law, such as mergers or shareholder voting (table C.3). I then construct the variable *Other Similarity* in the same manner as the variable *Takeover Similarity*. That is, the value of the variable *Other Similarity* equals that fraction of these 25 corporate law variables for which a state's law takes on the same values as Delaware's law.

[10] There are several reasons for distinguishing between takeover law and other statutory corporate law. First, the law on takeovers has often developed on a slightly separate track. For example, even Oklahoma and Kansas, which have largely copied Delaware's General Corporation Law, have taken a much more interventionist approach in takeover law. Second, as a technical matter, the rules governing takeover are sometimes contained in statutes outside the general business corporation statutes. Third, views differ drastically regarding the importance of takeover statutes: some scholars view takeover statutes as an important factor (Cain et al., 2017), whereas others question their practical relevance (Catan and Kahan, 2016).

4.6.2 MBCA States v. Non-MBCA States

It is also conceivable that states which have modeled their business corporation statute on the Model Business Corporation Act (MBCA) published by the American Bar Association may be less likely to defer to Delaware. That is because such states may find it more convenient to invoke the case law of other MBCA states, whose statutory law is identical or at least very similar to their own.[11]

4.6.3 Judicial Infrastructure

A state's judicial infrastructure may matter as well. States with high-quality corporate law courts may be more likely to defer to Delaware precedents because Delaware law, owing to its heavy reliance on fact-intensive standards, may require highly proficient courts to function (Kamar, 1998). On the other hand, it is possible that deference to Delaware cases is effectively employed as a substitute for strong courts: states with weaker courts may be more likely to defer to Delaware precedents precisely because their courts feel less confident about deciding corpo-

[11]In fact, there is some anecdotal evidence that states adopt (or retain) the MBCA at least in part because such a step facilitates the use of precedents from other MBCA states. For example, when deliberating corporate law reforms in Connecticut in 2010, a member of the state's judiciary committee noted the following:

> Some of the advantages to Connecticut's adoption of the Model Business Corporation Act in its most current version are as follows: First, the Model Act promotes uniformity among the states[. As] Connecticut is a small state with relatively little corporate law an case law, case law from other states can provide valuable insight to assist with interpreting our statutes.

Henry Beck, CT Comm. Transcr., JUD 3/26/2010.

rate law questions on their own. To account for the role of judicial infrastructure, I check whether a state has a specialized business court (cf. table C.5). This approach is intuitive inasmuch as the Delaware Chancery Court has traditionally been the paradigm of a successful business court that other states sought to emulate by creating their own business courts.

Finally, the size of state's population may matter since smaller states may find it more difficult to develop a coherent set of precedents and may therefore find it more tempting to defer to Delaware cases.

4.6.4 Results

To test these various hypotheses, I rely on survival analysis, an econometric approach that is favored by the modern literature on policy diffusion (Mallinson, 2016; Fay and Wenger, 2016). The results are displayed in table 4.4. Whereas my findings lack significance for most of the covariates discussed above, states that have adopted the MBCA in fact appear to be much less quick to adopt deference to Delaware decisions. Similar results obtain if one uses binary rather than continuous variables for the similarity variables (table C.6). The relevance of the MBCA is also highlighted by figure 4.1 which displays separate Kaplan-Meier survival estimates for MBCA states and non-MBCA states.

4.7 Deference and Incorporation Choices

As a theoretical matter, there is reason to believe that deference to Delaware should impact firms' choices where to incorporate. Incorporating in Delaware is

Table 4.4: Determinants of Deference: Survival Analysis

	(1) Cox		(2) Weibull		(3) Exponential	
	β / SE	Mfx	β / SE	Mfx	β / SE	Mfx
Legislation						
MBCA	-2.561***	N.A.	-2.438***	436.560***	-2.390***	829.100***
	(0.713)		(0.693)		(0.686)	
Takeover similarity	-5.858		-4.121	737.904	-4.891	1696.297
	(4.472)		(3.492)		(3.089)	
Other similarity	0.713		0.438	-78.358	0.433	-150.323
	(1.974)		(1.800)		(1.827)	
Business court	-0.528		-0.282	50.538	-0.174	60.326
	(0.759)		(0.723)		(0.691)	
State Size						
Population	-0.024		-0.018	3.276	-0.019	6.686
	(0.044)		(0.042)		(0.043)	
Observations	1636		1636		1636	
LR chi^2	18.706		18.201		18.393	
Prob $>$ chi^2	0.002		0.003		0.002	
Mean Surv. Time			214.074		346.855	

Note: The variables "Takeover Similarity" and "Other Similarity" are defined as described in the main text.

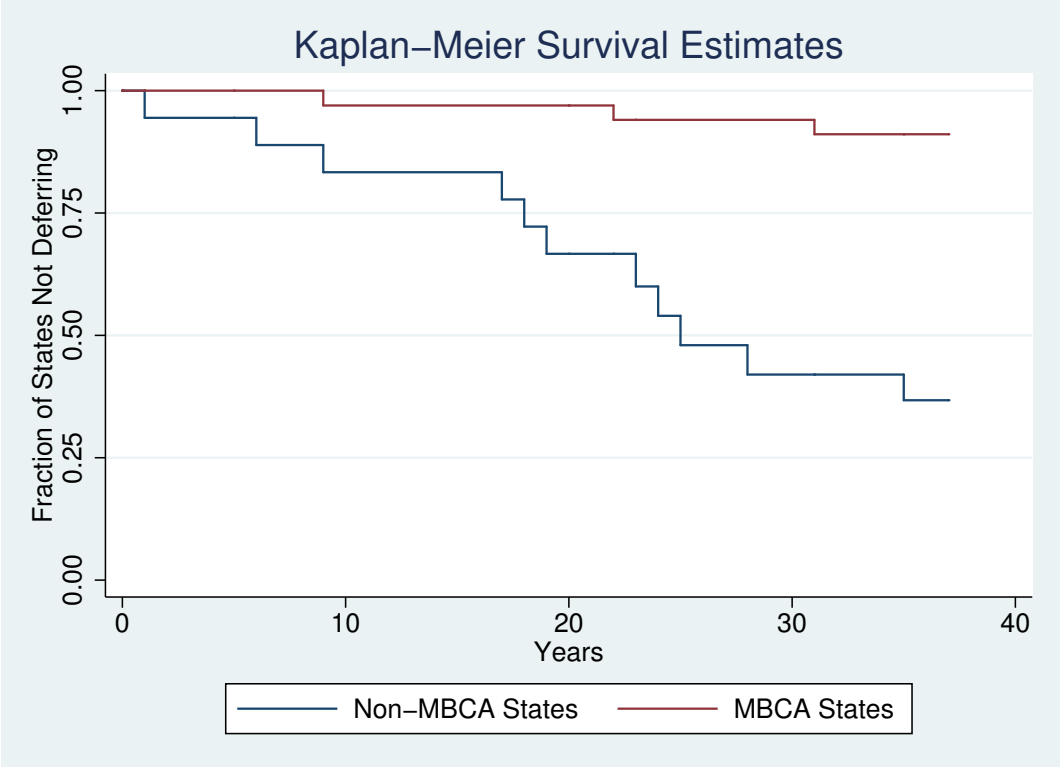

Figure 4.1: Deference to Delaware (1980-2017)

Note: Deference embraced by state supreme courts or by federal courts in diversity cases.

the main alternative to incorporating locally (cf. table 4.1). At the same time, Delaware imposes substantial franchise taxes in exchange for the privilege of being incorporated there.[12] Hence, if firms can gain access to Delaware's well- developed set of precedents while remaining incorporated in their home state and thereby avoiding Delaware's high franchise taxes, they, at least at the margin, may find local incorporation more attractive.

I therefore hypothesize that firms are more likely to incorporate locally if their home state has embraced a policy of deferring to Delaware precedents in the area of corporate law.

To explore this hypothesis, I focus, first, on IPO firms since their incorporation choices are less likely to be distorted by inertia. For my baseline regression, I use a probit model. The binary dependent variable takes on the value one if a firm is incorporated locally, zero otherwise. The results are displayed in table 4.5. IPO firms are more likely to incorporate locally if their home state follows Delaware cases. The average marginal effect is 33 % or, if one controls for takeover legislation and adoption of the MBCA, 29 % . This finding is statistically significant at the 1 % level. If one controls for takeover legislation, which some of the prior literature has identified as relevant to IPO incorporation choices (Bebchuk and Cohen, 2003), the results retain their significance, though the average marginal effect becomes substantially smaller (7.9 %).

To obtain additional information about firms' incorporation choices, I widen

[12] The maximum franchise tax for Delaware corporations is currently set at $180,000.

the focus beyond IPO firms and include all firm year observations between 1994 and 2017. To be able to account for firm fixed effects, I switch to a linear probability model. The results, which are displayed in table 4.6, mirror the ones above: firms are more likely to incorporate locally (and also less likely to incorporate in Delaware) if their home state defers to Delaware precedents (7 to 8 %). Note that the number of different takeover statutes for which table 4.5 controls is much lower, since many types of takeover statutes did not change in any state between 1994 and 2017 and are therefore absorbed by the firm fixed effects.[13]

Two caveat are in order at this point. First, it is conceivable that the results in tables 4.5 and 4.6 are partially due to omitted variable bias: some unobserved headquarters state attributes that are correlated with the deference variable may be at least in part responsible for the observed correlation. Second, even assuming that courts' deference to Delaware precedents makes firms more likely to incorporate locally, this does not prove that deference benefits shareholders, given that incorporation choices may be driven at least in part by managerial self-interest.

[13]The reason is that the state level covariates of the linear probability model capture attributes of the headquarters state rather than of the state of incorporation. Hence, even if a firm reincorporates, the pertinent variables do not change for the firm in question: reincorporation does not change the headquarters state. In theory, variation could be obtained if firms were to move their headquarters. However, for public firms, it is exceedingly rare to move a corporate headquarters from one state to another, and because Compustat data only include the most recent headquarters state, I do not explore this issue.

Table 4.5: IPO Incorporation Choices: Probit Model (1994-2017)

	(1) locally incorporated		(2) locally incorporated	
	β (SE)	Mfx	β (SE)	Mfx
Deference	1.685***	0.324***	1.547***	0.287***
	(0.148)		(0.148)	
Takeover Statutes				
Mand. stag. board			0.630**	0.117**
			(0.281)	
Bus. combination			-0.112**	-0.021**
			(0.052)	
Poison pill			0.053	0.010
			(0.059)	
Strong poison pill			0.100	0.018
			(0.186)	
Fair price statute			0.055	0.010
			(0.057)	
Greenmail			-0.052	-0.010
			(0.086)	
Golden parachute			0.276**	0.051**
			(0.118)	
Cash-out			0.896***	0.166***
			(0.294)	
Control share acquisition			0.246***	0.046***
			(0.056)	
Tin parachute			-1.144***	-0.212***
			(0.280)	
Disgorgement			0.251*	0.046*
			(0.143)	
Other				
MBCA			0.175***	0.033***
			(0.050)	
Observations	6764		6764	
Pseudo R^2	0.083		0.106	
LR chi^2	385.665		521.563	
Prob > chi^2	0.000		0.000	
Baseline predicted probability	0.131		0.131	

Note: Probit Model. All firms headquartered in Delaware or Nevada were dropped. Takeover variables are defined in table C.2. * ** *** denote significance at the 10%, 5%, and 1% levels respectively.

Table 4.6: Incorporation Choices: Linear Probability Model (1994-2017)

	Dependent variable: incorporated...			
	locally?		in Delaware or Nevada?	
	(1)	(2)	(3)	(4)
	β (SE)	β (SE)	β (SE)	β (SE)
Deference	0.078**	0.078**	-0.176***	-0.176***
	(0.033)	(0.033)	(0.061)	(0.061)
Takeover Statutes				
Mand. stag. board		0.026*		-0.032*
		(0.014)		(0.016)
Bus. combination		0.001		-0.000
		(0.006)		(0.005)
Poison pill		0.005		-0.002
		(0.006)		(0.007)
Strong poison pill		0.009*		-0.008
		(0.005)		(0.005)
Other				
MBCA		0.000		-0.003
		(0.004)		(0.004)
Observations	128132	128128	128132	128128
R^2	0.008	0.009	0.031	0.031
Adjusted R^2	0.008	0.008	0.030	0.031
Firm FE	yes	yes	yes	yes
Year FE	yes	yes	yes	yes

Note: Linear Probability Model. All regressions cluster at the level of the headquarters state. All firms headquartered in Delaware or Nevada were dropped. Variables as defined in main text. Takeover variables are defined in table C.2. * ** *** denote significance at the 10%, 5%, and 1% levels respectively.

4.8 Deference and Shareholder Wealth

The central question explored in this paper is whether deference to Delaware precedents benefits shareholder wealth. To explore this question, I use an event study approach. The treatment events are court decisions which proclaim, for a particular state, a general policy of deference to Delaware law.

4.8.1 Hypotheses

Given the widespread view among legal commentators that Delaware law is fairly efficient, I hypothesize that state supreme court and federal court decisions embracing deference to Delaware case law for a particular state law are associated with positive abnormal returns for firms incorporated in the pertinent state.

Furthermore, it is reasonable to assume that capital markets may anticipate some of the benefits of deference if the relevant state's lower courts have previously embraced such deference. Therefore, I hypothesize that the abnormal positive returns associated with such court decisions should be larger in those cases, where the relevant decision was not preceded by any lower court decision in the relevant state embracing deference to Delaware precedents.

Finally, there is reason to believe that deference to Delaware precedents may not benefit all firms alike. In fact, there are strong reasons to believe that well-governed firms will benefit less from such deference than poorly governed firms.

One reason has to do with incorporation choices. Assuming that Delaware

case law substantially benefits shareholders, well-governed firms are likely to reincorporate in Delaware at some point. By contrast, poorly governed firms may abstain from such a move precisely because managers may be putting their own interest above those of shareholders, and other states may offer a more management-friendly legal environment. This does not mean that a conflict of interest between managers and owners is the only factor that may prevent firms from reincorporating in a jurisdiction with superior law. Inertia and transaction costs may also play a role. However, all else equal, well-governed firms should be more likely than poorly governed firms to let their firm reincorporate in Delaware if Delaware law benefits shareholders.

Moreover and just as importantly, a central function of corporate law is to impose legal constraints on managers in running the corporation.[14] In well-governed firms whose managers are already trying to maximize shareholder wealth, these legal constraints should matter less. By contrast, in poorly governed firms, the numerous mechanisms by which corporate law constrains managers and empowers shareholders should become more relevant.

I therefore hypothesize that any positive abnormal returns associated with court decisions embracing Deference should be more pronounced for poorly governed firms than for well-governed firms.

A separate issue arises with respect to Delaware firms. If some state other

[14]In firms with controlling shareholder, the same principles apply mutatis mutandis. That is, in such firms, a central function of corporate law is to impose constraints on controlling shareholders. These constraints should matter less if the controlling shareholder is already focused on maximizing overall shareholder wealth.

than Delaware adopts Delaware precedents, such deference should, first and foremost, have a direct impact on firms incorporated in that other state. However, there are reasons to believe that Delaware firms should be impacted as well. To the extent that other states adopt Delaware case law, any network benefits enjoyed by Delaware firms should increase. Moreover, and perhaps more importantly, the decision by other states to adopt Delaware law may be viewed as an important signal that independent legal professionals (judges) view Delaware case law sufficiently positively to embrace it for their own state. Thus, Delaware firms should benefit if other states embrace deference to Delaware precedents. I therefore hypothesize that decisions by (federal and state) courts to embrace deference to Delaware precedents should be accompanied by positive abnormal returns for Delaware firms.

4.8.2 Baseline Regressions

For my baseline regression, I focus on state supreme court and federal court decisions that explicitly embrace a policy of deference to Delaware cases.

4.8.2.1 Background

For each state corporate law, I include only the first such decision and ignore subsequent ones.[15] The treatment group consists of those firms that are in-

[15]I have not found a single instance in which a court distanced itself from a general policy of deference. Rather, even courts that fail to invoke such a policy will admit that courts in that particular state often look to Delaware law, but argue that in that particular instance, such an approach is not appropriate owing to the particular circumstances of the case. This type of reasoning affirms rather than weakens the principle of deference.

corporated in the state for which deference to Delaware cases is embraced. For example, if the Florida Supreme Court newly announces that Florida courts look to Delaware precedents in matters of corporate law, the treatment group consists of all firms incorporated in Florida.

The main concern with using court decisions as treatment events is that some of the pertinent judgments contain additional important holdings to which stock prices may react. For example, several of the relevant cases are also leading cases in the area of takeover law for that particular jurisdiction. I therefore divide the deference decisions into two groups: those that contain other significant holdings and those that do not. By and large, the first group consists of major M&A cases adopting leading Delaware precedents such as *Revlon* [16] or *Unocal*,[17] whereas the second group consists of cases that concern more technical issues that can be avoided with relative ease or for other reasons have little strategic importance such as the exact test for demand futility in case of derivative suits or the precise distinction between derivative and direct suits. A detailed list of the cases and issues involved is contained in table A.2 in the appendix.

For my baseline regression, I use only those judgments that do not establish other important principles. Furthermore, I only use events occurring in 1994 or later, given that information about historical states of incorporation is not available for earlier years. However, my results are quite similar if one extends extends the dataset to earlier years by using the simplifying assumption that firms' states

[16]Revlon, Inc. v. MacAndrews & Forbes Holdings, Inc., 506 A.2d 173 (Del. 1986).
[17]Unocal Corp. v. Mesa Petroleum Co., 493 A.2d 946 (Del. 1985).

of incorporation did not change prior to 1994 (table C.11). Moreover, the size of the coefficients remains roughly similar if one adds events with potentially confounding other holdings to the dataset (table C.12). However, this also leads to a substantial decrease in significance: the main treatment coefficient is only significant at the 10 % level in most specifications, and in some specifications is no longer even significant at the 10 % level.

4.8.2.2 Econometric Approach

To calculate abnormal returns, I rely on the standard Fama-French-Carhart four-factor model, with a two-day event window [0,1] and a thirty-day estimation window [-60,-31]. Abnormal returns (AR) are given by the following equation:

$$R_{i,t} - R_{f,t} = \alpha_i + \beta_i(R_{m,t} - R_{f,t}) + \gamma_i SMB_t + \delta_i HML_t + \zeta_i UMD_t + \epsilon_{i,t} \tag{4.1}$$

Abnormal returns are added in order to obtain cumulative abnormal returns. To estimate the effect of decisions embracing deference, I use the model:

$$CAR_{i,e,s,c} = \beta_0 + \beta_1 Deference_{e,s} + \beta_1 Delaware_{e,s} + \beta_2 X_{i,e} + \beta_3 Y_{s,e} + \alpha_e + \lambda_c + \epsilon_{i,e,s,c} \tag{4.2}$$

where i indexes firms, s indexes states of incorporation, e indexes particular events (judgments), and c indexes industries. The term $Deference_{e,s}$ captures, for a given treatment event (judgment), whether that judgment embraces deference for the particular state of incorporation. The term $Delaware_{e,s}$ captures whether the

state of incorporation is Delaware at the time of a particular event. $Y_{s,e}$ captures other attributes of the state of incorporation at the time of a given event. $X_{i,e}$ captures firm level variables at the time of a particular event. α_e captures event fixed effects, and λ_c captures industry fixed effects.

The results are displayed in table 4.7. On average, decisions by state supreme courts or federal courts are accompanied by a cumulative abnormal return of 0.6 to 0.9 %. These results are both economically and statistically significant (at the 1 % level). They are also plausible in the sense that they are well within the range of what might reasonably be expected. By way of a rough benchmark, note that studies focusing on abnormal stock returns in cases where firms announce their intention to reincorporate in Delaware have found abnormal returns of up to 4% (Bhagat and Romano, 2001).

As hypothesized, Delaware firms also experience positive abnormal returns at the time of the treatment events. The pertinent coefficients are much smaller (0.3 %), but also statistically significant. This result is consistent with the assumption that Delaware firms, too, benefit when other states embrace deference to Delaware precedents.

In interpreting the size of these findings, it must be taken into account that the announcement of a policy of following Delaware case law is often not completely surprising. Even though my baseline regression focuses on the first state supreme court or federal court decision embracing deference for a particular state, such a policy has sometimes been previously embraced by *lower* state courts.

To explore the possibility that the market may have partly anticipated state supreme court or federal court decisions embracing deference, I run separate regressions using only those federal cases that are not preceded by *any* state decision stating a general policy of following Delaware case law. In fact, I find that this approach leads to substantially larger treatment coefficients (1.1 to 1.4 %), and these results are once again statistically significant at the 1 % level (table 4.8). Focusing on this subset of federal cases also has another advantage. One might conceivably be concerned that judgments embracing Delaware law might be interpreted as signaling a broader willingness to be say, more business-friendly. Federal courts, however, lack the ability to send such a signal regarding a state's judiciary; accordingly, there is no danger that an announcement about deference is understood to be more than just that.

4.8.3 Robustness

The results of my baseline regression are quite robust. They remain largely unchanged if one includes industry fixed effects (table 4.7 col. 2), adds various financial controls (table 4.7 col. 3), or drops Delaware firms (table 4.7 cols. 4-6). Furthermore, little changes if one drops Nevada firms (table C.7), uses different event windows (table C.8), or switches to two-way clustering at the levels of the state of incorporation and the headquarters state (table C.10). Furthermore, one obtains quite similar results if one winsorizes at different levels or switches from winsorizing to trimming (table C.9).

Including events occurring before 1994 (table C.11) has little impact, even

Table 4.7: Stock Price Reaction to Court Decisions Embracing Deference

	Dependent variable: cumulative abnormal returns [0,1]					
	All firms			Excluding Delaware firms		
	(1) β (SE)	(2) β (SE)	(3) β (SE)	(4) β (SE)	(5) β (SE)	(6) β (SE)
Deference	0.006***	0.007***	0.008***	0.008***	0.007***	0.009***
	(0.001)	(0.001)	(0.002)	(0.002)	(0.002)	(0.002)
Del. firm	0.003***	0.003***	0.003***			
	(0.001)	(0.001)	(0.001)			
Fin. Controls						
Ln(assets)			0.001***			0.002***
			(0.000)			(0.001)
Book lev.			0.012***			0.012
			(0.004)			(0.010)
Fin. lev.			-0.020***			-0.027***
			(0.004)			(0.008)
Observations	13098	13098	12641	4481	4481	4342
R^2	0.007	0.038	0.041	0.010	0.083	0.090
Adjusted R^2	0.005	0.007	0.009	0.004	0.002	0.006
Event FE	yes	yes	yes	yes	yes	yes
Industry FE	no	yes	yes	no	yes	yes

Note: Event study. Two-day event window [0, 1]; 30 day estimation window [-60, -31]. All regressions cluster at the state level. Cumulative abnormal returns (CAR) calculated using Fama-French-Cahart four-factor model. The variable *Deference* captures whether a firm is incorporated in the state for which deference to Delaware corporate law precedents is embraced. The variable *Del. Firm* captures whether a firm is incorporated in Delaware. Events include decisions by state supreme courts and by federal courts sitting in diversity jurisdiction. Cases are dropped if a prior state supreme court decision from the relevant state or a prior federal court decision applying the relevant state's law had already embraced a policy of general deference to Delaware corporate law precedents. A firm's industry is given by its four-digit SIC code. * ** *** denote significance at the 10%, 5%, and 1% levels respectively.

Table 4.8: Stock Price Reaction to Court Decisions Embracing Deference: Federal Courts Without Any State Precedent

	Dependent variable: cumulative abnormal returns [0,1]					
	All firms			Excluding Delaware firms		
	(1) β (SE)	(2) β (SE)	(3) β (SE)	(4) β (SE)	(5) β (SE)	(6) β (SE)
Deference	0.011***	0.011***	0.013***	0.012***	0.012***	0.014***
	(0.003)	(0.003)	(0.003)	(0.003)	(0.004)	(0.004)
Del. firm	0.006***	0.007***	0.007***			
	(0.001)	(0.001)	(0.001)			
Fin. Controls						
Ln(assets)			0.001			0.002*
			(0.001)			(0.001)
Book lev.			0.029**			0.019
			(0.013)			(0.015)
Fin. lev.			-0.039***			-0.042***
			(0.012)			(0.014)
Observations	4806	4806	4634	1987	1987	1922
R^2	0.003	0.081	0.086	0.004	0.150	0.160
Adjusted R^2	0.002	0.004	0.005	-0.000	-0.021	-0.017
Event FE	yes	yes	yes	yes	yes	yes
Industry FE	no	yes	yes	no	yes	yes

Note: Event study. Two-day event window [0, 1]; 30 day estimation window [-60, -31]. Cumulative abnormal returns (CAR) calculated using Fama-French-Cahart four-factor model. All regressions cluster at the state level. The variable *Deference* captures whether a firm is incorporated in the state for which deference to Delaware corporate law precedents is embraced. The variable *Del. Firm* captures whether a firm is incorporated in Delaware. Events include decisions by state supreme courts and by federal courts sitting in diversity jurisdiction. Cases are dropped if any federal or state court (even a lower state court) had already embraced a policy of general deference to Delaware corporate law precedents with respect to the relevant state's law. A firm's industry is given by its four-digit SIC code. * ** *** denote significance at the 10%, 5%, and 1% levels respectively.

though information regarding the state of incorporation for such earlier years has to be imputed based on 1994 information. By contrast, including those judgments as treatment events that contain other important holdings besides the question of deference results in substantially smaller treatment coefficients; moreover, in most specifications, the results are only significant at the 10 % level (table C.12). This is to be expected, given that the relevant cases brought major changes other than the deference principle, typically relating to the law governing mergers and acquisitions.

I also use a matched sample, relying on one-to-100 matching with replacement. A strict match is required with respect to a firm's two-digit SIC code. Within the two-digit SIC code, I rely on nearest neighbor matching, where the nearest neighbor is determined by propensity scores using lagged values for ln(assets), book leverage, and financial leverage. The results are very similar to those from the baseline regressions, though the coefficients are somewhat larger (0.9 to 1.1 %, table C.13).

4.8.4 Placebo Tests

I use two types of placebo tests. First, I shift all pertinent event dates by adding, to each event date, the same number of days, and then construct the baseline sample based on these placebo dates. I repeat this procedure for a total of 980 different placebo samples, where the number of added days ranges from -500 to -11 and from 11 to 500. (I exempt the first ten days before and after the actual treatment dates to avoid picking up any effect of the real treatment). Running the

baseline regression on these 980 placebo samples, while controlling for industry fixed effects at the four-digit SIC level (cf. table 4.7 col. 2), yields statistically significant results of a magnitude at least equal to that in the true sample (+/- 0.7 %) in only 13.2 % of cases. Given the occasional shock in form of corporate legislation or significant judgments, this percentage does not seem unreasonable.

As an alternative placebo test, I use placebo treatment groups created by rotating states in alphabetical order based on state abbreviations (table C.14). For example in the "+1" column, the firms incorporated in Alaska ("AK") are treated as though they were incorporated in Alabama ("AL"), whereas firms incorporated in Alabama ("AL") are treated as though they were incorporated in Arkansas ("AR"). Using these placebo treatment groups, the deference coefficient lacks statistical significance in most cases, and in the one case where it is statistically significant at conventional levels, its size (0.5%) is slightly below that seen for the true sample (0.6%).

4.8.5 Time Trends

In order to analyze time trends, I examine the impact of being incorporated in the treatment state in the days before and after the decision, using the following model:

$$AR_{i,e,s,n,d,c} = \beta_0 + \sum_{n=-(T-1)}^{T} \theta_n(day_n \times D_{s,e}) + \gamma_{e,n,d,c} + \epsilon_{i,e,s,n,d,c} \tag{4.3}$$

As before, i indexes firms, s indexes states of incorporation, e indexes

events. Additionally, d indexes Delaware incorporated v. non-Delaware incorporated firms, and n indexes the number of days before and after the judgment. Accordingly, the term $(day_n \times D_{s,e})$ captures the effect of being incorporated in the treatment state for each of the days from $(T-1)$ days before the event to T days after the event, the Tth day before the effect being the reference point. The term $\gamma_{e,n,d,c}$ captures industry-day-event-Delaware fixed effects. As before, controlling for Delaware-incorporation is necessary since Delaware firms, too, may profit from deference decisions by courts in other states.

The results are displayed in figure 4.2. For the graph on the left, a firm's industry is determined by its one-digit SIC code, for the graph on the right, a firm's two-digit SIC code is used instead.[18] In both cases, the treatment group coefficients for the regressions using one-day returns as a dependent variable are not statistically different from zero before the event, yet positive and statistically significant on the day of the event.

4.8.6 Deference to Delaware and Firms with High Agency Costs

One of my hypotheses is that well-governed firms will benefit less from deference to Delaware precedents than poorly governed firms. To explore this hypothesis, I use various proxies for the extent of a firm's agency problems. These include (1) high managerial entrenchment as measured by Bebchuk's entrench-

[18]Using four-digit SIC codes as in the baseline regression was impossible due to computational limitations regarding the number of variables.

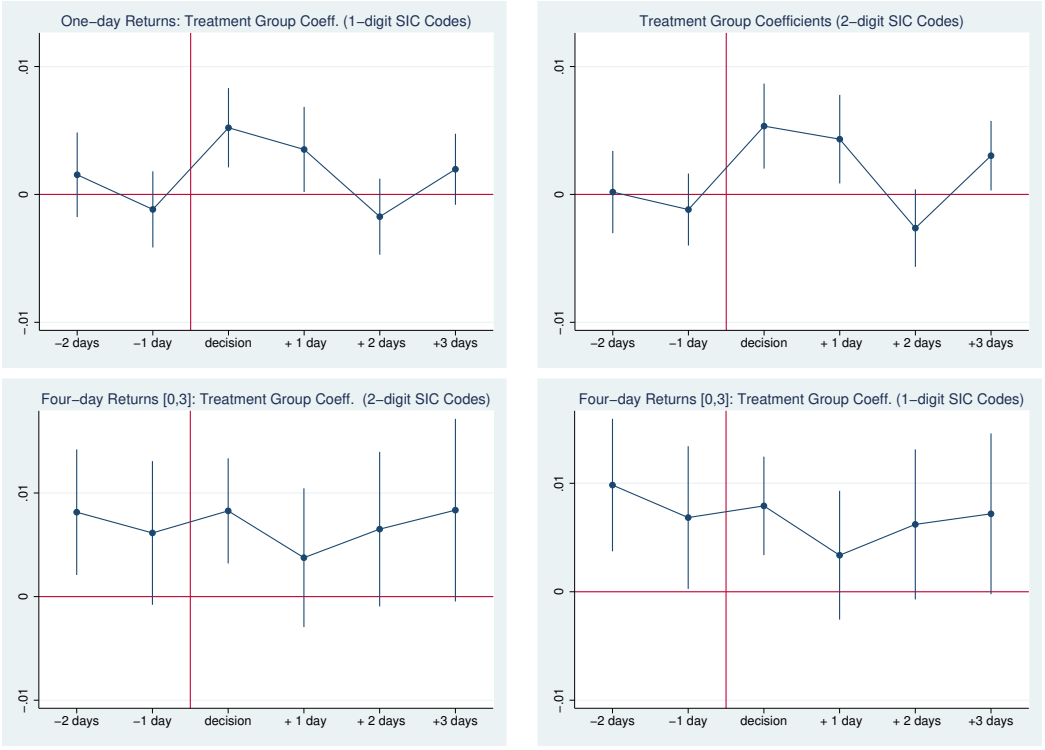

Figure 4.2: Deference: Treatment Group Coefficients Before and After

Note: Regressions are based on equation (3). The two graphs on top use one-day abnormal returns as a dependent variable, the two graphs on the bottom use four-day abnormal returns ([0,3]). All graphs show a 95 % confidence interval. For the graph on the left, a firm's industry is determined by its one-digit SIC code, for the graph on the right, a firm's two-digit SIC code is used instead. All regressions cluster at the state level.

ment index ("E-Index") (Bebchuk et al., 2009), (2) low leverage (Ang et al., 2000),[19] (3) high insider ownership (O'Sullivan, 1997), and (4) high (sales, general, and administrative) expenses (Jensen, 1986; Chen et al., 2012).

The basic intuition underlying their use is easily explained. High (sales, administrative and general) expenses are thought to suggest subpar efforts to maximize shareholder wealth. Low leverage may imply lower efforts by outside creditors to monitor the firm, and they may also mean that the threat of insolvency is less likely to motivate managers to maximize their efforts. Managerial entrenchment via poison pills, staggered boards, and other devices means that managers are to some extent protected against capital market pressure. High insider ownership by managers and directors, which might in theory provide better incentives for performance, has in practice been found to be a proxy for managerial entrenchment (O'Sullivan, 1997).

To explore the relevance of these variables, I use the following model:

$$\begin{aligned} CAR_{i,e,s} =& \beta_0 + \beta_1 Treated_{s,e} + \beta_2 (Treated_{s,e} \times High_i) \\ &+ \beta_3 (High_i) + \alpha_e + \epsilon_{i,e,s} \end{aligned} \tag{4.4}$$

As before, s indexes states of incorporation, e indexes treatment events , and i indexes firms. The term $High_i$ captures whether, for a given governance proxy, the firm lies above or below the median at the time of the event.

[19] When agency conflicts between the firm and its creditors are taken into account, the situation becomes more complex, as high leverage may exacerbate such agency conflicts (Titman, 1984; Donelson et al., 2016). However, this paper focuses on the conflict of interest between managers and shareholders, and therefore disregards potential costs imposed on creditors.

The results are displayed in table 4.9. By and large, they are consistent with the hypothesis that deference to Delaware benefits firms with poorly controlled agency conflicts more than firms with well-controlled agency conflicts. All four agency cost proxies point in the same direction. Firms that have poorly controlled agency conflicts as indicated by high entrenchment, low leverage, high expenses, or high insider ownership benefit particularly strongly from court decisions that embrace Delaware law. And while this relationship is not statistically significant for the expenses and entrenchment variables, it is significant at the 5 % level for the two other agency cost proxies, namely leverage and insider ownership variables, the treatment coefficient is negative and statistically significant for those firms that do not fall into the category of high agency cost firms. This result is quite intuitive if one considers the different possible reasons for staying incorporated locally. For well-governed firms, in which managers are trying to maximize shareholder wealth, one reason to remain incorporated locally may lie in the fact that, given their particular firm's profile, their home state's corporate law seems more likely to maximize shareholder wealth than Delaware law. For these firms, a court's decision to defer to Delaware precedents may actually constitute bad news. By contrast, poorly governed firms may incorporate locally (and stay incorporated locally) because their managers put their own interests above those of shareholders. For those firms, deference to Delaware may simply accomplish at least in part what management ought to have brought about in the first place by (re)incorporating in Delaware, namely the application of Delaware case law. Hence, one would expect the stock price of such firms to react favorably to court

decisions embracing deference.

The results are somewhat different, if one uses continuous rather than binary variables for the governance proxies. In that case, the entrenchment and expenses variables become statistically significant, whereas leverage is no longer statistically significant (and points in the opposite direction). Also, insider ownership points in the opposite direction, but the coefficient is very small (table C.15).

4.9 Panel Data: Deference and Firm Performance

To the extent that deference to Delaware law provides firms with the benefits of a coherent and well-developed set of precedents, such firms should profit from greater legal certainty. Moreover, to the extent that Delaware provides a well-developed case law on fiduciary duties and other areas of corporate law, such case law should make it easier to constrain managerial opportunism. Both aspects suggest that deference to Delaware precedents could benefit firm performance. I therefore hypothesize that deference to Delaware precedents is associated with a higher return on assets.

To explore this hypothesis, I use a difference-in-differences approach, based on panel data for the years 1994-2017. As my dependent variable, I chiefly rely on return on assets (ROA).

4.9.1 Econometric Approach

For each firm, the treatment variable *Deference* is "switched on" in the year that the firm's state of incorporation embraces deference to Delaware precedents.

Table 4.9: Triple Differences

	Dependent variable: cumulative abnormal returns [0,1]				
	(1) β (SE)	(2) β (SE)	(3) β (SE)	(4) β (SE)	(5) β (SE)
Deference	0.006***	0.007	0.013***	0.002	-0.004**
	(0.001)	(0.013)	(0.003)	(0.003)	(0.002)
Entrenchment					
High		-0.001			
		(0.001)			
High x deference		0.009			
		(0.013)			
Leverage					
High			0.001		
			(0.001)		
High x deference			-0.010**		
			(0.005)		
Expenses					
High				-0.002	
				(0.001)	
High x deference				0.006	
				(0.007)	
Ins. Ownership					
High					-0.000
					(0.002)
High x deference					0.011**
					(0.005)
Observations	13098	3121	12645	11805	5160
R^2	0.007	0.030	0.008	0.008	0.021
Adjusted R^2	0.005	0.023	0.005	0.005	0.015
Event FE	yes	yes	yes	yes	yes

Note: Event study based on equation (5). Two-day event window [0, 1]; 30 day estimation window [-60, -31]. Cumulative abnormal returns (CAR) are calculated using Fama-French-Cahart four-factor model. All regressions cluster at the state level. The variable *Deference* captures whether a firm is incorporated in the state for which deference to Delaware corporate law precedents is embraced. The terms *Entrenchment*, *Leverage*, *Expenses*, *Insider Ownership* refer to Bebchuk's Entrenchment Index ("E-Index"), a firm's book leverage, insider ownership, (sales, general and administrative) expenses ("xsgaat") respectively, as defined in table C.1. In each case, the variable *High* takes on the value one if a firm scores above the median in the relevant category, zero otherwise. The term *High x deference* captures the interaction between the variable *High* and the variable *Deference*. All regressions control for event fixed effects. The variable *Del. Firm* captures whether a firm is incorporated in Delaware. Events include decisions by state supreme courts and by federal courts sitting in diversity jurisdiction. Cases are dropped if any federal or state court (even a lower state court) had already embraced a policy of general deference to Delaware corporate law precedents with respect to the relevant state's law. A firm's industry is given by its four-digit SIC code. * ** *** denote significance at the 10%, 5%, and 1% levels respectively.

Since, so far, no state has abandoned deference to Delaware, there are no cases in which the treatment variable is switched off after being switched on. I include other variables that capture certain aspects of the state of incorporation's corporate law, state of incorporation fixed effects, firm fixed effects, and industry year fixed effects, and thus I arrive at the following model:

$$ROA_{i,s,t,c} = \beta_0 + \beta_1 Deference_{s,t} + \beta_2 X_{s,t} + \alpha_s + \mu_i + \\ + \delta_{t,c} + \epsilon_{i,s,t,c} \tag{4.5}$$

As before, s indexes states of incorporation, i indexes firms, and c indexes industrial classifications, while t indexes years. Thus, the term $Deference_{s,t}$ captures whether a firm's state of incorporation is subject to a policy of deference in a given year. The term $X_{s,t}$ captures other time-variant features of the state of incorporation's corporate law system. Meanwhile, α_s captures state of incorporation fixed effects,[20] and $\delta_{t,c}$ captures industry-year fixed effects.

4.9.2 Endogeneity Concerns

A fixed effects model such as the one above is potentially subject to endogeneity concerns. As previously shown, there is some evidence consistent with the assumption that deference may be one factor driving firms' (re)incorporation choices. To address this concern, I limit my baseline regression to those firms that

[20] In most regressions, I include only firms that do not reincorporate in the relevant years, so that the state of incorporation fixed effects are absorbed by the firm fixed effects with the consequence that the term α_s is dropped.

did not reincorporate between 1994 and 2017 and that had at least one firm-year observation before 1994.

A separate concern is that any result might be driven by unobserved variables given that courts' decision to embrace deference to Delaware precedents may not be random. For example, if the decision to adopt deference is a desperate reaction by courts feeling that their corporate law system is on the wrong track, one might observe a negative correlation between deference and firm performance, despite the fact that deference as such benefits firm performance.

There is no way to eliminate this concern entirely. However, in several states (IN, MI, MN, & OH), deference was embraced by federal courts without previously having been embraced by the relevant state's own courts at any level. This suggests that the federal decisions in questions were probably not correlated with any state-specific developments. Accordingly, with respect to these federal decisions, there is much less reason to be concerned that the decision to adopt deference to Delaware is correlated with other attributes of the state of incorporation.

In my baseline regression, I therefore define the Deference variable narrowly to include only those cases, in which deference was adopted by federal courts without any state precedent. For the purpose of robustness checks, though, I also run regressions in which I include a control variable ("Other deference") capturing the remaining cases of deference (table C.17). In other words, the control variable "Other deference" takes on the value 1 if deference has been adopted by (1) a federal court after already having been embraced by a lower state court or (2) by a state supreme court.

4.9.3 Results

The results are displayed in table 4.10. They are broadly consistent with the assumption that deference benefits firm performance. Deference, defined narrowly as described above, is associated with a 1.1 to 1.7 percentage point increase in return on assets (ROA). This amounts to a a 2.2 to 3.4 % increase. This result is both economically and statistically significant. It is also noteworthy that other studies examining the impact of legal reforms on firm performance have found effects of a similar size. For example, Agrawal (2013) finds that the adoption of certain investor protection laws at the state level ("blue sky laws") is associated with a 6 % increase in ROA. Note as well that results of a similar magnitude obtain if focuses on return on equity (ROE) rather return on assets (table C.16), though, in the case of ROE, the relevant results are not significant at conventional levels.

4.9.4 Robustness

The baseline results displayed in table 4.10 are fairly robust. Controlling for other types of deference, namely deference by state supreme courts or by federal courts where prior state court decisions had already adopted a policy of deference has little impact C.17, though the treatment coefficient becomes less significant in some specifications. Similarly, the results remain fairly similar if one tries different levels for winsorizing or switches from winsorizing to trimming (C.18). The picture also remains broadly similar if one extends the underlying sample of firms to include firms formed after 1994, though the results are less significant in some specifications (table C.19). By contrast, if one includes reincorporating firms and

does not restrict the sample to locally incorporated firms, the results are no longer significant in most specifications (table C.20). Given the potential endogeneity of reincorporation choices, this result should be interpreted with caution, though.

4.9.5 Parallel Trends Assumption

Given that corporations self-select into their state of incorporation, it is of particular importance to see if the parallel trends assumption can be falsified.

To gain an understanding of how the benefits of being incorporated locally changes over the various time periods in the event sample, I use the following specification:

$$ROA_{i,s,t,c} = \sum_{n=-(T-1)}^{+T} \beta_n(\gamma_n * D_s) + \lambda X_{s,t} + \zeta Y_{i,t} + \alpha_s + \gamma_{c,t} + \mu_i + \epsilon_{i,s,t,c} \tag{4.6}$$

Note that n indexes years before and after the decision to defer, whereas t indexes calendar years. As before, i indexes firms, s indexes states of incorporation, and c indexes industrial classifications.

The results are captured in figure **??**. If one focuses solely on an 11-year window spanning five years before and after the event (left graph), the results are roughly in line with the parallel trends assumption in the sense that most of the pre-event coefficients are not statistically different from zero. However, if one focuses on an 21-year window instead (right graph), the results are rather hard to reconcile with the parallel trends assumption. Hence, the results on the

Table 4.10: Difference-in-Differences (1994-2017)

	Dependent variable: ROA					
	Locally incorporated firms			All firms		
	(1) β (SE)	(2) β (SE)	(3) β (SE)	(4) β (SE)	(5) β (SE)	(6) β (SE)
Deference	0.008	0.009**	0.015***	0.011	0.008	0.013*
	(0.005)	(0.004)	(0.005)	(0.007)	(0.006)	(0.007)
Takeover Statutes						
Mand. stag. board		-0.013*	-0.016**		-0.028***	-0.031***
		(0.007)	(0.007)		(0.008)	(0.009)
Constituency statute		0.015	0.014		-0.009	-0.005
		(0.011)	(0.010)		(0.011)	(0.012)
Bus. combination		-0.023***	-0.016**		-0.014	-0.010
		(0.008)	(0.008)		(0.012)	(0.012)
Poison pill		0.016**	0.019***		0.026**	0.026**
		(0.007)	(0.006)		(0.011)	(0.010)
Takeover Cases						
Pro poison pill case			0.014**			0.015
			(0.006)			(0.010)
Unocal			0.010			0.015
			(0.010)			(0.011)
Unocal rejected			0.001			0.027**
			(0.010)			(0.013)
Revlon			0.015***			-0.004
			(0.005)			(0.010)
Revlon rejected			0.032***			0.010
			(0.007)			(0.015)
Blasius			0.002			0.007
			(0.013)			(0.013)
Blasius rejected			0.019			-0.011
			(0.013)			(0.022)
Observations	19246	19246	19246	62158	62155	62155
R^2	0.081	0.082	0.084	0.053	0.053	0.053
Adjusted R^2	0.020	0.021	0.023	0.032	0.033	0.033
Firm FE	yes	yes	yes	yes	yes	yes
Year-industry FE	yes	yes	yes	yes	yes	yes

Note: Difference-in-differences model with panel data (1994-2017) based on equation (5). All regressions cluster at the state level. The variable *Deference* captures whether a firm is incorporated in a state for which a federal court has embraced deference to Delaware precedents without any prior federal or state court decision having embraced deference to Delaware precedents for that particular state. A firm's industry is given by its one-digit SIC code. Reincorporating firms are dropped as are firms that did not have at least one firm-year observation before 1994. * ** *** denote significance at the 10%, 5%, and 1% levels respectively.

relationship between deference and return on assets should be interpreted with great caution.

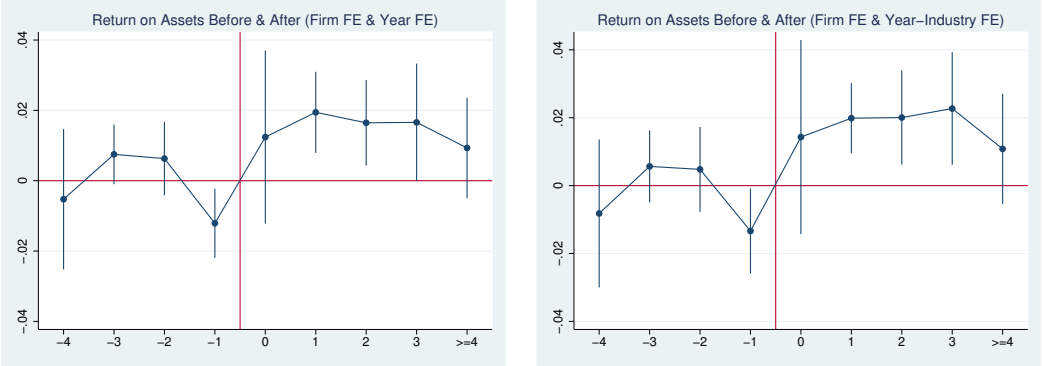

Figure 4.3: Dependent variable: ROA

Note: Regressions based on equation (6). 95 % confidence interval. The graph on the left controls for firm fixed effects and year fixed effects. The graph on the right controls for firm fixed effects and year industry fixed effects. A firm's industry classification is determined by its one-digit SIC code. Both regressions control for takeover legislation.

4.10 Conclusion

Delaware has long dominated the corporate charter market for public corporations. However, there also exists a second dimension to Delaware's dominance: Delaware's role as a lodestar for the common law of corporations. Many state courts and federal courts applying state law now explicitly embrace a policy of looking to Delaware precedents to fill gaps in their own state's law.

The empirical evidence presented in this article is consistent with the assumption that such deference benefits rather than harms shareholders.

Chapter 5

Conclusion

Many legal scholars doubt the usefulness of corporate litigation as a governance mechanism (Bainbridge, 2015; Korsmo and Myers, 2014; Weitzel, 2013; Myers, 2014; Romano, 1991). The evidence presented in this dissertation suggests that help may be at hand. States, whose general court systems are not performing well, can hope to benefit firm performance and shareholder wealth by creating specialized business courts. Moreover, courts in states other than Delaware may be able to improve firm performance and benefit shareholders by deferring to Delaware precedents in those cases where their own body of precedents proves incomplete.

On the other hand, not all legal innovations may be worth adopting. In particular, while the legalization of forum bylaws appears to have benefited the shareholders of Delaware firms, it is not clear that this result can be extrapolated to firms incorporated in other states. Quite on the contrary, the evidence presented in this paper is consistent with the assumption that states other than Delaware may be well-advised to abstain from legalizing forum bylaws for their own firms.

Appendices

Appendix A

Forum Bylaws and Shareholder Wealth

A.1 Statutes, Courts, Legal Variables, & Financial Variables

Table A.1: Financial Variables

Variable	**Definition**	**Compustat Codes**
Assets	Total Assets	at
Book leverage	Total debt over assets	(dlc+dltt)/at
Dividends	Dividends on common stock	dvc
Financial leverage	Total debt over (sum of total debt and market value)	(dlc+dltt)/((dlc+dltt+ (prcc_f*csho))
Market value	Number of common shares outstanding times closing price at end of fiscal year	prcc_f*csho
Return on assets	(Operating income before depreciation minus (depreciation and amortization)) over assets	(oibdp-dp)/at
Return on equity	Operating income before depreciation/common equity	oibdp/ceq
Tangibility	(Property, plant, and equipment) over assets	ppentat
Tobin's q	(Assets minus common equity plus market value) over assets	(at-ceq+(prcc_f * csho))/at)
Total debt	Sum of debt in current liabilities and long term debt	dlc+dltt

Table A.2: Forum Bylaw Statutes: Text

State	Source	Excerpt
CT	C.G.S.A. 33-642	(a) The certificate of incorporation or the bylaws of a corporation may require that any or all internal corporate claims be brought exclusively in any specified court or courts of this state and, if so specified, in any additional courts in this state or in any other jurisdictions with which the corporation has a reasonable relationship. [...] (c) No provision of the certificate of incorporation or the bylaws may prohibit bringing an internal corporate claim in the courts of this state or require such claims to be determined by arbitration.
DE	8 Del.C. 115	The certificate of incorporation or the bylaws may require, consistent with applicable jurisdictional requirements, that any or all internal corporate claims shall be brought solely and exclusively in any or all of the courts in this State, and no provision of the certificate of incorporation or the bylaws may prohibit bringing such claims in the courts of this State. [...].
MD	MD C., Corp. & Ass., 2-113(b)	(1) Except as provided in paragraph (2) of this subsection, the charter or bylaws of a corporation may require, consistent with applicable jurisdictional requirements, that any internal corporate claim be brought only in courts sitting in one or more specified jurisdictions. (2)(i) This paragraph does not apply to a provision contained in the charter or bylaws of a corporation on October 1, 2017, unless and until the provision is altered or repealed by an amendment to the charter or bylaws of the corporation, as applicable. (ii) The charter or bylaws of a corporation may not prohibit bringing an internal corporate claim in the courts of this State or a federal court sitting in this State.
NC	N.C.G.S.A. 55-7-50	A provision in the articles of incorporation or bylaws of a corporation that specifies a forum or venue in North Carolina as the exclusive forum or venue for litigation relating to the internal affairs of the corporation shall be valid and enforceable.

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Table A.2 – continued from previous page

State	Source	Excerpt
NJ	N.J.S.A. 14A:2-9	(5)(a) Without limiting subsection (4) of this section, the by-laws may provide that the federal and State courts in New Jersey shall be the sole and exclusive forum for: (i) any derivative action or proceeding brought on behalf of the corporation; (ii) any action by one or more shareholders asserting a claim of a breach of fiduciary duty owed by a director or officer, or former director or officer, to the corporation or its shareholders, or a breach of the certificate of incorporation or by-laws; (iii) any action brought by one or more shareholders asserting a claim against the corporation or its directors or officers, or former directors or officers, arising under the certificate of incorporation or the fiNew Jersey Business Corporation Act,fi N.J.S.14A:1-1 et seq.; (iv) any other State law claim, including a class action asserting a breach of a duty to disclose, or a similar claim, brought by one or more shareholders against the corporation, its directors or officers, or its former directors or officers; or (v) any other claim brought by one or more shareholders which is governed by the internal affairs or an analogous doctrine.
OK	18 Okl.St.Ann. 1014.2	The certificate of incorporation or the bylaws may require, consistent with applicable jurisdictional requirements, that any or all internal corporate claims shall be brought solely and exclusively in any or all of the courts in this state, and no provision of the certificate of incorporation or the bylaws may prohibit bringing such claims in the courts of this state. [...]
KS	K.S.A. 17-6015	(a) The articles of incorporation or the bylaws may require, consistent with applicable jurisdictional requirements, that any or all internal corporate claims shall be brought solely and exclusively in any or all of the courts in this state, and no provision of the articles of incorporation or the bylaws may prohibit bringing such claims in the courts of this state.[...]

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Table A.2 – continued from previous page

State	Source	Excerpt
VA	VA Code Ann. 13.1-624(C)	The bylaws may contain one or more of the following provisions: [...] 3. A requirement that a circuit court or a federal district court in the Commonwealth or the jurisdiction in which the corporation has its principal office shall be the sole and exclusive forum for (i) any derivative action brought on behalf of the corporation; (ii) any action for breach of duty to the corporation or the corporation's shareholders by any current or former officer or director of the corporation; or (iii) any action against the corporation or any current or former officer or director of the corporation arising pursuant to this chapter or the corporation's articles of incorporation or bylaws.
WA	23B.02.080	(1) The articles of incorporation or bylaws may contain provisions that require any or all internal corporate proceedings to be commenced and maintained exclusively in any specified court or courts of this state and, if so specified, in any additional courts in this state or in any other jurisdictions with which the corporation has a reasonable relationship. (2) A provision permitted under subsection (1) of this section: (a) May not confer jurisdiction on any court, over any person, or of any proceeding; and (b) May not (i) prohibit commencing or maintaining an internal corporate proceeding in the courts of this state or (ii) require claims asserted in an internal corporate proceeding to be determined by arbitration. (3) If the court or courts of this state specified in a provision permitted under subsection (1) of this section do not have jurisdiction, but any other court or courts specified in the provision do have jurisdiction, then the internal corporate proceeding may be commenced and maintained: (a) In any court of this state that has jurisdiction; or (b) In any other court specified in the provision that has jurisdiction. (4) If no court specified in a provision permitted under subsection (1) of this section has jurisdiction, then the internal corporate proceeding may be commenced and maintained in any court that has jurisdiction.

Table A.3: Legal Variables

Variable	Definition
Shareholder proxy access	This variable takes on the value 1 if a state's statutory corporate law explicitly gives shareholders the right to include their proposed candidates for the election of directors in the corporation's proxy materials, 0 otherwise.
Charter reference to outside facts	This variable takes on the value 1 if a state's statutory corporate law explicitly allows for the corporation's certificate of incorporation to refer to facts ascertainable outside the certificate itself, 0 otherwise. The fact that a state's statutory law allows such references with respect to specific issues is not sufficient for this variable to take on the value 1.
Reduced majority for calling shareholder meetings	This variable takes on the value 1 if a state's statutory corporate law explicitly gives shareholders the right to call a shareholder meeting and requires less than a majority of the outstanding shares entitled to vote to do so, 0 otherwise.
Domestication	This variable takes on the value 0 if a state's statutory corporate law explicitly provides for domestication as one way for existing foreign corporations to reincorporate in the pertinent state.
Low majority requirement for share exchange	This variable takes on the value 1 if a state's statutory corporate law explicitly provides that a share exchange can be undertaken with a majority of all shares present or represented by proxy at a shareholder meeting or with a lower majority, 0 otherwise. The fact that a share exchange can be undertaken with a majority of all outstanding shares is not sufficient for this variable to take on the value 1.

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Table A.3 – continued from previous page

Variable	Definition
Statutory rules on failure to supervise	This variable takes on the value 1 if the a state's corporate law contains an explicit rule governing a "failure to supervise" by corporate directors, zero otherwise The fact that a state's case law addresses this issue, or that the state's statutory rules contains general rules on directors' duties and liabilities, without explicitly mentioning the failure to supervise, is not enough for this variable to take on the value 1.
Fair meeting rules	This rule takes on the value 1 if a state's statutory law explicitly provides that the rules governing a corporation's shareholder meeting must be fair to the shareholders, 0 otherwise.
Force the vote	This variable takes on the value 1 if a state's statutory corporate law explicitly allows corporations to agree to submit a matter to a shareholder vote even if the corporation's board recommends voting against the relevant matter, 0 otherwise.
Inspector of elections	This variable takes on the value 1 if a state's statutory corporate law explicitly requires that an inspector of elections be appointed for the annual shareholder meeting of a public corporation, 0 otherwise. A rule according to which the board may appoint an inspector of elections, but is not required to do so, is not sufficient for this variable to take on the value 1.

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Table A.3 – continued from previous page

Variable	Definition
Simplified voting on mergers	This variable takes on the value 1 if a state's statutory law on mergers contain a general rule according to which the shareholder approval requirement for corporate mergers is met when a majority of the shareholders present or represented by proxy at a shareholder meeting approve of the merger, 0 otherwise. Note that a rule according to which the majority of all outstanding shares is necessary to approve a merger does not suffice for this variable to take on the value 1.
Generous safe haven for sale of assets	This variable takes on the value 1 if a state's statutory corporate law explicitly provides that the shareholders are not entitled to vote on a sale of assets if the remaining assets amount to at least 25 % of (or an even lower percentage) of the corporation's original assets. Otherwise the variable takes on the value 0.
Electronic proxies	This variable takes on the value 1 if a state's statutory corporate law explicitly allows electronic proxies, 0 otherwise.
Resignation bylaw	This variable takes on the value 1 if a state's statutory corporate law explicitly provides that the shareholders can adopt a bylaw according to which directors who are not elected with a majority of the votes cast have to resign.

A.2 Robustness for Delaware Forum Bylaws

Table A.4: Events: Legality and Enforcement of Delaware Bylaws: Market Model

	Dependent variable: cumulative abnormal returns [0,3]					
	Boilermakers		State supr. court and fed. cases enforcing DE forum bylaws			
	Treatment group: all Delaware Firms		Treatment group: all Delaware Firms		Treatment group: DE firms headq. in court state.	
	(1) β (SE)	(2) β (SE)	(3) β (SE)	(4) β (SE)	(5) β (SE)	(6) β (SE)
Treatment	0.003**	0.003**	0.002***	0.002***	0.012***	0.014***
	(0.001)	(0.002)	(0.001)	(0.001)	(0.001)	(0.002)
Fin. Controls						
Ln(assets)		-0.000		0.001***		0.001***
		(0.000)		(0.000)		(0.000)
Book lev.		-0.005		-0.012***		-0.011***
		(0.005)		(0.002)		(0.002)
Fin. lev.		0.012**		0.003		0.003
		(0.005)		(0.002)		(0.002)
Observations	3641	3183	18934	16442	18934	16442
R^2	0.201	0.165	0.060	0.065	0.063	0.068
Adjusted R^2	0.107	0.052	0.041	0.043	0.043	0.046
Industry FE	yes	yes	yes	yes	yes	yes

Note: Same as table 2.5 except that cumulative abnormal returns (CAR) calculated using the Market Model, in which the abnormal return on a given day is given by the difference between the actual return (ret) and the return on the value weighed index including all distributions (vwretd). * ** *** denote significance at the 10%, 5%, and 1% levels respectively.

Table A.5: Legality and Enforcement of Delaware Bylaws: Dropping NV Firms

	Dependent variable: cumulative abnormal returns [0,3]					
	Boilermakers		State supr. court and fed. cases enforcing DE forum bylaws			
	Treatment group: all Delaware Firms		Treatment group: all Delaware Firms		Treatment group: DE firms headq. in court state.	
	(1) β (SE)	(2) β (SE)	(3) β (SE)	(4) β (SE)	(5) β (SE)	(6) β (SE)
Treatment	0.004***	0.004***	0.001**	0.002**	0.003***	0.005***
	(0.001)	(0.001)	(0.001)	(0.001)	(0.000)	(0.001)
Fin. Controls						
Ln(assets)		0.000		0.001***		0.001***
		(0.000)		(0.000)		(0.000)
Book lev.		0.002		-0.004		-0.004
		(0.005)		(0.003)		(0.003)
Fin. lev.		0.002		-0.009**		-0.009**
		(0.006)		(0.004)		(0.004)
Observations	3563	3106	18468	16032	18468	16032
R^2	0.203	0.182	0.035	0.042	0.036	0.042
Adjusted R^2	0.107	0.068	0.015	0.018	0.015	0.018
Industry FE	yes	yes	yes	yes	yes	yes

Note: Same as table 2.5 except that all firms incorporated in NV are dropped. * ** *** denote significance at the 10%, 5%, and 1% levels respectively.

Table A.6: Legality and Enforcement of DE Bylaws: Winsorizing and Trimming

	Dependent Variable: Cumulative Abnormal Returns [0,3]					
	Boilermakers		State supr. court and fed. cases enforcing DE forum bylaws			
	Treatment Group: all Delaware Firms		Treatment Group: all Delaware Firms		Treatment Group: DE firms headq. in court state.	
Winsorized/Trimmed	1 and 99 % levels		1 and 99 % levels		1 and 99 % levels	
	wins.	trim.	wins.	trim.	wins.	trim.
	(1)	(2)	(3)	(4)	(5)	(6)
Treatment	0.006***	0.004***	0.002***	0.002**	0.007***	0.005***
	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
Observations	3367	3298	17423	17076	17423	17076
R^2	0.163	0.164	0.037	0.040	0.038	0.040
Adjusted R^2	0.055	0.054	0.015	0.017	0.016	0.018
Winsorized/Trimmed	3 and 97 % levels		3 and 97 % levels		3 and 97 % levels	
	wins.	trim.	wins.	trim.	wins.	trim.
	(1)	(2)	(3)	(4)	(5)	(6)
Treatment	0.005***	0.002***	0.002***	0.001**	0.006***	0.004***
	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.000)
Observations	3367	3158	17423	16362	17423	16362
R^2	0.168	0.184	0.040	0.041	0.040	0.041
Adjusted R^2	0.061	0.071	0.017	0.018	0.018	0.018
Winsorized/Trimmed	5 and 95 % levels		5 and 95 % levels		5 and 95 % levels	
	wins.	trim.	wins.	trim.	wins.	trim.
	(1)	(2)	(3)	(4)	(5)	(6)
Treatment	0.004***	0.002**	0.002***	0.000	0.005***	0.001***
	(0.001)	(0.001)	(0.001)	(0.000)	(0.001)	(0.000)
Observations	3367	3019	17423	15633	17423	15633
R^2	0.172	0.187	0.040	0.043	0.041	0.043
Adjusted R^2	0.066	0.071	0.018	0.018	0.019	0.018
Industry FE	yes	yes	yes	yes	yes	yes

Note: Same as table 2.5, except that different levels for winsorizing and trimming are used as indicated in headings. Also, those columns from table 2.5 that included financial controls are omitted. * ** *** denote significance at the 10%, 5%, and 1% levels respectively.

Table A.7: Legality and Enforcement of Delaware Bylaws: Different Event Windows

	Dependent variable: cumulative abnormal returns [0,3]					
	Boilermakers		State supr. court and fed. cases enforcing DE forum bylaws			
	Treatment group: all Delaware Firms		Treatment group: all Delaware Firms		Treatment group: DE firms headq. in court state.	
Event Window	[0,3]	[-3,3]	[0,3]	[-3,3]	[0,3]	[-3,3]
	(1)	(2)	(3)	(4)	(5)	(6)
Treatment	0.004***	0.003**	0.002**	0.004***	0.004***	0.010***
	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
Observations	3640	25487	18933	132524	18933	132524
R^2	0.193	0.171	0.036	0.035	0.036	0.035
Adjusted R^2	0.098	0.159	0.016	0.032	0.016	0.032
Event Window	[0,5]	[-5,5]	[0,5]	[-5,5]	[0,5]	[-5,5]
	(1)	(2)	(3)	(4)	(5)	(6)
Treatment	0.005***	0.007***	0.003***	0.004***	0.004**	0.010***
	(0.001)	(0.002)	(0.001)	(0.001)	(0.001)	(0.002)
Observations	3641	40062	18931	208263	18931	208263
R^2	0.170	0.170	0.033	0.034	0.032	0.034
Adjusted R^2	0.072	0.162	0.012	0.032	0.012	0.032
Event Window	[0,10]	[-10,10]	[0,10]	[-10,10]	[0,10]	[-10,10]
	(1)	(2)	(3)	(4)	(5)	(6)
Treatment	0.006***	0.008**	0.005***	0.004*	0.009***	0.014***
	(0.002)	(0.003)	(0.001)	(0.002)	(0.003)	(0.002)
Observations	3639	76440	18923	397487	18923	397487
R^2	0.152	0.163	0.039	0.039	0.039	0.039
Adjusted R^2	0.052	0.159	0.019	0.038	0.019	0.038
Industry FE	yes	yes	yes	yes	yes	yes

Note: Same as table 2.5 except that different event windows are used as indicated in headings. Also, those columns from table 2.5 that included financial controls are omitted. * ** *** denote significance at the 10%, 5%, and 1% levels respectively.

Table A.8: Delaware Forum Bylaws: Two-way Clustering

	Dependent variable: cumulative abnormal returns [0,3]					
	Boilermakers		State supr. court and fed. cases enforcing DE forum bylaws			
	Treatment group: all Delaware Firms		Treatment group: all Delaware Firms		Treatment group: DE firms headq. in court state.	
	(1) β (SE)	(2) β (SE)	(3) β (SE)	(4) β (SE)	(5) β (SE)	(6) β (SE)
Treatment	0.004***	0.004***	0.002***	0.002***	0.004***	0.006***
	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
Fin. Controls						
Book lev.		-0.001		-0.005		-0.004
		(0.007)		(0.004)		(0.003)
Fin. lev.		0.004		-0.007**		-0.007**
		(0.007)		(0.003)		(0.003)
Observations	3640	3242	18933	16772	18933	16772
R^2	0.002	0.002	0.001	0.002	0.001	0.003
Adjusted R^2	-0.117	-0.131	-0.020	-0.021	-0.020	-0.021
Industry FE	yes	yes	yes	yes	yes	yes

Note: Same as table 2.5, except that all regressions cluster at both the level of the state of incorporation and the level of the headquarters state (two-way clustering). * ** *** denote significance at the 10%, 5%, and 1% levels respectively.

Table A.9: Delaware Forum Bylaws: Propensity Score Matching

	Dependent variable: cumulative abnormal returns [0,3]					
	Boilermakers		State supr. court and fed. cases enforcing DE forum bylaws			
	Treatment group: all Delaware Firms		Treatment group: all Delaware Firms		Treatment group: DE firms headq. in court state.	
	(1) β (SE)	(2) β (SE)	(3) β (SE)	(4) β (SE)	(5) β (SE)	(6) β (SE)
Treatment	0.006***	0.006***	0.003*	0.003**	0.006***	0.005***
	(0.001)	(0.002)	(0.001)	(0.001)	(0.001)	(0.001)
Fin. Controls						
Ln(assets)		0.000		0.001**		0.002***
		(0.000)		(0.000)		(0.001)
Book lev.		-0.006		-0.011		-0.018**
		(0.007)		(0.008)		(0.007)
Fin. lev.		0.010		-0.004		-0.003
		(0.007)		(0.008)		(0.006)
Observations	2762	2691	20978	20412	8251	8067
R^2	0.176	0.178	0.053	0.058	0.131	0.141
Adjusted R^2	0.048	0.046	0.035	0.039	0.090	0.098
Industry FE	yes	yes	yes	yes	yes	yes

Note: Same as table 2.5 except that the sample is created by one-to-one matching with common support and replacement. To determine a firm's match, a strict match is required regarding a firm's two-digit SIC code. Within two-digit SIC codes, firms are matched with their nearest neighbor, the nearest neighbor being determined via propensity score matching. Propensity scores are determined using using lagged values for ln(assets), book leverage, and financial leverage. A caliper of 0.1 is applied.

Table A.10: Delaware Forum Bylaws: Mahalanobis Matching

	Dependent variable: cumulative abnormal returns [0,3]					
	Boilermakers		State supr. court and fed. cases enforcing DE forum bylaws			
	Treatment group: all Delaware Firms		Treatment group: all Delaware Firms		Treatment group: DE firms headq. in court state.	
	(1) β (SE)	(2) β (SE)	(3) β (SE)	(4) β (SE)	(5) β (SE)	(6) β (SE)
Treatment	0.005***	0.005***	0.004***	0.005***	0.002**	0.002*
	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
Fin. Controls						
Ln(assets)		0.000		0.001**		0.003***
		(0.000)		(0.001)		(0.001)
Book lev.		0.000		-0.017		-0.011
		(0.003)		(0.011)		(0.012)
Fin. lev.		0.006		0.004		-0.005
		(0.004)		(0.011)		(0.012)
Observations	2657	2576	20884	20190	8170	7882
R^2	0.170	0.178	0.046	0.053	0.106	0.118
Adjusted R^2	0.036	0.041	0.028	0.035	0.065	0.076
Industry FE	yes	yes	yes	yes	yes	yes

Note: Same as table 2.5 except that the sample is created by one-to-one matching with common support and replacement. To determine a firm's match, a strict match is required regarding a firm's two-digit SIC code. Within two-digit SIC codes, the nearest neighbor is determined by Mahalanobis distance. Distances are determined using using lagged values for ln(assets), book leverage, and financial leverage. A caliper of 0.1 is applied. * ** *** denote significance at the 10%, 5%, and 1% levels respectively.

A.3 New Jersey's Forum Bylaw Statute

Table A.11: New Jersey's Forum Bylaw Statute: Market Model

	Dependent Variable: Cumulative Abnormal Returns [0,3]					
	Sample includes…					
	Domestic firms		All firms			
	(1)	(2)	(3)	(4)	(5)	(6)
	β (SE)	β (SE)	β (SE)	β (SE)	β (SE)	β (SE)
Treatment	-0.005***	-0.004***	-0.005***	-0.004***	-0.004***	-0.004***
	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.002)
Fin. Controls						
Ln(assets)		0.003***		0.003***		0.003***
		(0.001)		(0.001)		(0.001)
Book lev.		0.001		0.011***		0.011***
		(0.015)		(0.004)		(0.004)
Fin. lev.		-0.013		-0.014*		-0.014*
		(0.012)		(0.007)		(0.007)
Del. firm					0.002*	0.001
					(0.001)	(0.002)
Observations	661	598	2544	2209	2544	2209
R^2	0.179	0.202	0.103	0.115	0.103	0.115
Adjusted R^2	0.105	0.118	0.080	0.087	0.080	0.087
Industry FE	yes	yes	yes	yes	yes	yes

Note: Same as table 2.5 except that cumulative abnormal returns (CAR) calculated using the market model, in which abnormal returns on a given day are given by the difference between the actual return (ret) and the return on the value-weighed index including all distributions (vwretd). * ** *** denote significance at the 10%, 5%, and 1% levels respectively.

Table A.12: New Jersey's Forum Bylaw Statute: Winsorizing and Trimming

	Dependent Variable: Cumulative Abnormal Returns [0,3]					
	Sample includes...					
	Domestic firms		All firms			
Winsorized/Trimmed	1 and 99 % levels		1 and 99 % levels		1 and 99 % levels	
	wins.	trim.	wins.	trim.	wins.	trim.
	(1)	(2)	(3)	(4)	(5)	(6)
Treatment	-0.009***	-0.009***	-0.008***	-0.008***	-0.008***	-0.008***
	(0.003)	(0.003)	(0.001)	(0.001)	(0.001)	(0.001)
Del. firm						0.003
						(0.002)
Observations	674	663	2594	2594	2594	2568
R^2	0.116	0.134	0.037	0.037	0.037	0.048
Adjusted R^2	0.039	0.058	0.012	0.012	0.012	0.023
Winsorized/Trimmed	3 and 97 % levels		3 and 97 % levels		3 and 97 % levels	
	wins.	trim.	wins.	trim.	wins.	trim.
	(1)	(2)	(3)	(4)	(5)	(6)
Treatment	-0.008***	-0.003***	-0.008***	-0.008***	-0.008***	-0.005***
	(0.002)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
Del. firm						0.002**
						(0.001)
Observations	674	635	2594	2594	2594	2517
R^2	0.129	0.170	0.046	0.046	0.046	0.051
Adjusted R^2	0.053	0.093	0.022	0.022	0.022	0.026
Winsorized/Trimmed	5 and 95 % levels		5 and 95 % levels		5 and 95 % levels	
	wins.	trim.	wins.	trim.	wins.	trim.
	(1)	(2)	(3)	(4)	(5)	(6)
Treatment	-0.006***	-0.004***	-0.007***	-0.007***	-0.007***	-0.004***
	(0.002)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
Del. firm						0.002***
						(0.001)
Observations	674	608	2594	2594	2594	2465
R^2	0.137	0.174	0.050	0.050	0.050	0.051
Adjusted R^2	0.062	0.093	0.026	0.026	0.026	0.025
Industry FE	yes	yes	yes	yes	yes	yes

Note: Same as table 2.8 except that different levels for trimming or winsorizing are used as indicated in headings. Moreover, those columns from table 2.8 containing financial controls are omitted. * ** *** denote significance at the 10%, 5%, and 1% levels respectively.

Table A.13: New Jersey's Forum Bylaw Statute: Different Event Windows

	Dependent Variable: Cumulative Abnormal Returns [0,3]					
	Sample includes...					
	Domestic firms		All firms			
Event Window	[0,3]	[-3,3]	[0,3]	[-3,3]	[0,3]	[-3,3]
	(1)	(2)	(3)	(4)	(5)	(6)
Treatment	-0.009***	-0.015***	-0.008***	-0.009***	-0.008***	-0.008***
	(0.003)	(0.003)	(0.001)	(0.001)	(0.001)	(0.001)
Del. firm					0.002	0.003
					(0.002)	(0.002)
Observations	663	4634	2543	17808	2543	17808
R^2	0.134	0.154	0.046	0.081	0.047	0.081
Adjusted R^2	0.058	0.144	0.022	0.078	0.022	0.078
Event Window	[0,10]	[-10,10]	[0,10]	[-10,10]	[0,10]	[-10,10]
	(1)	(2)	(3)	(4)	(5)	(6)
Treatment	-0.025***	-0.045***	-0.018***	-0.022***	-0.016***	-0.018***
	(0.004)	(0.009)	(0.003)	(0.004)	(0.003)	(0.004)
Del. firm					0.004	0.010**
					(0.003)	(0.004)
Observations	660	13902	2541	53361	2541	53361
R^2	0.210	0.192	0.087	0.079	0.088	0.081
Adjusted R^2	0.139	0.189	0.064	0.078	0.064	0.079
Industry FE	yes	yes	yes	yes	yes	yes

Note: Same as table 2.8 except that different event windows are used as indicated in headings. Moreover, those columns from table 2.8 containing financial controls are omitted. * ** *** denote significance at the 10%, 5%, and 1% levels respectively.

Table A.14: New Jersey's Forum Bylaw Statute: Two-way Clustering

	Dependent Variable: Cumulative Abnormal Returns [0,3]					
	Sample includes...					
	Domestic firms		All firms			
	(1) β (SE)	(2) β (SE)	(3) β (SE)	(4) β (SE)	(5) β (SE)	(6) β (SE)
Treatment	-0.009***	-0.008**	-0.008***	-0.009***	-0.008***	-0.008***
	(0.003)	(0.003)	(0.001)	(0.002)	(0.001)	(0.003)
Fin. Controls						
Ln(assets)		0.002*		-0.000		-0.000
		(0.001)		(0.000)		(0.000)
Book lev.		-0.011		-0.005		-0.005
		(0.012)		(0.004)		(0.004)
Fin. lev.		-0.009		-0.002		-0.002
		(0.012)		(0.006)		(0.006)
Del. firm						0.002
						(.)
Observations	663	601	2543	2212	2543	2212
R^2	0.002	0.013	0.001	0.001	0.001	0.002
Adjusted R^2	-0.088	-0.092	-0.026	-0.030	-0.026	-0.030
Industry FE	yes	yes	yes	yes	yes	yes

Note: Same as table 2.8 except that all regressions cluster both at the level of the state of incorporation and at the level of the headquarters state (two-way clustering). * ** *** denote significance at the 10%, 5%, and 1% levels respectively.

Table A.15: New Jersey Forum Bylaw Statute: Matched Samples

	Dependent Variable: Cumulative Abnormal Returns [0,3]					
	Sample includes...					
	Locally incorporated firms		Matched firms			
			Propensity Scores		Mahalanobis Distance	
	(1)	(2)	(3)	(4)	(5)	(6)
	β (SE)	β (SE)	β (SE)	β (SE)	β (SE)	β (SE)
Treatment	-0.009***	-0.008**	-0.008***	-0.008***	-0.007***	-0.007***
	(0.003)	(0.004)	(0.002)	(0.002)	(0.002)	(0.001)
Fin. Controls						
Ln(assets)		0.002*		-0.001*		-0.002**
		(0.001)		(0.001)		(0.001)
Book lev.		-0.011		-0.013		-0.007
		(0.013)		(0.008)		(0.012)
Fin. lev.		-0.009		0.008		-0.007
		(0.013)		(0.011)		(0.016)
Observations	663	601	2476	2377	1904	1840
R^2	0.134	0.135	0.095	0.097	0.042	0.064
Adjusted R^2	0.058	0.044	0.073	0.073	0.037	0.057
Industry FE	yes	yes	yes	yes	yes	yes

Note: Event study. Four-day event window [0,3]; 30 day estimation window [-60,-31]. Cumulative abnormal returns (CAR) caculated using Fama-French-Cahart four-factor model. A firm's industry is determined by its two-digit SIC code. All regressions cluster at the level of the state of incorporation. All financial controls are lagged by one year. The sample used for cols. 1 and 2 includes all locally incorporated firms. Cols. 3-6 use matched samples, using one-to-ten matching with common support and with replacement. A strict match is required for the firm's two-digit SIC code. Within two-digit SIC codes, each firm is matched with its nearest neighbor. To determine the nearest neighbor, cols. 3-4 rely on propensity score matching, whereas cols. 5-6 rely on Mahalanobis distance matching. Both the propensity score for cols. 3-4 and the Mahalanobis distance for cols. 5-6 are calculated using lagged values for ln(assets), book leverage, and financial leverage. A caliper of 0.1 is applied. * ** *** denote significance at the 10%, 5%, and 1% levels respectively.

Table A.16: Non-Delaware Forum Bylaw Statutes

	Dependent Variable: Cumulative Abnormal Returns [0,3]					
	Sample includes...					
	Domestic firms		All firms		Matched firms	
	(1)	(2)	(3)	(4)	(5)	(6)
	β (SE)	β (SE)	β (SE)	β (SE)	β (SE)	β (SE)
main	-0.003**	-0.003**	0.002	0.002	-0.006***	-0.006***
	(0.001)	(0.001)	(0.005)	(0.005)	(0.002)	(0.002)
Fin. Controls						
ologa		0.000		-0.001***		-0.000
		(0.000)		(0.000)		(0.000)
OBL		-0.004		0.000		-0.011***
		(0.004)		(0.002)		(0.003)
OFL		-0.001		0.001		0.007
		(0.004)		(0.001)		(0.007)
DE firm			0.000	0.000	0.007***	0.007***
			(0.001)	(0.001)	(0.002)	(0.002)
Observations	5937	5431	23673	20900	11217	10812
R^2	0.067	0.070	0.022	0.024	0.055	0.057
Adjusted R^2	0.024	0.023	0.006	0.005	0.020	0.022
Industry FE	yes	yes	yes	yes	yes	yes

Note: Event study. Four-day event window [0,3]; 30 day estimation window [-60,-31]. The variable treatment takes on the value 1 if a firm is incorporated in the state that adopts the forum bylaw statute, 0 otherwise. Cumulative abnormal returns (CAR) are caculated using Fama-French-Cahart four-factor model. A firm's industry is determined by its two-digit SIC code. All regressions cluster at the level of the state of incorporation. All financial controls are lagged by one year. The sample used for cols. 1 and 2 includes all locally incorporated firms. The sample used for cols. 3 & 4 includes all firms, regardless of where they are incorporated. Cols. 5 & 6 are based on a matched sample, using one-to-100 matching with replacement and common support. A strict match is required for the firm's two-digit SIC code. Within two-digit SIC codes, each firm is matched with its nearest neighbor. To determine the nearest neighbor, cols. 5 & 6 rely on propensity score matching. The propensity score is calculated using lagged values for ln(assets), book leverage, and financial leverage. A caliper of 0.1 is applied. * ** *** denote significance at the 10%, 5%, and 1% levels respectively.

A.4 MBCA Change

Table A.17: MBCA Change: Market Model

	Dependent Variable: Cumulative Abnormal Returns [0,3]					
	Sample includes...					
	Locally incorporated firms		All firms			
	(1) β (SE)	(2) β (SE)	(3) β (SE)	(4) β (SE)	(5) β (SE)	(6) β (SE)
Treatment						
Complier	0.002	0.001	-0.002	-0.003**	-0.000	-0.003**
	(0.002)	(0.002)	(0.001)	(0.001)	(0.001)	(0.001)
No statute	0.003	0.001	-0.001	-0.002	-0.001	-0.002
	(0.002)	(0.003)	(0.002)	(0.002)	(0.002)	(0.002)
Complier x no statute	-0.007*	-0.004	-0.003	-0.001	-0.005**	-0.002
	(0.004)	(0.004)	(0.002)	(0.002)	(0.002)	(0.002)
Financials						
Ln(assets)		-0.002**		-0.001*		-0.001*
		(0.001)		(0.001)		(0.001)
Book lev.		-0.001		0.013**		0.013**
		(0.014)		(0.005)		(0.005)
Fin. Lev.		-0.001		-0.017*		-0.017*
		(0.010)		(0.009)		(0.009)
Del. firm					-0.002*	-0.001
					(0.001)	(0.001)
Observations	927	860	3629	3264	3629	3264
R^2	0.125	0.137	0.107	0.111	0.107	0.111
Adjusted R^2	0.062	0.067	0.090	0.092	0.089	0.091

Note: Event study. Cumulative abnormal returns (CAR) calculated using the Market Model, in which abnormal returns on a given day are given by the difference between the actual return (ret) and the return on the value weighed index including all distributions (vwretd). Four-day event window [0,3]; 30 day estimation window [-60,-31]. A firm's industry is determined by its Four-digit SIC code. All regressions cluster at the level of the state of incorporation. All financial controls are lagged by one year. All regressions are based on a sample including all firms. * ** *** denote significance at the 10%, 5%, and 1% levels respectively.

Table A.18: MBCA Change: Winsorizing and Trimming

	Dependent Variable: Cumulative Abnormal Returns [0,3]					
Panel A: Winsorized at						
	1 % & 99 %		3 % & 97 %		5 % & 95 %	
	(1)	(2)	(3)	(4)	(5)	(6)
	β (SE)	β (SE)	β (SE)	β (SE)	β (SE)	β (SE)
Treatment						
Complier	0.001	-0.000	0.001	-0.000	0.001	-0.000
	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
No statute	0.002	0.000	0.002	0.000	0.001	-0.000
	(0.002)	(0.002)	(0.001)	(0.002)	(0.001)	(0.002)
Complier x no statute	-0.006***	-0.004	-0.006***	-0.004*	-0.005***	-0.003
	(0.002)	(0.003)	(0.002)	(0.002)	(0.002)	(0.002)
Fin. Controls						
Ln(assets)		-0.002***		-0.002***		-0.002***
		(0.001)		(0.000)		(0.000)
Book lev.		0.005		0.003		0.001
		(0.006)		(0.003)		(0.003)
Fin. Lev.		0.024***		0.023***		0.023***
		(0.005)		(0.004)		(0.004)
Observations	3704	3460	3704	3460	3704	3460
R^2	0.087	0.100	0.095	0.110	0.099	0.115
Adjusted R^2	0.070	0.082	0.078	0.092	0.082	0.097
Panel B: Trimmed at						
	1 % & 99 %		3 % & 97 %		5 % & 95 %	
	(1)	(2)	(3)	(4)	(5)	(6)
	β (SE)	β (SE)	β (SE)	β (SE)	β (SE)	β (SE)
Treatment						
Complier	0.001	-0.000	0.001	-0.000	-0.000	-0.002
	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
No statute	0.001	-0.000	0.001	-0.001	-0.002**	-0.004***
	(0.001)	(0.002)	(0.001)	(0.002)	(0.001)	(0.001)
Complier x no statute	-0.008***	-0.006***	-0.005**	-0.003	0.000	0.002
	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)
Fin. Controls						
Ln(assets)		-0.002***		-0.002***		-0.002***
		(0.001)		(0.000)		(0.000)
Book lev.		0.005		0.001		-0.005
		(0.004)		(0.003)		(0.003)
Fin. Lev.		0.020***		0.021***		0.026***
		(0.004)		(0.006)		(0.006)
Observations	3629	3385	3481	3239	3333	3092
R^2	0.096	0.112	0.099	0.119	0.096	0.120
Adjusted R^2	0.079	0.093	0.081	0.099	0.077	0.099

Note: Event study. Four-day event window [0,3]; 30 day estimation window [-60,-31]. Cumulative abnormal returns (CAR) caculated using Fama-French-Cahart four factor model. All regressions cluster at the level of the state of incorporation. All financial controls are lagged by one year. * ** *** denote significance at the 10%, 5%, and 1% levels respectively.

Table A.19: MBCA Change: Different Event Windows

	Dependent Variable: Cumulative Abnormal Returns [0,3]					
Panel A: One-sided event windows:						
	[0,1]		[0,3]		[0,10]	
	(1)	(2)	(3)	(4)	(5)	(6)
	β (SE)	β (SE)	β (SE)	β (SE)	β (SE)	β (SE)
Treatment						
Complier	-0.000	-0.001	0.001	-0.000	0.000	-0.002
	(0.001)	(0.001)	(0.001)	(0.001)	(0.004)	(0.004)
No statute	0.000	-0.001	0.001	-0.001	-0.004	-0.009*
	(0.001)	(0.001)	(0.001)	(0.001)	(0.005)	(0.005)
Complier x no statute	-0.006***	-0.005**	-0.008***	-0.005***	-0.008	-0.004
	(0.002)	(0.002)	(0.002)	(0.002)	(0.007)	(0.007)
Fin. Controls						
Ln(assets)		-0.000*		-0.002***		-0.003***
		(0.000)		(0.000)		(0.001)
Book lev.		-0.004		-0.010***		-0.029***
		(0.005)		(0.004)		(0.008)
Fin. lev.		0.002		0.030***		0.057***
		(0.006)		(0.005)		(0.012)
Observations	3630	3264	3629	3262	3627	3259
R^2	0.094	0.101	0.096	0.109	0.080	0.096
Adjusted R^2	0.076	0.082	0.079	0.090	0.063	0.076
Panel B: Two-sided event windows:						
	[-1,1]		[-3,3]		[-10,10]	
	(1)	(2)	(3)	(4)	(5)	(6)
	β (SE)	β (SE)	β (SE)	β (SE)	β (SE)	β (SE)
Treatment						
Complier	0.001	-0.000	-0.002	-0.005***	-0.007	-0.015***
	(0.003)	(0.001)	(0.002)	(0.002)	(0.010)	(0.005)
No statute	0.001	-0.001	0.002	-0.003	-0.020*	-0.035***
	(0.003)	(0.002)	(0.002)	(0.003)	(0.011)	(0.008)
Complier x no statute	-0.007	-0.005	-0.005	-0.001	0.009	0.022*
	(0.004)	(0.004)	(0.004)	(0.004)	(0.014)	(0.011)
Fin. Controls						
Ln(assets)		-0.000		-0.001		-0.006***
		(0.000)		(0.001)		(0.001)
Book lev.		-0.005		0.006		-0.075***
		(0.005)		(0.006)		(0.012)
Fin. lev.		-0.002		0.023***		0.125***
		(0.006)		(0.006)		(0.013)
Observations	3631	3270	3631	3266	3630	3264
R^2	0.100	0.100	0.047	0.053	0.065	0.088
Adjusted R^2	0.083	0.081	0.029	0.032	0.048	0.068

Note: Event study. Event windows as indicated in the column headings; 30 day estimation window [-60,-31]. Cumulative abnormal returns (CAR) caculated using Fama-French-Cahart four factor model. All regressions cluster at the level of the state of incorporation. All financial controls are lagged by one year. * ** *** denote significance at the 10%, 5%, and 1% levels respectively.

Table A.20: MBCA Change: Two-way Clustering

	Dependent Variable: Cumulative Abnormal Returns [0,3]					
	Sample includes…					
	Locally incorporated firms		All firms			
	(1) β (SE)	(2) β (SE)	(3) β (SE)	(4) β (SE)	(5) β (SE)	(6) β (SE)
Treatment						
Complier	0.002	0.001	0.001	-0.000	0.001	-0.000
	(0.002)	(0.003)	(0.001)	(0.000)	(0.001)	(0.000)
No statute	0.004*	0.004	0.001	-0.001	0.001	-0.001
	(0.002)	(0.003)	(0.001)	(0.001)	(0.001)	(0.001)
Complier x no statute	-0.009***	-0.007*	-0.008***	-0.005***	-0.008***	-0.005***
	(0.003)	(0.004)	(0.002)	(0.002)	(0.002)	(0.002)
Financials						
Ln(assets)		-0.001**		-0.002***		-0.002***
		(0.001)		(0.000)		(0.000)
Book lev.		-0.010		-0.010***		-0.010***
		(0.012)		(0.004)		(0.004)
Fin. Lev.		0.022**		0.030***		0.030***
		(0.010)		(0.004)		(0.004)
Observations	926	860	3629	3262	3629	3262
R^2	0.008	0.016	0.002	0.014	0.002	0.014
Adjusted R^2	-0.065	-0.065	-0.017	-0.008	-0.017	-0.008

Note: Event study. Four-day event window [0,3]; 30 day estimation window [-60,-31]. Cumulative abnormal returns (CAR) caculated using Fama-French-Cahart four factor model. All regressions cluster at the level of the state of incorporation. All financial controls are lagged by one year. * ** *** denote significance at the 10%, 5%, and 1% levels respectively.

Table A.21: MBCA Change: Nearest Neighbor Matching

	Dependent Variable: Cumulative Abnormal Returns [0,3]					
	Locally incorporated firms		Matched Sample			
			Propensity Score		Mahalanobis Distance	
	(1) β (SE)	(2) β (SE)	(3) β (SE)	(4) β (SE)	(5) β (SE)	(6) β (SE)
Treatment						
Complier	0.002	0.001	0.004**	0.004***	-0.002	-0.002
	(0.003)	(0.003)	(0.002)	(0.001)	(0.002)	(0.002)
No forum bylaw statute	0.004*	0.004	0.007***	0.005*	-0.003*	-0.003
	(0.003)	(0.003)	(0.002)	(0.003)	(0.002)	(0.002)
No statute & complier	-0.009**	-0.007*	-0.011***	-0.010***	0.000	-0.001
	(0.003)	(0.004)	(0.003)	(0.003)	(0.002)	(0.003)
Financials						
Ln(assets)		-0.001**		-0.002***		-0.000
		(0.001)		(0.000)		(0.001)
Book lev.		-0.010		-0.015		0.007
		(0.013)		(0.010)		(0.006)
Fin. Lev.		0.022**		0.040***		0.017***
		(0.010)		(0.006)		(0.006)
Observations	926	860	3056	2982	3015	2947
R^2	0.133	0.134	0.135	0.154	0.098	0.109
Adjusted R^2	0.071	0.063	0.116	0.134	0.085	0.094

Note: Event study. Four-day event window [0,3]; 30 day estimation window [-60,-31]. Cumulative abnormal returns (CAR) caculated using Fama-French-Cahart four-factor model. All regressions cluster at the level of the state of incorporation. All financial controls are lagged by one year. Columns 2-3 rely on a sample consisting of all locally incorporated firms. Cols. 3-6 use matched samples, using one-to-one matching with common support and with replacement. A strict match is required for the firm's two-digit SIC code. Within two-digit SIC codes, each firm is matched with its nearest neighbor. To determine the nearest neighbor, cols. 3-4 rely on propensity score matching, whereas cols. 5-6 rely on Mahalanobis distance matching. Both the propensity score for cols. 3-4 and the Mahalanobis distance for cols. 5-6 are calculated using lagged values for ln(assets), book leverage, and financial leverage. A caliper of 0.1 is applied. * ** *** denote significance at the 10%, 5%, and 1% levels respectively.

Appendix B

Business Courts, Firm Performance, and Shareholder Wealth

B.1 Jurisdictional Framework

For jurisdictional purposes, incorporating a public corporation in Delaware has two main consequences.

First, Delaware courts have jurisdiction over the *internal* (corporate) affairs of Delaware corporations. I have described this aspect at length in part I.

Second, a corporation's decision to incorporate in a certain state has jurisdictional consequences pertaining to the corporation's "*external* affairs," such as commercial contracts, torts, patents, etc. Corporations have a so-called place of general jurisdiction in their headquarters ("home") state, meaning that they can generally be sued there regardless of the lawsuit's connection to the state. By incorporating in a state, the corporation creates a second general place of general jurisdiction, meaning it can also be sued in its state of incorporation. Therefore, one might speculate that any differential impact that the creation of business courts has on locally incorporated corporations stems from more than just corporate law litigation. More specifically, one might be concerned that locally incorporated firms are sued more frequently in their headquarters state than Delaware-incorporated

firms.

Needless to say, this would not put the relevance of business courts to firm performance into question, but it would change the interpretation of results somewhat in that the beneficial impact on court performance could be due to to both improved litigation in corporate matters and improved litigation in external matters such as commercial litigation and contracts.

However, there are strong reasons to think that third party litigation plays a very limited role, if any, in explaining the relative improvement in performance seen for locally incorporated firms. While incorporating in Delaware means creating a place of general jurisdiction there, the jurisdictional rules ensure that the effects of that change are generally slim. To begin, most non-corporate third-party litigation arises in the context of contractual disputes, and there the parties can freely choose the applicable forum without regard to where they are incorporated. Hence, the place of incorporation ought to have little impact on the bulk of third party litigation. Furthermore, until at least 2014, state jurisdictional rules were so generous to plaintiffs that third party plaintiffs could generally sue public corporations in any state even if they were not incorporated there: States have traditionally been very aggressive in asserting jurisdiction over plaintiffs via so-called long-arm statutes that only require minimum contacts with the state (**?**). For example, if our hypothetical Texas-based firm produced goods, knowing that these would enter the stream of commerce and eventually be bought by consumers

in Delaware, the firm could be sued in Delaware.[1] In its 2014 Daimler decision,[2] the U.S. Supreme Court effectively limited that practice in extreme cases, but my results do not change substantially if I focus on the time frame before that decision. Moreover, corporations who wish to do business in a state other than their home state, have to register to do business there. Accordingly, public corporations are routinely registered to do business in the various states including Delaware. Until a 2016 decision by the Delaware Supreme Court, Genuine Parts Company v. Cepec[3], such registration was widely assumed to be a sufficient basis for third party suits against corporations in that state.[4]

[1] See ASUS Computer Int'l, 70 F.Supp.3d 654, 659 (D. Del. 2014)).

[2] 134 S.Ct. 746 (2014).

[3] 2016 WL 1569077 (Del. 2016).

[4] In the previously leading case, Sternberg v. O'Neil, (550 A. 2d 1105 (Del. 1988), the Delaware Supreme Court had explicitly held that "[i]f a foreign corporation has expressly consented to the jurisdiction of a state by registration, due process is satisfied and an examination of 'minimum contacts' to find implied consent is unnecessary" (id. at 1113).

B.2 Legal and Financial Variables

Table B.1: Financial Control Variables

Variable	Definition	Compustat Codes
Age	Year of firm-year observation minus earliest year for which Compustat data are available for that firm	
Assets	Total Assets	at
Book leverage	Total debt over assets	(dlc+dltt)/at
Dividends	Dividends on common stock	dvc
Financial leverage	Total debt over (sum of total debt and market value)	(dlc+dltt)/((dlc+dltt+(prcc_f*csho))
Market value	Number of common shares outstanding times closing price at end of fiscal year	prcc_f*csho
Return on assets	Operating income before depreciation over assets	oibdp/at
Return on equity	operating income before depreciation over common equity	oibdp/ceq
Sales	Net sales	sale
Tangibility	(property, plant, and equipment) over assets	ppentat
Tobin's q	(Assets minus common equity plus market value) over assets	(at-ceq+(prcc_f * csho))/at)
Total debt	Sum of debt in current liabilities and long term debt	dlc+dltt

Table B.2: Legal Control Variables

Takeover statutes	To control for the enactment of takeover statutes, I create a separate variable for each type of takeover statute mentioned in table 2 of Cain et al. (2017). The relevant variables take on the value 1 in the year that the relevant takeover statute is adopted and "switch" back to zero in the year (if any) that the state repeals the relevant legislation. In the years before the statute's enactment (or, if is repealed, in the years after its repeal including the year of the repeal), the variable takes on the value zero.
Takeover cases	Cain et al. (2017) distinguish between takeover law changes brought about by statute and takeover law changes made by case law. To the extent that I control for takeover cases, I again rely on table C.5 of (Cain et al., 2017) and proceed as with statutes (see above), but use variables that focus on takeover law changes via case law.
Complex litigation programs	To control for the creation of complex litigation programs I use a variable that takes on the value 1 in the year that a state of incorporation creates a complex litigation program (table 1) and all subsequent years during which that program is maintained whereas it takes on the value 0 in all years prior to the creation of a complex commercial litigation program as well as in all years after the year in which that program has been terminated.

Table B.3: Details on the Original Creation Dates and Jurisdiction of Business Courts

State	Business Court	Excerpt
AL	Commercial Litigation Docket in Birmingham, Alabama. Established by administrative order (AO) 2009-23, adopted by the Alabama Supreme Court on Dec. 18, 2009. This is the date I use for the event study.	Under AO 2009-23, "[t]he following cases will be assigned to the CLD docket: 1. Claims arising from allegations of breach of [...] fiduciary duty, [...] or other statutory violation arising out of business dealings (e.g., sales of assets or securities, corporate structuring, partnership, shareholder, joint venture and other business agreements, [...] and all other litigation arising under [title 10 of the Code of Alabama which contains the law on corporations and other business entities] [...]."
AZ	Pilot Commercial Court. By administrative order No. 2015-15, adopted on Feb. 8, 2015, the Arizona Supreme Court authorized the Maricopa County Superior Court to create a pilot commercial court. This is the date I use for the event study. By administrative order No. 2015-055 adopted on May 22, 2015, the Maricopa Superior court created commercial program and appointed judges	According to AO 2015-25, "[r]egardless of the amount in controversy, the commercial court will hear a commercial case that: 1. Concerns the internal affairs, governance, dissolution, receivership, or liquidation of a business organization; 2. Arises out of obligations, liabilities, or indemnity claims between or among owners of the same business organization (including shareholders, members, and partners), or which concerns the liability or indemnity of individuals within a business organization (including officers, directors, managers, member managers, general partners, and trustees); 2 3. Concerns the sale, merger, or dissolution of a business organization, or the sale of substantially all of the assets of a business organization; 4. Relates to trade secrets or misappropriation of intellectual property, or arises from an agreement not to solicit, compete, or disclose; 5. Is a shareholder or member derivative action; [...]"

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Table B.3 – continued from previous page

State	Business Court	Excerpt
CO	Commercial Docket. On Nov. 21, 2006, the Fourth Judicial District issues a memorandum announcing the creation of a new subdivision to the Civil Division, to be known as the Commercial Docket. This is the date I use for the event study.	The memorandum does not provide a clear definition of what constitutes a commercial case, but mentions corporate control issues as one example.
FL	Business Court Sub-Division of the Civil Division of the Circuit Court of the Ninth Judicial District in and for Orange County, Florida. Created by administrative order No. 2003-17-1, adopted by the Circuit Court of the Ninth Judicial District, Nov. 26, 2003.	According to AO No. 2003-17-1, "all jury, non-jury, injunction and class action cases filed on or after December 1, 2003 shall be assigned to the Business Court if they are among the following types of actions: A. Actions relating to the internal affairs or governance, dissolution or liquidation rights or obligations between or among owners (shareholders, partners, members), or liability or indemnity of managers (officers, directors, managers, trustees, or members or partners functioning as managers) of corporations, partnerships, limited partnerships, limited liability companies or partnerships, professional associations, business trusts, joint ventures or other business enterprises; B. Disputes between or among two or more business enterprises relating to transactions, business relationships or contracts between or among the business enterprises, including the following examples: 1. Uniform Commercial Code transactions; 2. Purchases or sales of businesses or the assets of businesses; 3. Sales of goods or services by or to business enterprises; [...] G. Shareholder derivative actions and class actions based on claims otherwise falling within these types, and consumer class actions other than personal injury and products liability claims; H. Actions relating to corporate trust affairs [...]."

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Table B.3 – continued from previous page

State	Business Court	Excerpt
GA	Business Court. Atlanta Judicial Circuit Rule 1004 governing the procedures of the Business Court was adopted on June 3, 2005 by the Supreme Court of Georgia. This is the date I use for the event study.	According to Rule 1004, the Business court may, inter alia, accept cases brought under Georgia's Securities Act, Georgia's Business Corporation Code, Georgia's Limited Liability Company Act, and Georgia's Uniform Partnership Act. If the amount in controversy exceeds $ 100,000, the Court may also accept cases involving, inter alia, "issues concerning governance, involuntary dissolution of a corporation, mergers and acquisitions, breach of duty of directors, election or removal of directors, enforcement or interpretation of shareholder agreements, derivative actions and/or arbitration."
IA	Iowa Business Specialty Pilot Program. Established by the Iowa Supreme Court's memorandum of December 21, 2012	In order to be assigned to the business court, "[c]ases must involve claim(s) for compensatory damages totaling $200,000 or more or involve claim(s) seeking primarily injunctive or declaratory relief. In addition, cases must also satisfy one or more of the following criteria: [...] Relate to the internal affairs of businesses (i.e., corporations, limited liability companies, general partnerships, limited liability partnerships, sole proprietorships, professional associations, real estate investment trusts, and joint ventures), including the rights or obligations between or among business participants, or the liability or indemnity of business participants, officers, directors, managers, trustees, or partners, among themselves or to the business. [...] Be a shareholder derivative or commercial class action. [...]"
IL	Circuit Court of Cook County, Law Division, Commercial Calendar. The Commercial Calendar was created by General Administrative Order 92-2, adopted by the Circuit Court of Cook County on Sept. 9, 1992. This is the date I use for the event study.	According to AO 92-2, "Commercial Calendars shall have assigned to them cases, whether based upon theories of tort, contract or otherwise, that involve a commercial relationship between the parties." Ct. Rule 25.2 clarifies that "[a] commercial case is one which [...] which pleads cause(s) of action for, among other things, [...] shareholder disputes."

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Table B.3 – continued from previous page

State	Business Court	Excerpt
IN	Commercial Court Pilot Program. Established by order of the Indiana Supreme Court, adopted on January 20, 2016 (94S00-1601-MS-31). This is the date I use for the event study.	The original order refers to "business and commercial disputes." According to a separate order that the Indiana Supreme Court adopted on April 27, 2016, a case is "eligible for assignment into the Commercial Court Docket [...] if the gravamen of the case relates to any of the following: (A) The formation, governance, dissolution, or liquidation of a business entity; (B) The rights or obligations between or among the owners, shareholders, officers, directors, managers, trustees, partners, or members of a business entity, or rights and obligations between or among any of them and the business entity; (C) Trade secret, non-disclosure, non-compete, or employment agreements involving a business entity and an employee, owner, shareholder, officer, director, manager, trustee, partner, or member of the business entity; (D) The rights, obligations, liability, or indemnity of an owner, shareholder, officer, director, manager, trustee, partner, or member of a business entity owed to or from the business entity; (E) Disputes between or among two or more business entities or individuals as to their business activities relating to contracts, transactions, or relationships between or among them, including without limitation the following: [...] (3) The purchase or sale of a business entity, whether by merger, acquisition of shares or assets, or otherwise [...]."
ME	Business and Consumer Docket. Established by administrative order JB-07-1 (A. 11-08), adopted Nov. 4, 2008 by the State of Maine Supreme Judicial Court. This is the date I use for the event study.	According to AO JB-07-1, "[c]ases that may be considered for transfer to the [Business and Consumer Docket] are jury and nonjury civil actions and family matters that do not involve children, in which (a) the principal claim or claims involve matters of significance to the transactions, operations or governance of a business entity and/or the rights of a consumer arising out of transactions or other dealings with a business entity, and (b) the case requires specialized and differentiated judicial management."

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Table B.3 – continued from previous page

State	Business Court	Excerpt
MD	Business and Technology Case Management Program. On Oct. 31, 2002, the Maryland Supreme Court adopted Rule 16-205 (eff. Jan. 1, 2003), thereby creating Maryland's Business and Technology Case Management Program. Oct. 31, 2002, is the date I use for the event study.	Under Rule 16-205, "[o]n written request of a party or on the court's own initiative, the Circuit Administrative Judge of the circuit in which an action is filed or the Administrative Judge's designee may assign the action to the program if the judge determines that the action presents commercial or technological issues of such a complex or novel nature that specialized treatment is likely to improve the administration of justice. Factors that the judge may consider in making the determination include: (1) the nature of the relief sought, (2) the number and diverse interests of the parties, (3) the anticipated nature and extent of pretrial discovery and motions, (4) whether the parties agree to waive venue for the hearing of motions and other pretrial matters, (5) the degree of novelty and complexity of the factual and legal issues presented, (6) whether business or technology issues predominate over other issues presented in the action, and (7) the willingness of the parties to participate in ADR procedures." Rule 16-205 does not define the term commercial. However, the implementation committee's report, which lists areas of education for the judges involved, implies that corporate cases are included in that it listed " 1. Business organization forms 2. Piercing the corporate veil 3. Funding and capitalization 4. Distributions to shareholders 5. Director and officer liability 6. Derivative suits 7. Shareholder and director inspection rights 8. Special issues arising in closely held corporations 9. Mergers, buyouts, spin-offs and takeovers."
MA	Superior Court Business Litigation Session. Rules can be found in Superior Court Administrative Directive (AD) 17-1. The creation of the Business Litigation Session was publicly announced on Aug. 9, 2000. This is the date that I use for the event study.	According to AD 17-1, cases that that "may be accepted into the BLS in the sound discretion of the BLS Administrative Justice, based principally on the complexity of the case and the need for substantial case management [, include] a.1 claims relating to the governance and conduct of internal affairs of entities [...] a.3 claims relating to liability of shareholders, directors, officers, partners, etc. b.1 shareholder derivative claims b.2 claims relating to or arising out of securities transactions c.1 claims involving mergers, consolidations, sales of assets, issuance of debt, equity and like interests."

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Table B.3 – continued from previous page

State	Business Court	Excerpt
MI	Specialized Business Docket (SBD) Pilot Program. Created by Local Administrative Order 2011-5, adopted Oct. 14, 2011.	According to LAO 2011-5, the following cases are assigned to the Business Docket on a mandatory basis, though subject to removal for good cause: "Business governance/internal affairs, including shareholder derivative and oppression suits [...]".
NH	2007 Bill Text NH S.B. 378 passed the New Hampshire Senate on March 20, 2008. This is the date that I use for the event study.	According to this bill, "all civil actions in which the principal claim or claims arise from or involve the following shall be assigned to the business and commercial dispute docket [...]: [...] (h) Shareholder derivative actions. [...] (k) Actions relating to the internal affairs or governance; dissolution or liquidation rights obligations between and among owners, including shareholders, partners, or members; or liability or indemnity of managers, including officers, directors, managers, trustees, or members or partners functioning as managers, of corporations, partnerships, limited partnerships, limited liability companies or partnerships, professional associations, business trusts, joint ventures, or other business enterprises. [...]"

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Table B.3 – continued from previous page

State	Business Court	Excerpt
NY	The foundation of New York's Commercial Division was laid with the creation of four "commercial parts" in New York County (Bach and Applebaum, 2004). The creation of the original "commercial parts" was announced by Chief Administrator Matthew Crosson at the New York County Lawyers' Association's annual dinner on December 10, 1992. This is the date used for the event study. At that dinner, Crosson also announced that the commercial parts would handle corporate cases (Franklin, 1992).	The rules governing the commercial division can be found in Ct. Rule 202.70 ("Rules of the Commercial Division of the Supreme Court"). Ct. Rule 202.70 specifies monetary thresholds for the Commercial Division that vary by county (between $ 50,000 and $ 500,000) and further imposes the requirement that "the principal claims involve [...] (1) Breach of contract or fiduciary duty, [...] or statutory and/or common law violation where the breach or violation is alleged to arise out of business dealings (e.g., sales of assets or securities; corporate restructuring; partnership, shareholder, joint venture, and other business agreements [...]) [...] (7) Internal affairs of business organizations."

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State	Business Court	Excerpt
NV	Nevada now has business courts in Reno (Second Judicial District) and Las Vegas (Eighth Judicial District). The first business court created was the one in Las Vegas. The rules governing the jurisdiction of business courts can be found in the Rules of Practice for the Eighth Judicial District (Rule 1.2, added eff. Nov. 20, 2000), the Second Judicial District (Rule 1.61, added eff. Jan. 1, 2001), the Seventh Judicial District (Rule 20, added eff. June 4, 2010), and the 9nth Judicial District (Rule 1.1, added eff. June 17, 2010). The project of creating a business court was pushed by the Nevada Supreme Court, most notably Chief Justice Bob Rose. On May 22, 2000, it was reported that Nevada's District Court Judges had overwhelmingly voted too approve plans for a business court. It is this date that I use for my event study. On September 15, 2000, the Nevada Supreme court unanimously approved the business court's creation. (Anon., 2000).	According to Rule 1.61 (Eighth Judicial District), business matters include "matters in which the primary claims or issues are based on or will require decision" under Nevada's corporation statute or "other similar statutes from other statutes, without regard to the amount in controversy." Similarly, under Rule 2.1 (Second Judicial District), "[a] civil action shall be assigned to the business court docket if, regardless of the nature of relief sought, the primary subject matter of the action is: (a) A dispute concerning the validity, control, operation or governance of entities created under [Nevada's corporation statute], including shareholder derivative actions [...]." Rule 20 (Seventh Judicial District) and Rule 1.1 (9th Jud. District) cover, inter alia, "[m]atters in which the primary claims or issues are based on, or will require decision under [Nevada's corporation statute] or other similar statutes from other jurisdictions, without regard to the amount in controversy."

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Table B.3 – continued from previous page

State	Business Court	Excerpt
NC	North Carolina Business Court. Rule 2.1 of the General Rules of Practice for the Superior and District Courts. The decisive amendment by the North Carolina Supreme Court occurred on Aug. 28, 1995. This is the date I use for the event study.	According to Rule 2.1(a), '[t]he Chief Justice may designate any case or group of cases as (a) "exceptional" or (b) "complex business."'. The Guidelines for Assignment of Cases to the North Carolina Business Court (March 7, 2001), note that "[t]he Supreme Court envisioned that cases arising under [...] the North Carolina Business Corporation Act [...] would be assigned to the business court so that opinions could be written that would provide uniform guidance on corporate governance issues for North Carolina companies."
PA	Commerce Case Management Program. The creation of the original Commerce Program was announced on October 13, 1999. (Anon, 1999) This is the date that I focus on for the event study. The program was formally created by administrative docket No. 01-2000, adopted on November 9, 1999. It was originally named "commerce program." Current rules can be found in admin. docket 1/2016, adopted on Aug. 2, 2016.	Under admin. docket 1/2016, cases "shall be assigned to the Commerce Program if they are among the following types of actions: a. Actions relating to the internal affairs or governance, dissolution or liquidation, rights or obligations between or among owners (shareholders, partners, members), or liability or indemnity of managers (officers, directors, managers, trustees, or members or partners functioning as managers) of business corporations, partnerships, limited partnerships, limited liability companies or partnerships, professional associations, business trusts, joint ventures or other business enterprises, including but not limited to any actions involving interpretation of the rights or obligations under the organic law (e.g., Pa. Business Corporation Law), articles of incorporation, by-laws or agreements governing such enterprises; b. Disputes between or among two or more business enterprises relating to transactions, business relationships or contracts between or among the business enterprises. Examples of such transactions, relationships and contracts include: [...] (2) Purchases or sales of businesses or the assets of businesses [...] f. Actions relating to securities, or relating to or arising under the Pennsylvania Securities Act; g. Derivative actions and class actions based on claims otherwise falling within these ten types, such as shareholder class actions [...]." administrative docket No. 01-2000 also listed these matters among the types of cases to be assigned to the Commerce Program.

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Table B.3 – continued from previous page

State	Business Court	Excerpt
OH	Specialized commercial dockets. Temporary rules governing commercial docket cases were adopted on May 6, 2008, effective July 1, 2008. It is this date that I use for event study purposes. A pilot program establishing commercial dockets in Cuyahoga, Franklin, Hamilton and Lucas counties was adopted by the Ohio Supreme Court on June 23, 2008.	Under Temp. Sup. R. 1.03, "[a] commercial docket judge shall accept a civil case [...] into the commercial docket of the pilot project court if the case is within the statutory jurisdiction of the court and the gravamen of the case relates to any of the following: (1) The formation, governance, dissolution, or liquidation of a business entity [...]; (2) The rights or obligations between or among the owners, shareholders, partners, or members of a business entity, or rights and obligations between or among any of them and the entity; [...] (4) The rights, obligations, liability, or indemnity of an officer, director, manager, trustee, partner, or member of a business entity owed to or from the business entity; (5) Disputes between or among two or more business entities or individuals as to their business or investment activities relating to contracts, transactions, or relationships between or among them, including without limitation the following: [...] (c) The purchase or sale of a business entity or the assets of a business entity; [...] (k) Cases relating to securities, or relating to or arising under federal or state securities laws [...]."
RI	Business calendar. Administrative order 2001-9, establishing a business calendar for Providence and Bristol Counties, was adopted April 17, 2001. This is the date I use for the event study. Rules on the current statewide business calendar can be found in Administrative Order No 2011-10, adopted by the Rhode Island Supreme Court on July 29, 2011.	Under administrative order 2011-10, "appropriate matters to be assigned to the business calendar" include "[s]hareholder derivative actions" as well as "[m]atters affecting the internal affairs or governance of business organizations or entities." Under Administrative Order 2011-10, too, "appropriate matters to be assigned to the Business calendar" included, inter alia, "[s]hareholder derivative actions " and "[m]atters affecting the internal affairs or governance of business organizations or entities."

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Table B.3 – continued from previous page

State	Business Court	Excerpt
SC	Business Court Pilot Program. Established by administrative order 2007-09-07-01, adopted on Sept. 2, 2007. This is the date I use for the event study.	According to AO 2007-09-07-01, civil matters are appropriate matters to be assigned to the South Carolina's business court, regardless of the amount in controversy, if the "principal claim or claims" are made under, inter alia, the South Carolina Business Corporation Act.
TN	Davidson County Business Court Pilot Program. Established by administrative order ADM 2015-00467, adopted by the Tennessee Supreme Court on March 16, 2015. This is the date I use for the event study.	Under administrative order ADM 2015-00467, in order for a civil case to be eligible for assignment or transfer to the business court, the case must (1) be "filed on or after May 1, 2015," (2) involve compensatory damages of at least $50,000 or "claims seeking primarily injunctive or declaratory relief," and (3) must arise in one of certain specified legal areas. The latter include, in particular, cases that "relate to the internal affairs of businesses (i.e., corporations, limited liability companies, general partnerships, limited liability partnerships, sole proprietorships [...]), including the rights or obligations between shareholders, partners and members, or the liability or indemnity of officers, directors, managers, trustees, or partners [...]." Also included are "claims of breach of contract, fraud, misrepresentation, breach of fiduciary duty or statutory violations business or arising out of business relationships," as well as cases that "constitute a shareholder derivative or commercial class action."
WV	Business Court Division. On Sept. 11, 2012, the West Virginia Supreme Court both approved the formation of a Business Court Division. This is the date I use for the event study.	According to Trial Court Rule 29.04, the term "Business Litigation" includes "one or more pending actions in circuit court in which: (1) the principal claim or claims involve matters of significance to the transactions, operations, or governance between business entities; and (2) the dispute presents commercial and/or technology issues in which specialized treatment is likely to improve the expectation of a fair and reasonable resolution of the controversy because of the need for specialized knowledge or expertise in the subject matter or familiarity with some specific law or legal principles that may be applicable."

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Table B.3 – continued from previous page

State	Business Court	Excerpt
WI	Pilot Project to Create Dedicated Trial Court Judicial Docket for Large Scale Claim Business and Commercial Cases (also referred to as "commercial court docket"). Created by administrative order No. 16-05, adopted by the Wisconsin Supreme Court on April 11, 2017. This is the date I use for the event study.	Under the interim rules attached to the administrative order Creating the pilot project, cases that qualify for mandatory assignment to the commercial court docket include "a) Cases involving the governance or internal affairs of business organizations, including claims between or among owners or constituents of a business organization, claims against officers, directors, or managers of a business organization, claims involving the indemnity of owners, officers, directors, or managers of a business organization; claims involving the interpretation of the rights and obligations under the law governing the business organization, [...]; claims involving the interpretation of the rights and obligations under the agreements governing the business organization, such as the articles of incorporation, bylaws, operating agreements, membership agreement, or partnership agreement of the business organization, [...] c) Cases involving the Sale, Consolidation, or Merger of a business organization, conversion, share exchange, or the sale of substantially all of the assets of a business organization [...]."

B.3 Robustness Checks for Event Study

Table B.4: Event Study: Baseline Regressions: All Firms

	Dependent variable: cumulative abnormal returns [0,3]					
	All business courts		Business courts in states whose general court system is ranked...			
			in the bottom third		in the top two thirds	
	(1)	(2)	(3)	(4)	(5)	(6)
	β (SE)	β (SE)	β (SE)	β (SE)	β (SE)	β (SE)
Treatm. Group	0.009**	0.009**	0.025***	0.027***	0.002	0.001
	(0.004)	(0.004)	(0.005)	(0.005)	(0.003)	(0.003)
Fin. Controls						
Ln(assets)		-0.000		-0.000		-0.000*
		(0.000)		(0.000)		(0.000)
Book lev.		-0.010***		-0.009***		-0.010**
		(0.003)		(0.003)		(0.004)
Fin. lev.		0.009***		0.013***		0.006
		(0.003)		(0.004)		(0.004)
Observations	61342	58657	28132	26818	33210	31839
R^2	0.077	0.080	0.066	0.067	0.088	0.091
Adjusted R^2	0.000	-0.001	0.007	0.006	-0.005	-0.006
Hq state-industry-event FE	yes	yes	yes	yes	yes	yes

Note: Event study. Cumulative abnormal returns (CAR) are calculated using Fama-French-Cahart four-factor model. Four-day event window [0,3]; 30 day estimation window [-60,-31]. All regressions control for industry-event fixed effects (2-digit sic level) and cluster at the level of the state of incorporation. Financial controls are lagged by one year. Sample includes only those firms that are headquartered in the state adopting the business court. For each event, the treatment group includes those firms that are not only headquartered, but also incorporated in the relevant state. Events for which the treatment group or control group or both are empty are omitted. * ** *** denote significance at the 10%, 5%, and 1% levels respectively.

Table B.5: Event Study: Different Event Windows

	Dependent variable: cumulative abnormal returns [0,3]					
Panel A: All business courts						
	(1) [0,1] β (SE)	(2) [0,3] β (SE)	(3) [0,10] β (SE)	(4) [-1,1] β (SE)	(5) [-3,3] β (SE)	(6) [-10,10] β (SE)
Treatment Group	0.002	0.012**	0.023***	0.004	0.020***	0.043***
	(0.003)	(0.005)	(0.008)	(0.003)	(0.004)	(0.013)
Observations	1785	1786	1786	5355	12509	37501
R^2	0.233	0.231	0.202	0.234	0.223	0.211
Adjusted R^2	-0.018	-0.020	-0.059	0.165	0.194	0.201
Panel B: Business courts in states whose ordinary courts are ranked in the bottom third						
	(1) [0,1] β (SE)	(2) [0,3] β (SE)	(3) [0,10] β (SE)	(4) [-1,1] β (SE)	(5) [-3,3] β (SE)	(6) [-10,10] β (SE)
Treatm. group	0.005	0.029***	0.045***	0.014***	0.039***	0.081***
	(0.006)	(0.006)	(0.009)	(0.005)	(0.005)	(0.023)
Observations	622	622	622	1866	4354	13062
R^2	0.163	0.164	0.136	0.160	0.139	0.117
Adjusted R^2	-0.057	-0.055	-0.090	0.098	0.113	0.108
Industry-event FE	yes	yes	yes	yes	yes	yes

Note: Event study. Cumulative abnormal returns (CAR) are calculated using Fama-French-Cahart four-factor model. Event windows as indicated in the column headings; 30 day estimation window [-60,-31]. All regressions control for industry-event fixed effects (2-digit sic level) and cluster at the level of the state of incorporation. Financial controls are lagged by one year. Sample includes only those firms that are headquartered in the state adopting the business court. The treatment group includes those firms that are not only headquartered, but also incorporated in the relevant state. Events for which the treatment group is empty (since no firm in the sample was incorporated in the pertinent state at the relevant time) are omitted. Financial controls are lagged by one year. * ** *** denote significance at the 10%, 5%, and 1% levels respectively.

Table B.6: Events Study: Different Cutoffs for Winsorizing and Trimming

	Dependent variable: cumulative abnormal returns [0,3]					
	All business courts			Business courts in states whose general court system is ranked in the bottom third		
Panel A: Winsorized at:	1 % & 99 %	2 % & 98 %	3 % & 97 %	1 % & 99 %	2 % & 98 %	3 % & 97 %
	(1) β (SE)	(2) β (SE)	(3) β (SE)	(4) β (SE)	(5) β (SE)	(6) β (SE)
Treatment Group	0.012**	0.011**	0.011**	0.029***	0.029***	0.029***
	(0.005)	(0.005)	(0.005)	(0.006)	(0.006)	(0.007)
Observations	1785	1785	1785	622	622	622
R^2	0.222	0.227	0.235	0.165	0.174	0.187
Adjusted R^2	-0.033	-0.026	-0.016	-0.055	-0.043	-0.027
Industry-Event FE	yes	yes	yes	yes	yes	yes
Panel B: Trimmed at:	1 % & 99 %	2 % & 98 %	3 % & 97 %	1 % & 99 %	2 % & 98 %	3 % & 97 %
	(1) β (SE)	(2) β (SE)	(3) β (SE)	(4) β (SE)	(5) β (SE)	(6) β (SE)
Treatment Group	0.010**	0.010*	0.009*	0.027***	0.030***	0.029***
	(0.004)	(0.006)	(0.005)	(0.005)	(0.007)	(0.006)
Observations	1767	1733	1697	614	600	590
R^2	0.218	0.237	0.242	0.171	0.201	0.203
Adjusted R^2	-0.040	-0.019	-0.017	-0.050	-0.018	-0.018
Industry-Event FE	yes	yes	yes	yes	yes	yes

Note: Event study. Cumulative abnormal returns (CAR) are calculated using Fama-French-Cahart four-factor model. Four-day event window [0,3]; 30 day estimation window [-60,-31]. All regressions control for industry-event fixed effects (2-digit sic level) and cluster at the level of the state of incorporation. Financial controls are lagged by one year. Sample includes only those firms that are headquartered in the state adopting the business court. The treatment group includes those firms that are not only headquartered, but also incorporated in the relevant state. Events for which the treatment group is empty (since no firm in the sample was incorporated in the pertinent state at the relevant time) are omitted. Financial controls are lagged by one year. * ** *** denote significance at the 10%, 5%, and 1% levels respectively.

Table B.7: Event Study: Two-way Clustering

	Dependent variable: cumulative abnormal returns [0,3]					
	All business courts		Business courts in states whose general court system is ranked...			
			in the bottom third		in the top two thirds	
	(1)	(2)	(3)	(4)	(5)	(6)
	β (SE)	β (SE)	β (SE)	β (SE)	β (SE)	β (SE)
Treatm. Group	0.012***	0.012***	0.029***	0.032***	0.003**	0.003**
	(0.004)	(0.004)	(0.008)	(0.007)	(0.001)	(0.001)
Fin. Controls						
Ln(assets)		0.002		0.007**		0.000
		(0.001)		(0.003)		(0.002)
Book lev.		-0.019		0.002		-0.032*
		(0.017)		(0.020)		(0.019)
Fin. lev.		0.034**		0.020		0.044***
		(0.015)		(0.021)		(0.014)
Observations	1785	1686	622	581	1163	1105
R^2	0.003	0.008	0.012	0.030	0.000	0.005
Adjusted R^2	-0.324	-0.329	-0.249	-0.245	-0.366	-0.373
Industry-event FE	yes	yes	yes	yes	yes	yes

Note: Event study. Cumulative abnormal returns (CAR) are calculated using Fama-French-Cahart four-factor model. Four-day event window [0,3]; 30 day estimation window [-60,-31]. All regressions control for industry-event fixed effects (2-digit sic level) and cluster both at the level of the state of incorporation and firms' two-digit SIC codes. Financial controls are lagged by one year. Sample includes only those firms that are headquartered in the state adopting the business court. The treatment group includes those firms that are not only headquartered, but also incorporated in the relevant state. Events for which the treatment group is empty (since no firm in the sample was incorporated in the pertinent state at the relevant time) are omitted. Financial controls are lagged by one year. * ** *** denote significance at the 10%, 5%, and 1% levels respectively.

Table B.8: Event Study: Market Model

	Dependent variable: cumulative abnormal returns [0,3]					
	All business courts		Business courts in states whose general court system is ranked...			
			in the bottom third		in the top two thirds	
	(1)	(2)	(3)	(4)	(5)	(6)
	β (SE)	β (SE)	β (SE)	β (SE)	β (SE)	β (SE)
Treatm. Group	0.007**	0.007**	0.016***	0.017***	0.003	0.002
	(0.003)	(0.003)	(0.004)	(0.004)	(0.004)	(0.005)
Fin. Controls						
Ln(assets)		0.001		0.002		0.001
		(0.001)		(0.002)		(0.002)
Book lev.		-0.026		-0.013		-0.034
		(0.017)		(0.020)		(0.024)
Fin. lev.		0.033***		0.021*		0.039**
		(0.010)		(0.012)		(0.015)
Observations	1785	1686	622	581	1163	1105
R^2	0.238	0.245	0.167	0.173	0.280	0.286
Adjusted R^2	-0.011	-0.011	-0.051	-0.058	0.016	0.016
Industry-event FE	yes	yes	yes	yes	yes	yes

Note: Event study. Cumulative abnormal returns (CAR) are calculated using the Market Model, in which the abnormal return on a given day is given by the difference between the actual return (ret) and the return on the value weighed index including all distributions (vwretd). Four-day event window [0,3]; 30 day estimation window [-60,-31]. All regressions control for industry-event fixed effects (2-digit sic level) and cluster at the level of the state of incorporation. Financial controls are lagged by one year. Sample includes only those firms that are headquartered in the state adopting the business court. The treatment group includes those firms that are not only headquartered, but also incorporated in the relevant state. Events for which the treatment group is empty (since no firm in the sample was incorporated in the pertinent state at the relevant time) are omitted. Financial controls are lagged by one year. * ** *** denote significance at the 10%, 5%, and 1% levels respectively.

Table B.9: Event Study: Alternative Court Ranking

	Dependent variable: cumulative abnormal returns [0,3]					
	All business courts		Business courts in states whose general court system is ranked…			
			in the bottom third		in the top two thirds	
	(1) β (SE)	(2) β (SE)	(3) β (SE)	(4) β (SE)	(5) β (SE)	(6) β (SE)
Treatm. Group	0.012**	0.012**	0.020***	0.022**	0.009	0.010
	(0.005)	(0.005)	(0.007)	(0.009)	(0.007)	(0.007)
Fin. Controls						
Ln(assets)		0.002		0.003		0.002
		(0.002)		(0.004)		(0.002)
Book lev.		-0.019		-0.058*		-0.006
		(0.016)		(0.028)		(0.023)
Fin. lev.		0.034**		0.047*		0.030
		(0.013)		(0.027)		(0.020)
Observations	1785	1686	351	339	1434	1347
R^2	0.222	0.229	0.410	0.421	0.196	0.202
Adjusted R^2	-0.033	-0.033	0.129	0.130	-0.042	-0.044
Industry-event FE	yes	yes	yes	yes	yes	yes

Note: Event study. Courts are ranked according to the out-of-state citation ranking by Choi et al. (2008). Cumulative abnormal returns (CAR) are calculated using Fama-French-Cahart four-factor model. Four-day event window [0,3]; 30 day estimation window [-60,-31]. All regressions control for industry-event fixed effects (2-digit sic level) and cluster at the level of the state of incorporation. Financial controls are lagged by one year. Sample includes only those firms that are headquartered in the state adopting the business court. The treatment group includes those firms that are not only headquartered, but also incorporated in the relevant state. Events for which the treatment group is empty (since no firm in the sample was incorporated in the pertinent state at the relevant time) are omitted. Financial controls are lagged by one year. * ** *** denote significance at the 10%, 5%, and 1% levels respectively.

Table B.10: Event Study: Matched Samples

	Dependent variable: cumulative abnormal returns [0,3]					
	Propensity Score Matching			Mahalanobis Distance Matching		
	All business courts		Business courts in states with courts ranked in bottom third	All business courts		Business courts in states with courts ranked in bottom third
	(1) β (SE)	(2) β (SE)	(3) β (SE)	(4) β (SE)	(5) β (SE)	(6) β (SE)
Treatm. Group	0.018***	0.020***	0.022***	0.018**	0.018**	0.053***
	(0.005)	(0.005)	(0.007)	(0.008)	(0.008)	(0.009)
Fin. Controls						
Ln(assets)		0.003	0.004		0.002	0.007
		(0.003)	(0.010)		(0.003)	(0.008)
Book lev.		-0.066	-0.062		-0.030	-0.045
		(0.062)	(0.074)		(0.058)	(0.099)
Fin. lev.		0.067	0.082		0.043	0.063
		(0.042)	(0.082)		(0.048)	(0.114)
Observations	658	658	195	690	690	194
R^2	0.310	0.318	0.230	0.259	0.262	0.263
Adjusted R^2	-0.136	-0.131	-0.277	-0.102	-0.105	-0.078
Industry-event FE	yes	yes	yes	yes	yes	yes

Note: Event study. All regressions are based on samples constructed using one-to-ten matching with common support and with replacement. A strict match is required for the firm's two-digit SIC code. Within two-digit SIC codes, each firm is matched with its nearest neighbor. To determine the nearest neighbor, cols. 1-3 use propensity score matching, whereas cols. 4-6 use Mahalanobis distance matching. Both the propensity score for cols. 3-4 and the Mahalanobis distance for cols. 5-6 are calculated using lagged values for ln(assets), book leverage, and financial leverage. For cols. 1-3, a caliper of 0.5 is applied. Cumulative abnormal returns (CAR) are calculated using Fama-French-Cahart four-factor model. Four-day event window [0,3]; 30 day estimation window [-60,-31]. All regressions control for industry-event fixed effects (2-digit sic level) and cluster at the level of the state of incorporation. Financial controls are lagged by one year. Sample includes only those firms that are headquartered in the state adopting the business court. The treatment group includes those firms that are not only headquartered, but also incorporated in the relevant state. Events for which the treatment group is empty (since no firm in the sample was incorporated in the pertinent state at the relevant time) are omitted. Financial controls are lagged by one year. * ** *** denote significance at the 10%, 5%, and 1% levels respectively.

B.4 Robustness Checks for Panel Data

Table B.11: Panel Data: Dropping Pre-1994 Observations

	Dependent variable: return on assets (ROA)					
	(1)	(2)	(3)	(4)	(5)	(6)
	β (SE)	β (SE)	β (SE)	β (SE)	β (SE)	β (SE)
Treatm. group	0.028***	0.035***	0.027**	0.023**	0.024**	0.016
	(0.009)	(0.011)	(0.013)	(0.011)	(0.012)	(0.013)
Poorly ranked court system x treatm. group				0.024*	0.049	0.051
				(0.014)	(0.031)	(0.031)
Takeover statutes						
Mand. stag. board			-0.014			-0.013
			(0.023)			(0.023)
Bus. combination			-0.035***			-0.035***
			(0.009)			(0.009)
Constituency statute			-0.023*			-0.023*
			(0.012)			(0.012)
Poison pill stat.			0.007			0.008
			(0.030)			(0.030)
Observations	76893	76893	76893	76893	76893	76893
R^2	0.016	0.033	0.034	0.016	0.033	0.034
Adjusted R^2	0.016	0.019	0.019	0.016	0.019	0.019
Firm FE	yes	yes	yes	yes	yes	yes
Year FE	yes	no	no	yes	no	no
HQ-state year FE	no	yes	yes	no	yes	yes

Note: Regression based on equation (3.5). Years 1994-2017. To be included, a firm must have at least one firm-year observation prior to 1994. Firms reincorporating between 1994 and 2017 were dropped All industries are included. All regressions cluster at the level of the state of incorporation. * ** *** denote significance at the 10%, 5%, and 1% levels respectively.

Table B.12: Panel Data: ROA: Including Reincorporating Firms (2002-2017)

	Dependent variable: return on assets (ROA)					
	(1) β (SE)	(2) β (SE)	(3) β (SE)	(4) β (SE)	(5) β (SE)	(6) β (SE)
Treatm. group	0.023***	0.040**	0.038**	0.016**	0.022**	0.020**
	(0.008)	(0.015)	(0.014)	(0.008)	(0.009)	(0.010)
Poorly ranked court system x treatm. group				0.038***	0.093**	0.097***
				(0.009)	(0.038)	(0.036)
Takeover statutes						
Mand. stag. board			0.017			0.012
			(0.017)			(0.016)
Bus. combination			-0.020			-0.022
			(0.024)			(0.025)
Control share acq.			0.023			0.025
			(0.019)			(0.018)
Constituency statute			-0.014			-0.013
			(0.015)			(0.015)
Poison pill stat.			-0.023*			-0.023*
			(0.013)			(0.013)
Observations	86982	86982	86982	86982	86982	86982
R^2	0.021	0.041	0.041	0.021	0.041	0.041
Adjusted R^2	0.020	0.024	0.024	0.020	0.024	0.025
Firm FE	yes	yes	yes	yes	yes	yes
Year FE	yes	no	no	yes	no	no
HQ-state year FE	no	yes	yes	no	yes	yes

Note: Regression based on equation (3.5). Years 1994-2017. Sample includes firms that reincorporated during between 1988 and 2017 as well as firms formed after 1988. All industries are included. A state's general court system is deemed to be poorly ranked if the state ranks in the bottom third of states in the 2002 ILR rating (overall rank). All regressions cluster at the level of the headquarters state. * ** *** denote significance at the 10%, 5%, and 1% levels respectively.

Table B.13: Panel Data: ROA: Including New and Reincorporating Firms (2002-2017)

	Dependent variable: return on assets (ROA)					
	(1) β (SE)	(2) β (SE)	(3) β (SE)	(4) β (SE)	(5) β (SE)	(6) β (SE)
Treatm. group	0.070***	0.093***	0.097***	0.064***	0.097**	0.100**
	(0.018)	(0.034)	(0.032)	(0.021)	(0.041)	(0.040)
Poorly ranked court system x treatm. group				0.034	-0.019	-0.014
				(0.027)	(0.046)	(0.046)
Takeover statutes						
Mand. stag. board			0.006			0.007
			(0.097)			(0.097)
Bus. combination			-0.073			-0.072
			(0.044)			(0.044)
Control share acq.			0.021			0.021
			(0.030)			(0.030)
Constituency statute			0.010			0.010
			(0.037)			(0.037)
Poison pill stat.			-0.018			-0.018
			(0.019)			(0.019)
Observations	191762	191762	191762	191762	191762	191762
R^2	0.006	0.016	0.016	0.006	0.016	0.016
Adjusted R^2	0.006	0.008	0.008	0.006	0.008	0.008
Firm FE	yes	yes	yes	yes	yes	yes
Year FE	yes	no	no	yes	no	no
HQ-state year FE	no	yes	yes	no	yes	yes
Stat-of-inc. FE	yes	yes	yes	yes	yes	yes

Note: Regression based on equation (3.5). Years 1994-2017. Sample includes firms that reincorporated during between 1988 and 2017. Firms must have at least one firm-year observations prior to 1988 to be included. All industries are included. A state's general court system is deemed to be poorly ranked if the state ranks in the bottom third of states in the 2002 ILR rating (overall rank). All regressions cluster at the level of the headquarters state. * ** *** denote significance at the 10%, 5%, and 1% levels respectively.

Table B.14: Panel Data: Controlling for Takeover Case Law

	Dependent variables: return on assets (ROA) and return on sales (ROS)					
	Excluding reincorporating firms & new firms		Excluding new firms		Including reincorporating firms & new firms	
	ROA	ROS	ROA	ROS	ROA	ROS
	(1) β (SE)	(2) β (SE)	(3) β (SE)	(4) β (SE)	(5) β (SE)	(6) β (SE)
Treatm. group	0.026**	0.098**	0.039***	0.127***	0.111***	0.137
	(0.012)	(0.040)	(0.013)	(0.035)	(0.037)	(0.235)
Takeover statutes						
Mand. stag. board	-0.006	-0.081**	0.006	-0.071	-0.003	0.066
	(0.015)	(0.033)	(0.017)	(0.062)	(0.089)	(0.236)
Bus. combination	-0.009	-0.061	-0.003	-0.019	-0.084*	0.019
	(0.014)	(0.038)	(0.020)	(0.053)	(0.046)	(0.380)
Constituency statute	-0.003	-0.003	-0.003	-0.009	0.033	-0.092
	(0.010)	(0.036)	(0.015)	(0.038)	(0.041)	(0.145)
Poison pill stat.	-0.022	-0.026	-0.023	-0.013	-0.002	0.144
	(0.019)	(0.031)	(0.018)	(0.066)	(0.025)	(0.168)
Takeover Cases						
Pro poison pill case	0.020	-0.033	0.026	-0.012	0.096	0.590**
	(0.023)	(0.030)	(0.025)	(0.063)	(0.059)	(0.248)
Unocal	0.016*	0.051*	0.009	0.034	0.034	-0.250
	(0.009)	(0.025)	(0.012)	(0.044)	(0.039)	(0.295)
Unocal rejected	0.065**	0.102**	0.058**	0.095	0.060	0.353
	(0.028)	(0.040)	(0.027)	(0.073)	(0.051)	(0.259)
Revlon	-0.025	-0.025	-0.030	-0.001	-0.020	-0.106
	(0.022)	(0.031)	(0.018)	(0.059)	(0.047)	(0.208)
Revlon rejected	-0.036	-0.038	-0.036*	-0.011	-0.066	-0.517***
	(0.022)	(0.051)	(0.021)	(0.047)	(0.041)	(0.140)
Blasius	0.022	0.153***	0.014	0.131	0.057	-0.021
	(0.024)	(0.046)	(0.018)	(0.083)	(0.043)	(0.201)
Blasius rejected	-0.048	-0.063	-0.057*	-0.046	-0.147*	-0.231
	(0.038)	(0.062)	(0.030)	(0.073)	(0.077)	(0.256)
Observations	80623	79077	86982	85273	191762	183893
R^2	0.041	0.029	0.038	0.025	0.015	0.010
Adjusted R^2	0.024	0.011	0.022	0.009	0.007	0.002
Firm FE	yes	yes	yes	yes	yes	yes
Year FE	yes	no	no	yes	no	no
HQ-state year FE	no	yes	yes	no	yes	yes

Note: Regression based on equation (3.5). Years 1988-2017. To be included, a firm must have at least one firm-year observation prior to 1988. Firms reincorporating between 1988 and 2017 are dropped. All industries are included. Regressions in cols. 1 & 2 cluster at the level of the state of incorporation, whereas regressions in cols. 3-6 cluster at the level of the headquarters state. * ** *** denote significance at the 10%, 5%, and 1% levels respectively.

Table B.15: Panel Data: Return on Assets (1988-2017)

	Dependent variable: return on assets (ROA)					
	(1) β (SE)	(2) β (SE)	(3) β (SE)	(4) β (SE)	(5) β (SE)	(6) β (SE)
Treatm. group	0.017	0.026	0.027	0.010	0.004	0.005
	(0.011)	(0.020)	(0.020)	(0.011)	(0.018)	(0.018)
Poorly ranked court system x treatm. group				0.044***	0.118***	0.123***
				(0.010)	(0.035)	(0.034)
Takeover statutes						
Mand. stag. board			-0.002			-0.011
			(0.017)			(0.016)
Bus. combination			-0.022			-0.025
			(0.031)			(0.031)
Control share acq.			0.017			0.019
			(0.019)			(0.019)
Constituency statute			-0.003			-0.003
			(0.010)			(0.010)
Poison pill stat.			-0.017			-0.017
			(0.021)			(0.021)
Observations	63171	63171	63171	63171	63171	63171
R^2	0.017	0.044	0.044	0.017	0.044	0.044
Adjusted R^2	0.017	0.023	0.023	0.017	0.023	0.023
Firm FE	yes	yes	yes	yes	yes	yes
Year FE	yes	no	no	yes	no	no
HQ-state year FE	no	yes	yes	no	yes	yes

Note: Regression based on equation (3.5). Years 1988-2017. The treatment group includes firms incorporated in a business court state and headquartered in the same state. To be included, a firm must have at least one firm-year observation prior to 1988. All industries are included. All regressions cluster at the level of the state of incorporation. * ** *** denote significance at the 10%, 5%, and 1% levels respectively.

Table B.16: Panel Data: Return on Sales: Dropping Pre-1994 Observations

	Dependent variable: return on sales (ROS)					
	(1)	(2)	(3)	(4)	(5)	(6)
	β (SE)	β (SE)	β (SE)	β (SE)	β (SE)	β (SE)
Treatm. group	0.078	0.183***	0.182***	0.043	0.133**	0.131**
	(0.068)	(0.048)	(0.051)	(0.074)	(0.050)	(0.051)
Poorly ranked court system x treatm. group				0.181**	0.232*	0.234*
				(0.087)	(0.132)	(0.130)
Takeover statutes						
Mand. stag. board			-0.101*			-0.097
			(0.056)			(0.058)
Bus. combination			-0.142***			-0.142***
			(0.031)			(0.032)
Constituency statute			0.009			0.007
			(0.044)			(0.044)
Poison pill stat.			0.148***			0.150***
			(0.053)			(0.053)
Observations	75218	75218	75218	75218	75218	75218
R^2	0.006	0.030	0.031	0.006	0.030	0.031
Adjusted R^2	0.005	0.016	0.016	0.005	0.016	0.016
Firm FE	yes	yes	yes	yes	yes	yes
Year FE	yes	no	no	yes	no	no
HQ-state year FE	no	yes	yes	no	yes	yes

Note: Regression based on equation (3.5). Years 1994-2017. To be included, a firm must have at least one firm-year observation prior to 1994. Firms reincorporating between 1994 and 2017 are dropped. All industries are included. All regressions cluster at the level of the state of incorporation. * ** *** denote significance at the 10%, 5%, and 1% levels respectively.

Table B.17: Panel Data: Return on Sales: Incl. Reincorporating

	Dependent variable: return on sales (ROS)					
	(1) β (SE)	(2) β (SE)	(3) β (SE)	(4) β (SE)	(5) β (SE)	(6) β (SE)
Treatm. group	0.062**	0.129***	0.128***	0.053*	0.103***	0.101**
	(0.029)	(0.036)	(0.041)	(0.030)	(0.037)	(0.040)
Poorly ranked court system x treatm. group				0.051	0.133	0.142
				(0.033)	(0.087)	(0.090)
Takeover statutes						
Mand. stag. board			0.026			0.017
			(0.081)			(0.078)
Bus. combination			-0.060			-0.063
			(0.053)			(0.054)
Control share acq.			0.060			0.062
			(0.072)			(0.072)
Constituency statute			-0.010			-0.010
			(0.038)			(0.038)
Poison pill stat.			-0.021			-0.022
			(0.048)			(0.048)
Observations	85273	85273	85273	85273	85273	85273
R^2	0.009	0.028	0.028	0.009	0.028	0.028
Adjusted R^2	0.008	0.011	0.011	0.008	0.011	0.011
Firm FE	yes	yes	yes	yes	yes	yes
Year FE	yes	no	no	yes	no	no
HQ-state year FE	no	yes	yes	no	yes	yes

Note: Regression based on equation (3.5). Years 1994-2017. Sample includes firms that reincorporated during between 1988 and 2017 as well as firms formed after 1988. All industries are included. A state's general court system is deemed to be poorly ranked if the state ranks in the bottom third of states in the 2002 ILR rating (overall rank). All regressions cluster at the level of the headquarters state. * ** *** denote significance at the 10%, 5%, and 1% levels respectively.

Table B.18: Panel Data: Return on Sales: Incl. Reincorporating and New Firms

	Dependent variable: return on sales (ROS)					
	(1) β (SE)	(2) β (SE)	(3) β (SE)	(4) β (SE)	(5) β (SE)	(6) β (SE)
Treatm. group	-0.010	0.172	0.147	-0.111	0.022	-0.005
	(0.175)	(0.215)	(0.224)	(0.199)	(0.241)	(0.246)
Poorly ranked court system x treatm. group				0.569**	0.752**	0.765***
				(0.229)	(0.289)	(0.276)
Takeover statutes						
Mand. stag. board			0.275			0.241
			(0.169)			(0.155)
Bus. combination			-0.283**			-0.297**
			(0.131)			(0.129)
Control share acq.			0.109			0.125
			(0.108)			(0.104)
Constituency statute			-0.114			-0.114
			(0.128)			(0.130)
Poison pill stat.			-0.074			-0.074
			(0.132)			(0.131)
Observations	183893	183893	183893	183893	183893	183893
R^2	0.005	0.012	0.012	0.005	0.012	0.012
Adjusted R^2	0.004	0.004	0.004	0.004	0.004	0.004
Firm FE	yes	yes	yes	yes	yes	yes
Year FE	yes	no	no	yes	no	no
HQ-state year FE	no	yes	yes	no	yes	yes
Stat-of-inc. FE	yes	yes	yes	yes	yes	yes

Note: Regression based on equation (3.5). Years 1994-2017. Sample includes firms that reincorporated during between 1988 and 2017. Firms must have at least one firm-year observations prior to 1988 to be included. All industries are included. A state's general court system is deemed to be poorly ranked if the state ranks in the bottom third of states in the 2002 ILR rating (overall rank). All regressions cluster at the level of the headquarters state. * ** *** denote significance at the 10%, 5%, and 1% levels respectively.

Table B.19: Panel Data: Completed Mergers: Post 1994

	Binary dependent variable: did corporation become a merger target					
	in any merger		in a merger with			
			positive CAR for target shareholders		negative CAR for target shareholders	
	(1) β (SE)	(2) β (SE)	(3) β (SE)	(4) β (SE)	(5) β (SE)	(6) β (SE)
Treatm. group	0.008***	0.007***	0.008***	0.007***	-0.000	-0.000
	(0.001)	(0.002)	(0.001)	(0.001)	(0.000)	(0.001)
Poorly ranked court system x treatm. group	0.004	0.004	0.005	0.005	0.001***	0.001**
	(0.004)	(0.004)	(0.004)	(0.004)	(0.001)	(0.001)
Takeover statutes						
Mand. stag. board		-0.009**		-0.011**		0.002***
		(0.004)		(0.005)		(0.001)
Bus. combination		-0.007***		-0.004**		-0.000
		(0.002)		(0.002)		(0.001)
Constituency statute		-0.002*		-0.003**		0.001
		(0.001)		(0.001)		(0.001)
Poison pill stat.		-0.002		-0.000		-0.002
		(0.002)		(0.001)		(0.002)
Observations	91992	91992	91992	91992	91992	91992
R^2	0.016	0.016	0.015	0.015	0.011	0.011
Adjusted R^2	0.003	0.003	0.003	0.003	-0.001	-0.001
Firm FE	yes	yes	yes	yes	yes	yes
Year-state FE	yes	yes	yes	yes	yes	yes

Note: Regressions are based on equation (3.5) All regressions cluster at the level of the state of incorporation. To be included, firms must have at least one firm-year observation before 1994. Firms that reincorporated between 1994 and 2017 were dropped. The treatment group consists of firms that are incorporated in a state that has a business court and are headquartered in the same state. * ** *** denote significance at the 10%, 5%, and 1% levels respectively.

Table B.20: Panel Data: Completed Mergers: Including Reincorporating Firms

	Binary dependent variable: did corporation become a merger target					
	in any merger		in a merger with			
			positive CAR for target shareholders		negative CAR for target shareholders	
	(1) β (SE)	(2) β (SE)	(3) β (SE)	(4) β (SE)	(5) β (SE)	(6) β (SE)
Treatm. group	0.003	0.003	0.003	0.002	0.000	0.001
	(0.002)	(0.002)	(0.002)	(0.002)	(0.001)	(0.001)
Poorly ranked court system x treatm. group	0.006*	0.006**	0.010***	0.010***	-0.004**	-0.004***
	(0.003)	(0.003)	(0.003)	(0.003)	(0.002)	(0.002)
Takeover statutes						
Mand. stag. board		-0.006		-0.010**		0.003***
		(0.005)		(0.005)		(0.001)
Bus. combination		-0.001		0.001		-0.002
		(0.002)		(0.003)		(0.001)
Control share acq.		-0.006*		-0.002		-0.004
		(0.003)		(0.004)		(0.003)
Constituency statute		-0.002		-0.002*		0.000
		(0.002)		(0.001)		(0.001)
Poison pill stat.		0.004**		0.003*		0.001
		(0.002)		(0.001)		(0.001)
Observations	98783	98783	98783	98783	98783	98783
R^2	0.018	0.018	0.019	0.019	0.014	0.014
Adjusted R^2	0.003	0.003	0.004	0.004	-0.001	-0.001
Firm FE	yes	yes	yes	yes	yes	yes
Year-state FE	yes	yes	yes	yes	yes	yes
Stat-of-inc. FE	yes	yes	yes	yes	yes	yes

Note: Regressions are based on equation (3.5) All regressions cluster at the level of the headquarters state. To be included, firms must have at least one firm-year observation before 1988. The treatment group consists of firms that are incorporated in a state that has a business court and are headquartered in the same state. * ** *** denote significance at the 10%, 5%, and 1% levels respectively.

Table B.21: Panel Data: Completed Mergers: Including New and Reincorporating Firms

	Binary dependent variable: did corporation become a merger target					
	in any merger		in a merger with			
			positive CAR for target shareholders		negative CAR for target shareholders	
	(1) β (SE)	(2) β (SE)	(3) β (SE)	(4) β (SE)	(5) β (SE)	(6) β (SE)
Treatm. group	0.003*	0.003*	0.003	0.002	0.001	0.001
	(0.002)	(0.002)	(0.002)	(0.002)	(0.001)	(0.001)
Poorly ranked court system x treatm. group	0.003	0.004	0.007**	0.008**	-0.003*	-0.003**
	(0.003)	(0.003)	(0.003)	(0.003)	(0.002)	(0.001)
Takeover statutes						
Mand. stag. board		-0.004		-0.007***		0.003***
		(0.003)		(0.003)		(0.001)
Bus. combination		-0.003		-0.001		-0.001
		(0.002)		(0.003)		(0.001)
Control share acq.		-0.006		-0.003		-0.003
		(0.004)		(0.004)		(0.003)
Constituency statute		-0.001		-0.001		-0.000
		(0.001)		(0.001)		(0.000)
Poison pill stat.		0.001		0.001		0.000
		(0.001)		(0.001)		(0.001)
Observations	255481	255481	255481	255481	255481	255481
R^2	0.010	0.010	0.010	0.010	0.006	0.006
Adjusted R^2	0.004	0.004	0.004	0.004	0.000	0.000
Firm FE	yes	yes	yes	yes	yes	yes
Year-state FE	yes	yes	yes	yes	yes	yes
Stat-of-inc. FE	yes	yes	yes	yes	yes	yes

Note: Regressions are based on equation (3.5) All regressions cluster at the level of the headquarters state. To be included, firms must have at least one firm-year observation before 1988. Firms that reincorporated between 1988 and 2017 were dropped. The treatment group consists of firms that are incorporated in a state that has a business court and are headquartered in the same state. * ** *** denote significance at the 10%, 5%, and 1% levels respectively.

Appendix C

Deference to Delaware Precedents, Firm Performance, and Shareholder Wealth

C.1 Information on Statutes, Courts, Legal Variables, & Financial Variables

Table C.1: Financial Variables

Variable	**Definition**	**Compustat Codes**
Assets	Total assets	at
Book leverage	Total debt over assets	(dlc+dltt)/at
Dividends	Dividends on common stock	dvc
Financial leverage	Total debt over sum of total debt and market value	(dlc+dltt)/((dlc+dltt+ (prcc_f*csho))
Market value	Number of common shares outstanding times closing price at end of fiscal year	prcc_f*csho
Return on assets	Operating income before depreciation over assets	oibdp/at
Return on equity	Operating income before depreciation/common equity	oibdp/ceq
Tangibility	(Property, plant, and equipment) over assets	ppent/at
Tobin's q	(Assets minus common equity plus market value) over assets	(at-ceq+(prcc_f * csho))/at)
Total debt	Sum of debt in current liabilities and long term debt	dlc+dltt

Table C.2: State Law Variables Used to Construct Takeover Similarity Variable

Variable	Definition
Mandatory Staggered Board	This variable takes on the value 1 if the state of incorporation's statutory corporate law calls for a mandatory staggered board, 0 otherwise.
Combination	This variable takes on the value 1 if the state has adopted a business combination statute, 0 otherwise.
Control	This variable takes on the value 1 if the state of incorporation has adopted a so-called control share acquisition statute, 0 otherwise.
Constituency	This variable takes on the value 1 if the state of incorporation has adopted a so-called expanded constituency statute, 0 otherwise.
Cashout	This variable takes on the value 1 if the state of incorporation has adopted a so-called control share cash-out statute, 0 otherwise.
Disgorgement	This variable takes on the value 1 if the state of incorporation has adopted a so-called disgorgement statute, 0 otherwise.
Fair Price	This variable takes on the value 1 if the state of incorporation has adopted a so-called fair price statute, 0 otherwise.
Poison Pill Statute	This variable takes on the value 1 if the state of incorporation has adopted a so-called poison pill statute, 0 otherwise.
Strong Poison Pill Statute	This variable takes on the value 1 if the state of incorporation has adopted a so-called strong poison pill statute, 0 otherwise.

Continued on next page

Table C.2 – continued from previous page

Variable	Definition
Tin Parachute Blessing Statute	This variable takes on the value 1 if the state of incorporation has adopted a so-called tin parachute blessing statute, 0 otherwise.
Assumption	This variable takes on the value 1 if the state of incorporation has adopted a so-called assumption of labor contracts statute, 0 otherwise.
Anti Greenmail	This variable takes on the value 1 if the state of incorporation has adopted a so-called anti-greenmail statute, 0 otherwise.
Golden	This variable takes on the value 1 if the state of incorporation has adopted a so-called golden parachute statute, 0 otherwise.

Note: The coding of the variables described in this table is based entirely on table 2 in Cain et al. (2017).

Table C.3: State Law Variables Used to Construe Other Similiarity Variable

Variable	Definition
Default Majority Voting	Takes on the value 1 if statutory law calls for the election of directors by majority (as opposed to plurality) voting, zero otherwise.
Mandatory Majority Voting	Takes on the value 1 if a state's corporate law statute imposes a mandatory majority voting rule for the election of directors, 0 otherwise.
Majority Bylaw	Takes on the value 1 if the shareholders can adopt a bylaw imposing a majority voting rule for the election of directors, 0 otherwise.
Cumulative	Takes on the value 1 if a cumulative voting rule applies to the election of directors, 0 otherwise.
Mandatory Cumulative	Takes on the value 1 if a mandatory cumulative voting rule applies to the election of directors, 0 otherwise.
Resignation Bylaw	This variable takes on the value 1 if a state's statutory corporate law explicitly provides that the shareholders can adopt a bylaw according to which directors who are not elected with a majority of the votes cast have to resign.
Shareholder Proxy Access	This variable takes on the value 1 if a state's statutory corporate law explicitly gives shareholders the right to include their proposed candidates for the election of directors in the corporation's proxy materials, 0 otherwise.
Domestication	This variable takes on the value 0 if a state's statutory corporate law explicitly provides for domestication as one way for existing foreign corporations to reincorporate in the pertinent state.

Continued on next page

Table C.3 – continued from previous page

Variable	Definition
Shareholder Bylaw	This variable takes on the value 1 if a state's statutory corporate law, by way of a mandatory or default rule, gives shareholders the power to amend they bylaws, 0 otherwise.
Board Bylaw	This variable takes on the value 1 if a state's statutory corporate law, by way of a mandatory or default rule, gives the board the power to amend they bylaws, 0 otherwise.
Protected Bylaws	This variable takes on the value 1 if a state's statutory corporate law, allows shareholder bylaws to provide that the relevant bylaws cannot be amended by the board.
Force the vote	This variable takes on the value 1 if a state's statutory corporate law explicitly allows corporations to agree to submit a matter to a shareholder vote even if the corporation's board recommends voting against the relevant matter, 0 otherwise.
Exchange	This variable takes on the value 1 if a state's statutory corporate law explicitly authorizes a "share exchange.," 0 otherwise.
Vacancies	This variable takes on the value 1 if vacancies on the board (either generally or at least in cases where these vacancies were no created through in increase in the number of board seats) can only be filled by the shareholders (rather than by the board).
Vacancies by Increase	This variable takes on the value 1 if a state's corporate law provides that vacancies on the board that were created through by an increase in the number of available board seats, can only be filled by the shareholders (rather than by the board).

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Table C.3 – continued from previous page

Variable	Definition
Simplified Merger Voting	This variable takes on the value 1 if a state's statutory law on mergers contain a general rule according to which the shareholder approval requirement for corporate mergers is met when a majority of the shareholders present or represented by proxy at a shareholder meeting approve of the merger, 0 otherwise. Note that a rule according to which the majority of all outstanding shares is necessary to approve a merger does not suffice for this variable to take on the value 1.
Simplified Short Form Merger	This variables takes on the value 1 if a short form merger is available even though the parent corporation owns less than 90 % of the outstanding shares of the subsidiary, 0 otherwise.
Sale Approval	This variable is equal to the percentage of outstanding shares required to approve a sale of all or substantially all assets. If the law only requires a a certain majority of those shares that are present or represented at the shareholder meeting, then the required majority is the assumed to be the product of the percentage required for quorum and the percentage required for a majority.
Course of Business	This variable takes on the value 1 if a sale of all or substantially all assets is exempt from the shareholder approval requirement as long as it occurs within the corporation's ordinary course of business, 0 otherwise.
Safe	This variable takes on the value 1 if state corporate law explicitly provides that shareholder approval for a sale of assets is not necessary if the assets remaining after such a sale amount to a certain percentage of the corporation's original assets, 0 otherwise.
Call	This variable takes on the value 1 if the shareholders can call a meeting without showing cause as long as they meet a certain percentage requirement, 0 otherwise.

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Table C.3 – continued from previous page

Variable	Definition
Simplified Call	This variable takes on the value 1 if a shareholder meeting can be called by shareholders accounting for 10 % or an even lower specified threshold without showing cause, 0 otherwise.
Call Limit	This variable takes on the value 1 if the shareholders can call a shareholder meeting without showing cause as long as they meet a certain percentage requirement and the law either expressly prohibits deviations the corporation from specifying a higher percentage or provides that the percentage requirement can be modified but must not exceed 25 %, 0 otherwise.
Amendment Majority	This variable is equal to the percentage of outstanding shares required to approve an amendment of the articles of incorporation. If the law only requires a a certain majority of those shares that are present or represented at the shareholder meeting, then the required majority is the assumed to be the product of the percentage required for quorum and the percentage required for a majority.
Initiate	This variable takes on the value 1 a state's business corporation statute explicitly allows for the shareholders to initiate the process of amending the charter by approving such an amendment before the board has adopted a resolution in favor of the amendment, zero otherwise.

Table C.4: Cases Embracing Deference

Legal System	Court	Case Name	Date	Main Issue/Topic Other Than Deference
Panel A: Federal Courts of Appeal and State Supreme Courts				
Important Other Holdings				
FL	U.S. App., 11th Cir.	Intl. Ins. Co. v. Johns	06-07-1989	Unocal Standard
NJ	U.S. App., 3rd Cir.	IBS Fin. Corp. v. Seidman	02-11-1998	Blasius
MD	MD Court of App.*	Shenker v. Laureate Educ.	11-12-2009	Revlon Standard
No Important Other Holdings				
KS	KS Supreme Court	Vogel v. Missouri Valley Steel	03-25-1981	Process of appointing receiver
OK	U.S. App., 3rd Cir.	In re SemCrude L.P.	08-05-2015	Direct v. Derivative Suit
WI	WI Supreme Court	Lane v. Sharp Packaging Sys.	03-20-2002	Record Access
Panel B: State Supreme Courts & (All) Federal Courts				
Important Other Holdings				
CT	U.S. Distr. Court, D. CT	Baker et al., v. AlphaCraze.com Corp.	08-08-2011	Ghewalla Standard
FL	U.S. App., 11th Cir.	Intl. Ins. Co. v. Johns	06-07-1989	Unocal
IN	U.S. Distr. Court, N.D. ILL, Eastern Div.	Dynamics Corp. of Am. v. CTS Corp.	04-17-1986	Flip-in poison pill
MO	, U.S. Distr. Court, D. KS	Flake v. Hoskins	06-17-1999	Revlon
NV	NV Supreme Court	Cohen v. Mirage Resorts, Inc.	02-07-2003	Ability to Sue in M&A
NJ	U.S. Distr. Court, D. N.J.	IBS Fin. Corp. v. Seidman & Associates, L.L.C.	01-23-1997	Blasius Standard
OH	U.S. Distr. Court, N.D. OH, East. Div.	In re Keithley Instruments, Inc.	03-21-2008	Stock option backdating
No Other Important Holdings				
KS	KS Supreme Court	Vogel v. Missouri Valley Steel, Inc.	03-25-1981	process of appointing receiver
MD	U.S. Distr. Court, D. MD	Jolly Roger Fund LP v. Sizeler Prop. Inv., Inc.	11-03-2005	Direct v. derivative suit
MI	U.S. Distr. Court, S.D. NY	Estate of Detwiler v. Offenbecher	08-16-1989	BJR
MN	U.S. Distr. Court, D. MN	Reimel v. MacFarlane	06-23-1998	Demand Futility
OK	U.S. App, 3rd Cir.	In re SemCrude L.P.	08-05-2015	Direct v. deriviative suit
TX	U.S. Distr. Court, E.D. LA	Tow v. Bulmahn	04-29-2016	Confl. of int. transactions
WI	WI Supreme Court	Lane v. Sharp Packaging Sys.	03-20-2002	Access to records

Note: The 2003 decision by the Nevada Supreme Court holds that Nevada courts will look to Delaware law, but also to the Model Business Corporation Act and to New York Law, so I drop it from my regressions unless otherwise noted. Maryland's Court of Appeals is the equivalent of a state supreme court, so I treat it as such.

Table C.5: Business Courts and Complex Litigation Programs

Year	State	Type	Year	State	Type
1992	IL	Business	2006	CO	Business (until 2015)
1993	NY	Business	2007	ME	Business
1993	NJ*	Business	2007	SC	Business
1995	NC	Business	2008	NH	Business
1998	CT	Complex Litigation	2008	OH	Business
1999	MA	Business	2009	AL**	Business (until 2013)
1999	CA	Complex Litigation	2010	WV	Business
1999	PA	Business	2010	DE***	Business
2000	NV	Business	2011	MI	Business
2001	RI	Business	2012	IA	Business
2002	AZ	Complex Litigation	2013	MN	Complex Litigation
2002	MD	Business	2015	AZ	Business
2003	FL	Business	2015	TN	Business
2005	GA	Business	2016	IN	Business
2006	OR	Complex Litigation	2017	WI	Business

Note: For each state, the date indicates the year in which the business court or complex litigation program was first created, typically by administrative order. This study focuses solely on business courts, though the existence of complex litigation programs is used as a control variable in some regressions. * New Jersey's business court generally does not handle corporate cases and is therefore excluded from the analysis. ** Alabama's commercial litigation docket was suspended on May 11, 2013 following lawsuits that questioned its constitutionality. *** Delaware created a complex commercial litigation division in 2010 (Admin. Dir. No. 2010-3). However, this program is excluded from the analysis since Delaware's Chancery court has traditionally been (and continues to be) Delaware's specialized court in corporate law matters; indeed, in the literature, the Delaware Chancery Court is often referred to as the nation's first business court (Drahozal, 2008).

C.2 Event Study: Robustness Checks

Table C.6: Determinants of Deference: Survival Analysis with Binary Variables

	(1) Cox β / SE	Mfx	(2) Weibull β / SE	Mfx	(3) Exponential β / SE	Mfx
Legislation						
MBCA	-2.561***	N.A.	-2.438***	436.560***	-2.390***	829.100***
	(0.713)		(0.693)		(0.686)	
Takeover similarity	-5.858		-4.121	737.904	-4.891	1696.297
	(4.472)		(3.492)		(3.089)	
Other similarity	0.713		0.438	-78.358	0.433	-150.323
	(1.974)		(1.800)		(1.827)	
Business court	-0.528		-0.282	50.538	-0.174	60.326
	(0.759)		(0.723)		(0.691)	
State Size						
Population	-0.024		-0.018	3.276	-0.019	6.686
	(0.044)		(0.042)		(0.043)	
Observations	1636		1636		1636	
LR chi^2	18.706		18.201		18.393	
Prob > chi^2	0.002		0.003		0.002	
Mean Surv. Time			214.074		346.855	

Note: Delaware was dropped. Note that the similarity variables (*Takeover Similarity* & *Other Similarity*) are defined in a binary fashion for the purpose of this table; they take on the value 1 if the level of similarity to Delaware, in a given year, is above the median.

Table C.7: Decisions Embracing Deference: Excluding Nevada Firms

	Dependent variable: cumulative abnormal returns [0,1]					
	All firms			Excluding Delaware firms		
Panel A: Baseline Set of Events						
	(1) β (SE)	(2) β (SE)	(3) β (SE)	(4) β (SE)	(5) β (SE)	(6) β (SE)
Deference	0.006***	0.006***	0.007***	0.007***	0.007***	0.008***
	(0.001)	(0.001)	(0.002)	(0.002)	(0.002)	(0.002)
Del. firm	0.002**	0.002**	0.002**			
	(0.001)	(0.001)	(0.001)			
Ln(assets)			0.001**			0.001**
			(0.000)			(0.000)
Book lev.			0.014***			0.018
			(0.005)			(0.013)
Fin. lev.			-0.022***			-0.032***
			(0.005)			(0.010)
Observations	12712	12712	12279	4095	4095	3980
R^2	0.007	0.038	0.041	0.011	0.088	0.095
Adjusted R^2	0.005	0.007	0.009	0.005	0.001	0.004
Panel B: No Prior Cases (Even by Lower State Courts) Embracing Deference						
	(1) β (SE)	(2) β (SE)	(3) β (SE)	(4) β (SE)	(5) β (SE)	(6) β (SE)
Deference	0.011***	0.010***	0.012***	0.011***	0.012***	0.014***
	(0.003)	(0.003)	(0.003)	(0.003)	(0.004)	(0.004)
Del. firm	0.006***	0.006***	0.006***			
	(0.001)	(0.002)	(0.001)			
Ln(assets)			0.001			0.001
			(0.001)			(0.001)
Book lev.			0.030**			0.021
			(0.013)			(0.017)
Fin. lev.			-0.040***			-0.050***
			(0.012)			(0.016)
Observations	4684	4684	4517	1865	1865	1805
R^2	0.003	0.081	0.085	0.003	0.154	0.166
Adjusted R^2	0.001	0.001	0.002	-0.000	-0.028	-0.022
Event FE	yes	yes	yes	yes	yes	yes
Industry FE	no	yes	yes	no	yes	yes

Note: Event study. Cumulative abnormal returns (CAR) calculated using Fama-French-Cahart four-factor model. Two-day event window [0, 1]; 30 day estimation window [-60, -31]. All regressions cluster at the state level. The variable *Deference* captures whether a firm is incorporated in the state for which deference to Delaware corporate law precedents is embraced. The variable *Del. Firm* captures whether a firm is incorporated in Delaware. Events include decisions by state supreme courts and by federal courts sitting in diversity jurisdiction. For panel A, cases are dropped if a prior state supreme court decision from the relevant state or a prior federal court decision applying the relevant state's law had already embraced a policy of general deference to Delaware corporate law precedents. For panel B, cases are dropped if any prior state court decision from the relevant state (even by a lower court) or a prior federal court decision applying the relevant state's law had already embraced a policy of general deference to Delaware corporate law precedents. A firm's industry is given by its four-digit SIC code. All Nevada firms are dropped. * ** *** denote significance at the 10%, 5%, and 1% levels.

Table C.8: Court Decisions Embracing Deference: Different Event Windows

	Dependent variable: cumulative abnormal returns					
Panel A: Baseline Sample						
	(1)	(2)	(3)	(4)	(5)	(6)
	[0,1]	[0,3]	[0,5]	[-1,1]	[-3,3]	[-5,5]
	β (SE)	β (SE)	β (SE)	β (SE)	β (SE)	β (SE)
Deference	0.006***	0.007***	0.014***	0.008***	0.013**	0.023***
	(0.001)	(0.002)	(0.004)	(0.002)	(0.005)	(0.007)
Del. firm	0.003***	0.003***	0.003	0.002*	0.003**	0.003
	(0.001)	(0.001)	(0.002)	(0.001)	(0.001)	(0.002)
Observations	13098	13101	13099	13100	13099	13100
R^2	0.007	0.007	0.009	0.014	0.016	0.016
Adjusted R^2	0.005	0.005	0.007	0.012	0.014	0.014
Panel B: No Prior Cases Embracing Deference						
	(1)	(2)	(3)	(4)	(5)	(6)
	[0,1]	[0,3]	[0,5]	[-1,1]	[-3,3]	[-5,5]
	β (SE)	β (SE)	β (SE)	β (SE)	β (SE)	β (SE)
Deference	0.011***	0.009***	0.015**	0.009***	0.012***	0.018***
	(0.003)	(0.002)	(0.006)	(0.002)	(0.004)	(0.007)
Del. firm	0.006***	0.004*	0.005*	0.003**	0.002	0.006
	(0.001)	(0.002)	(0.003)	(0.001)	(0.002)	(0.004)
Observations	4806	4806	4807	4807	4806	4807
R^2	0.003	0.002	0.002	0.002	0.004	0.005
Adjusted R^2	0.002	-0.000	0.001	0.001	0.002	0.003
Event FE	yes	yes	yes	yes	yes	yes
Industry FE	no	no	no	no	no	no

Note: Event study. Cumulative abnormal returns (CAR) calculated using Fama-French-Cahart four-factor model. Event windows as indicated in column headings. All regressions cluster at the state level. The variable *Deference* captures whether a firm is incorporated in the state for which deference to Delaware corporate law precedents is embraced. The variable *Del. Firm* captures whether a firm is incorporated in Delaware. Events include decisions by state supreme courts and by federal courts sitting in diversity jurisdiction. For panel A, cases are dropped if a prior state supreme court decision from the relevant state or a prior federal court decision applying the relevant state's law had already embraced a policy of general deference to Delaware corporate law precedents. For panel B, cases are dropped if any prior state court decision from the relevant state (even by a lower court) or a prior federal court decision applying the relevant state's law had already embraced a policy of general deference to Delaware corporate law precedents. A firm's industry is given by its four-digit SIC code. * ** *** denote significance at the 10%, 5%, and 1% levels

Table C.9: Court Decisions Embracing Deference: Winsorizing and Trimming

	Dependent variable: cumulative abnormal returns [0,1]					
Panel A: Baseline Sample						
	Winsorized at:			Trimmed at:		
	1 % & 99 %	3 % & 97 %	5 % & 95 %	1 % & 99 %	3 % & 97 %	5 % & 95 %
	(1) β (SE)	(2) β (SE)	(3) β (SE)	(4) β (SE)	(5) β (SE)	(6) β (SE)
Deference	0.007***	0.006***	0.005***	0.003**	0.004*	0.004*
	(0.002)	(0.001)	(0.001)	(0.002)	(0.002)	(0.002)
Del. firm	0.003***	0.003***	0.002***	0.001*	0.002**	0.001**
	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
Observations	13098	13098	13098	12838	12312	11790
R^2	0.007	0.007	0.008	0.008	0.009	0.011
Adjusted R^2	0.004	0.005	0.006	0.006	0.007	0.008
Panel B: No Prior Cases Embracing Deference						
	Winsorized at:			Trimmed at:		
	1 % & 99 %	3 % & 97 %	5 % & 95 %	1 % & 99 %	3 % & 97 %	5 % & 95 %
	(1) β (SE)	(2) β (SE)	(3) β (SE)	(4) β (SE)	(5) β (SE)	(6) β (SE)
Deference	0.013***	0.011***	0.010***	0.006*	0.008**	0.006
	(0.003)	(0.003)	(0.003)	(0.003)	(0.004)	(0.004)
Del. firm	0.007***	0.006***	0.005***	0.005***	0.005***	0.004***
	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
Observations	4806	4806	4806	4710	4516	4325
R^2	0.003	0.003	0.003	0.003	0.003	0.003
Adjusted R^2	0.002	0.002	0.001	0.001	0.001	0.001
Event FE	yes	yes	yes	yes	yes	yes
Industry FE	no	no	no	no	no	no

Note: Event study. Cumulative abnormal returns (CAR) are calculated using Fama-French-Cahart four-factor model and trimmed/winsorized as indicated in column headings. Two-day event window [0, 1]; 30 day estimation window [-60, -31]. All regressions cluster at the state level. The variable *Deference* captures whether a firm is incorporated in the state for which deference to Delaware corporate law precedents is embraced. The variable *Del. Firm* captures whether a firm is incorporated in Delaware. Events include decisions by state supreme courts and by federal courts sitting in diversity jurisdiction. For panel A, cases are dropped if a prior state supreme court decision from the relevant state or a prior federal court decision applying the relevant state's law had already embraced a policy of general deference to Delaware corporate law precedents. For panel B, cases are dropped if any prior state court decision from the relevant state (even by a lower court) or a prior federal court decision applying the relevant state's law had already embraced a policy of general deference to Delaware corporate law precedents. A firm's industry is given by its four-digit SIC code. All Nevada firms are dropped. * ** *** denote significance at the 10%, 5%, and 1% levels.

Table C.10: Court Decisions Embracing Deference: Two-way Clustering

	Dependent variable: cumulative abnormal returns [0,1]					
	All firms			Excluding Delaware firms		
Panel A: Baseline Set of Events						
	(1)	(2)	(3)	(4)	(5)	(6)
	β (SE)	β (SE)	β (SE)	β (SE)	β (SE)	β (SE)
Deference	0.007***	0.007***	0.006**	0.007**	0.007***	0.008***
	(0.002)	(0.001)	(0.003)	(0.003)	(0.002)	(0.003)
Del. firm	0.003***	0.004***				
	(0.001)	(0.001)				
Ln(assets)			0.001***			0.002***
			(0.000)			(0.001)
Book lev.			0.012***			0.014
			(0.003)			(0.011)
Fin. lev.			-0.021***			-0.028***
			(0.003)			(0.008)
Observations	13098	13098	12641	4481	4481	4342
R^2	0.004	0.004	0.006	0.010	0.011	0.018
Adjusted R^2	-0.002	-0.031	-0.031	-0.008	-0.090	-0.086
Panel B: No Prior Cases (Even by Lower State Courts) Embracing Deference						
	(1)	(2)	(3)	(4)	(5)	(6)
	β (SE)	β (SE)	β (SE)	β (SE)	β (SE)	β (SE)
Deference	0.013***	0.012***	0.009***	0.018***	0.021***	0.025***
	(0.002)	(0.002)	(0.003)	(0.002)	(0.005)	(0.005)
Del. firm	0.006***	0.007***				
	(0.001)	(0.001)				
Ln(assets)			0.001**			0.002**
			(0.001)			(0.001)
Book lev.			0.030***			0.020
			(0.008)			(0.016)
Fin. lev.			-0.040***			-0.043***
			(0.006)			(0.013)
Observations	4806	4806	4634	1987	1987	1922
R^2	0.010	0.011	0.012	0.016	0.019	0.028
Adjusted R^2	-0.002	-0.084	-0.087	-0.012	-0.215	-0.214
Event FE	yes	yes	yes	yes	yes	yes
Industry FE	no	yes	yes	no	yes	yes

Note: Event study. Cumulative abnormal returns (CAR) calculated using Fama-French-Cahart four-factor model. Two-day event window [0, 1]; 30 day estimation window [-60, -31]. All regressions cluster both at the level of the state of incorporation and at the level of the headquarters state (two-way clustering). The variable *Deference* captures whether a firm is incorporated in the state for which deference to Delaware corporate law precedents is embraced. The variable *Del. Firm* captures whether a firm is incorporated in Delaware. Events include decisions by state supreme courts and by federal courts sitting in diversity jurisdiction. For panel A, cases are dropped if a prior state supreme court decision from the relevant state or a prior federal court decision applying the relevant state's law had already embraced a policy of general deference to Delaware corporate law precedents. For panel B, cases are dropped if any prior state court decision from the relevant state (even by a lower court) or a prior federal court decision applying the relevant state's law had already embraced a policy of general deference to Delaware corporate law precedents. A firm's industry is given by its four-digit SIC code. * ** *** denote significance at the 10%, 5%, and 1% levels.

Table C.11: Decisions Embracing Deference: Including Events Before 1994

	Dependent variable: cumulative abnormal returns [0,1]					
	All firms			Excluding Delaware firms		
Panel A: Baseline Set of Events						
	(1)	(2)	(3)	(4)	(5)	(6)
	β (SE)	β (SE)	β (SE)	β (SE)	β (SE)	β (SE)
Deference	0.005***	0.005***	0.006***	0.006***	0.006***	0.006***
	(0.001)	(0.001)	(0.002)	(0.001)	(0.002)	(0.002)
Del. firm	0.002**	0.002***	0.002**			
	(0.001)	(0.001)	(0.001)			
Ln(assets)			0.001**			0.001***
			(0.000)			(0.000)
Book lev.			0.007**			0.010
			(0.003)			(0.008)
Fin. lev.			-0.011***			-0.017**
			(0.004)			(0.008)
Observations	19009	19009	18315	7391	7391	7143
R^2	0.007	0.026	0.029	0.012	0.061	0.066
Adjusted R^2	0.004	0.004	0.006	0.007	0.007	0.009
Panel B: No Prior Cases (Even by Lower State Courts) Embracing Deference						
	(1)	(2)	(3)	(4)	(5)	(6)
	β (SE)	β (SE)	β (SE)	β (SE)	β (SE)	β (SE)
Deference	0.008***	0.007***	0.009***	0.009***	0.008***	0.009***
	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.003)
Del. firm	0.003***	0.004***	0.004***			
	(0.001)	(0.001)	(0.001)			
Ln(assets)			0.000			0.001
			(0.000)			(0.000)
Book lev.			0.018**			0.019
			(0.007)			(0.011)
Fin. lev.			-0.019***			-0.027**
			(0.007)			(0.011)
Observations	8502	8502	8157	3768	3768	3632
R^2	0.005	0.046	0.049	0.012	0.099	0.102
Adjusted R^2	0.003	-0.000	0.001	0.008	0.002	0.002
Event FE	yes	yes	yes	yes	yes	yes
Industry FE	no	yes	yes	no	yes	yes

Note: Event study. Cumulative abnormal returns (CAR) calculated using Fama-French-Cahart four-factor model. Two-day event window [0, 1]; 30 day estimation window [-60, -31]. All regressions cluster at the level of the state of incorporation. The variable *Deference* captures whether a firm is incorporated in the state for which deference to Delaware corporate law precedents is embraced. The variable *Del. Firm* captures whether a firm is incorporated in Delaware. Events include decisions by state supreme courts and by federal courts sitting in diversity jurisdiction. For panel A, cases are dropped if a prior state supreme court decision from the relevant state or a prior federal court decision applying the relevant state's law had already embraced a policy of general deference to Delaware corporate law precedents. For panel B, cases are dropped if any prior state court decision from the relevant state (even by a lower court) or a prior federal court decision applying the relevant state's law had already embraced a policy of general deference to Delaware corporate law precedents. A firm's industry is given by its four-digit SIC code. * ** *** denote significance at the 10%, 5%, and 1% levels.

Table C.12: Decisions Embracing Deference: Adding Confounding Events

	Dependent variable: cumulative abnormal returns [0,1]					
	All firms			Excluding Delaware firms		
Panel A: Baseline Set of Events						
	(1) β (SE)	(2) β (SE)	(3) β (SE)	(4) β (SE)	(5) β (SE)	(6) β (SE)
Deference	0.004	0.004	0.004	0.005*	0.005*	0.005*
	(0.003)	(0.003)	(0.003)	(0.003)	(0.003)	(0.003)
Del. firm	0.001**	0.001*	0.001*			
	(0.001)	(0.001)	(0.001)			
Ln(assets)			0.000			0.000
			(0.000)			(0.000)
Book lev.			0.011***			0.010*
			(0.003)			(0.006)
Fin. lev.			-0.013***			-0.012*
			(0.003)			(0.007)
Observations	27699	27699	26932	10037	10037	9789
R^2	0.012	0.025	0.025	0.014	0.048	0.050
Adjusted R^2	0.010	0.009	0.009	0.009	0.008	0.009
Panel B: No Prior Cases (Even by Lower State Courts) Embracing Deference						
	(1) β (SE)	(2) β (SE)	(3) β (SE)	(4) β (SE)	(5) β (SE)	(6) β (SE)
Deference	0.007*	0.006*	0.007**	0.007	0.006	0.007*
	(0.004)	(0.003)	(0.004)	(0.005)	(0.004)	(0.004)
Del. firm	0.005***	0.005***	0.005***			
	(0.002)	(0.002)	(0.001)			
Ln(assets)			-0.000			0.001
			(0.001)			(0.001)
Book lev.			0.018***			0.012
			(0.007)			(0.013)
Fin. lev.			-0.020**			-0.017
			(0.008)			(0.013)
Observations	7727	7727	7515	2946	2946	2865
R^2	0.019	0.068	0.070	0.022	0.130	0.134
Adjusted R^2	0.018	0.019	0.019	0.018	0.012	0.012
Event FE	yes	yes	yes	yes	yes	yes
Industry FE	no	yes	yes	no	yes	yes

Note: Event study. Cumulative abnormal returns (CAR) calculated using Fama-French-Cahart four-factor model. Two-day event window [0, 1]; 30 day estimation window [-60, -31]. All regressions cluster at the level of the state of incorporation. The variable *Deference* captures whether a firm is incorporated in the state for which deference to Delaware corporate law precedents is embraced. The variable *Del. Firm* captures whether a firm is incorporated in Delaware. Events include decisions by state supreme courts and by federal courts sitting in diversity jurisdiction. For panel A, cases are dropped if a prior state supreme court decision from the relevant state or a prior federal court decision applying the relevant state's law had already embraced a policy of general deference to Delaware corporate law precedents. For panel B, cases are dropped if any prior state court decision from the relevant state (even by a lower court) or a prior federal court decision applying the relevant state's law had already embraced a policy of general deference to Delaware corporate law precedents. A firm's industry is given by its four-digit SIC code. * ** *** denote significance at the 10%, 5%, and 1% levels.

Table C.13: Decisions Embracing Deference: Matched Sample

	Dependent variable: cumulative abnormal returns [0,1]					
	All firms			Excluding Delaware firms		
Panel A: Baseline Set of Events						
	(1)	(2)	(3)	(4)	(5)	(6)
	β (SE)	β (SE)	β (SE)	β (SE)	β (SE)	β (SE)
Deference	0.009***	0.011***	0.010***	0.010***	0.011***	0.011***
	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)
Del. firm	0.004**	0.005***	0.004***			
	(0.001)	(0.001)	(0.001)			
Ln(assets)			0.001*			0.001*
			(0.001)			(0.001)
Book lev.			0.014			0.000
			(0.009)			(0.021)
Fin. lev.			-0.020**			-0.011
			(0.009)			(0.017)
Observations	29336	29336	29336	10774	10774	10774
R^2	0.006	0.084	0.085	0.009	0.163	0.165
Adjusted R^2	0.006	0.072	0.073	0.008	0.136	0.137
Panel B: No Prior Cases (Even by Lower State Courts) Embracing Deference						
	(1)	(2)	(3)	(4)	(5)	(6)
	β (SE)	β (SE)	β (SE)	β (SE)	β (SE)	β (SE)
Deference	0.015***	0.014***	0.014***	0.015***	0.017***	0.016***
	(0.003)	(0.003)	(0.003)	(0.003)	(0.004)	(0.004)
Del. firm	0.006***	0.008***	0.008***			
	(0.002)	(0.002)	(0.002)			
Ln(assets)			0.002			0.004**
			(0.001)			(0.001)
Book lev.			0.030			-0.001
			(0.020)			(0.027)
Fin. lev.			-0.038*			-0.017
			(0.019)			(0.025)
Observations	14330	14330	14330	6067	6067	6067
R^2	0.002	0.116	0.118	0.001	0.215	0.219
Adjusted R^2	0.002	0.093	0.095	0.001	0.170	0.174
Event FE	yes	yes	yes	yes	yes	yes
Industry FE	no	yes	yes	no	yes	yes

Note: Event study. All regressions are based on a matched sample using one-to-ten matching with common support and with replacement. A strict match is required for the firm's two-digit SIC code. Within two-digit SIC codes, each firm is matched with its nearest neighbor. To determine the nearest neighbor, cols. 3-4 rely on propensity score matching. Propensity scores are calculated using lagged values for ln(assets), book leverage, and financial leverage. A caliper of 0.1 is applied. * ** *** denote significance at the 10%, 5%, and 1% levels respectively. Cumulative abnormal returns (CAR) calculated using Fama-French-Cahart four-factor model. Two-day event window [0, 1]; 30 day estimation window [-60, -31]. All regressions cluster at the level of the state of incorporation. The variable *Deference* captures whether a firm is incorporated in the state for which deference to Delaware corporate law precedents is embraced. The variable *Del. Firm* captures whether a firm is incorporated in Delaware. Events incl. decisions by state supreme courts and by fed. courts sitting in diversity jurisdiction. A firm's industry is given by its four-digit SIC code. * ** *** denote significance at the 10%, 5%, and 1% levels.

Table C.14: Stock Price Reaction for Placebo States

	Dependent Variable: Cumulative Abnormal Returns									
Panel A: All Firms										
	+1	+2	+3	+4	+5	+6	+7	+8	+9	+10
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	β (SE)	β (SE)	β (SE)	β (SE)	β (SE)	β (SE)	β (SE)	β (SE)	β (SE)	β (SE)
Deference	0.001	0.002	-0.004	-0.005	-0.003	0.006	0.004	-0.002	-0.000	-0.005
	(0.003)	(0.004)	(0.005)	(0.005)	(0.004)	(0.007)	(0.006)	(0.005)	(0.003)	(0.004)
Observations	10064	31706	33638	31384	10347	33414	12218	32990	32137	33122
R^2	0.009	0.006	0.007	0.006	0.008	0.007	0.008	0.006	0.006	0.007
Adjusted R^2	0.008	0.005	0.006	0.006	0.007	0.006	0.007	0.006	0.006	0.006
Panel B: Excluding Delaware Firms										
	+1	+2	+3	+4	+5	+6	+7	+8	+9	+10
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	β (SE)	β (SE)	β (SE)	β (SE)	β (SE)	β (SE)	β (SE)	β (SE)	β (SE)	β (SE)
Deference	0.002	0.001	-0.004	-0.002	-0.003	0.009	0.003	0.001	0.001	-0.003
	(0.004)	(0.004)	(0.006)	(0.006)	(0.004)	(0.008)	(0.006)	(0.005)	(0.003)	(0.004)
Observations	10064	9623	11555	9301	10347	11331	12218	10907	10054	11039
R^2	0.009	0.006	0.009	0.009	0.008	0.009	0.008	0.009	0.007	0.009
Adjusted R^2	0.008	0.005	0.008	0.008	0.007	0.008	0.007	0.008	0.006	0.009

Note: This table follows the approach taken in the baseline regressions including Delaware firms (table 4.7 col. 1) and excluding Delaware firms (table 4.7 col. 4). However, to create placebo treatment groups, the actual states of incorporation are rotated in alphabetical order (based on state name abbreviations) in the following way: for the +1 column, firms from AK are treated as though they were from AL, firms incorporated in AL are treated as though they were from AR, etc. Similarly, for the +2 column, firms from AK are treated as though they were incorporated in AR, etc. In panel B, firms actually (and not just by rotation) incorporated in Delaware are dropped.

Table C.15: Triple Differences

	Dependent variable: cumulative abnormal returns [0,1]				
	(1)	(2)	(3)	(4)	(5)
	β (SE)	β (SE)	β (SE)	β (SE)	β (SE)
Deference	0.008***	-0.007	0.013***	-0.000	0.006
	(0.003)	(0.012)	(0.003)	(0.005)	(0.004)
Entrenchment					
E-Index.		-0.001			
		(0.001)			
E-Index x deference		0.011***			
		(0.004)			
Leverage					
Book lev.			0.006		
			(0.006)		
Book lev. x deference			0.003		
			(0.017)		
Expenses					
Expenses				-0.004**	
				(0.002)	
Expenses x deference				0.023***	
				(0.007)	
Ins. Ownership					
Ins. Ownership					-0.000
					(0.000)
Ins. Owneship x deference					-0.000***
					(0.000)
Observations	4806	1163	4637	4256	1461
R^2	0.001	0.020	0.004	0.005	0.011
Adjusted R^2	0.000	0.012	0.002	0.003	0.004
Event FE	yes	yes	yes	yes	yes
Industry FE	yes	yes	yes	yes	yes

Note: Event study based on equation (5). Cumulative abnormal returns (CAR) are calculated using Fama-French-Cahart four-factor model. Two-day event window [0, 1]; 30 day estimation window [-60, -31]. All regressions cluster at the level of the state of incorporation. The variable *Deference* captures whether a firm is incorporated in the state for which deference to Delaware corporate law precedents is embraced. The terms *Entrenchment*, *Leverage*, *Cost*, *Insider Ownership* refer to Bebchuk's Entrenchment Index ("E-Index"), a firm's book leverage, insider ownership, (sales, general and administrative) expenses ("xsgaat") respectively, as defined in table C.1. The term *High x deference* captures the interaction between the variable *High* and the variable *Deference*. All regressions control for event fixed effects. * ** *** denote significance at the 10%, 5%, and 1% levels respectively.

C.3 Panel Data: Robustness Checks

Table C.16: Difference-in-Differences (1994-2017): Return on Equity

	Dependent variable: ROE					
	Locally incorporated firms			All firms		
	(1) β (SE)	(2) β (SE)	(3) β (SE)	(4) β (SE)	(5) β (SE)	(6) β (SE)
Deference	0.014	0.015	0.008	0.025	0.033	0.034
	(0.014)	(0.016)	(0.018)	(0.022)	(0.025)	(0.025)
Takeover Statutes						
Mand. stag. board		-0.073**	-0.074**		-0.065***	-0.055***
		(0.030)	(0.035)		(0.014)	(0.016)
Constituency statute		0.032*	0.025*		0.076**	0.068*
		(0.018)	(0.015)		(0.031)	(0.034)
Bus. combination		-0.065***	-0.070***		-0.068***	-0.061***
		(0.013)	(0.015)		(0.019)	(0.019)
Poison pill		0.005	0.017		-0.020	-0.020
		(0.015)	(0.015)		(0.028)	(0.030)
Takeover Cases						
Pro poison pill case			0.001			-0.002
			(0.028)			(0.012)
Unocal			-0.023			0.016
			(0.028)			(0.025)
Unocal rejected			-0.042**			-0.034
			(0.021)			(0.023)
Revlon			0.034			0.039**
			(0.025)			(0.017)
Revlon rejected			0.008			0.021
			(0.015)			(0.017)
Blasius			-0.066			-0.002
			(0.043)			(0.017)
Blasius rejected			-0.002			0.033
			(0.021)			(0.028)
Observations	19242	19242	19242	62192	62189	62189
R^2	0.013	0.014	0.014	0.007	0.007	0.007
Adjusted R^2	0.005	0.005	0.005	0.004	0.004	0.004
Firm FE	yes	yes	yes	yes	yes	yes
Year-industry FE	yes	yes	yes	yes	yes	yes

Note: Difference-in-differences model with panel data (1994-2017) based on equation (5). All regressions cluster at the level of the state of incorporation. The variable *Deference* captures whether a firm is incorporated in a state for which a federal court has embraced deference to Delaware precedents without any prior federal or state court decision having embraced deference to Delaware precedents for that particular state. A firm's industry is given by its one-digit SIC code. The sample excludes both reincorporating firms and firms that did not have any firm year observations before 1994. * ** *** denote significance at the 10%, 5%, and 1% levels respectively.

Table C.17: Difference-in-Differences: ROA (1994-2017): Controlling for Other Forms of Deference

	Dependent variable: ROA					
	Locally incorporated firms			All firms		
	(1) β (SE)	(2) β (SE)	(3) β (SE)	(4) β (SE)	(5) β (SE)	(6) β (SE)
Deference	0.011***	0.012***	0.017***	0.015**	0.012*	0.015**
	(0.003)	(0.004)	(0.003)	(0.006)	(0.006)	(0.006)
Other Deference	0.006	0.006	-0.004	0.020	0.016	0.013
	(0.007)	(0.007)	(0.007)	(0.013)	(0.013)	(0.015)
Takeover Statutes						
Mand. stag. board		-0.021***	-0.025***		-0.028***	-0.028***
		(0.007)	(0.007)		(0.005)	(0.006)
Constituency statute		0.016*	0.014*		-0.009	-0.005
		(0.009)	(0.008)		(0.010)	(0.011)
Bus. combination		-0.026***	-0.019***		-0.012	-0.009
		(0.006)	(0.006)		(0.013)	(0.013)
Poison pill		0.008	0.013***		0.020*	0.021*
		(0.007)	(0.005)		(0.010)	(0.011)
Takeover Cases						
Pro poison pill case			0.011			0.019**
			(0.011)			(0.009)
Unocal			0.010			0.018**
			(0.013)			(0.007)
Unocal rejected			0.000			0.022*
			(0.010)			(0.012)
Revlon			0.015***			-0.003
			(0.005)			(0.008)
Revlon rejected			0.030***			0.008
			(0.007)			(0.013)
Blasius			-0.004			0.003
			(0.013)			(0.011)
Blasius rejected			0.023**			-0.013
			(0.010)			(0.021)
Observations	19246	19246	19246	62158	62155	62155
R^2	0.040	0.041	0.043	0.031	0.031	0.031
Adjusted R^2	0.032	0.033	0.034	0.028	0.028	0.028
Firm FE	yes	yes	yes	yes	yes	yes
Year-industry FE	yes	yes	yes	yes	yes	yes

Note: Difference-in-differences model with panel data (1994-2017) based on equation (5). All regressions cluster at the level of the state of incorporation. The variable *Deference* takes on the value one if a firm is incorporated in a state for which a federal court has embraced deference to Delaware precedents without any prior federal or state court decision having embraced deference to Delaware precedents for that particular state, zero otherwise. The variable *Other deference* takes on the value one if the variable *Deference* takes on the value 0 and, additionally, the firm is incorporated in a state for which a state supreme court or federal court has embraced deference to Delaware corporate law precedents. The variable ln(assets) is lagged by one year. A firm's industry is given by its one-digit SIC code. Reincorporating firms are dropped as are firms that did not have at least one firm-year observation before 1994. * ** *** denote significance at the 10%, 5%, and 1% levels respectively.

Table C.18: Difference-in-Differences (1994-2017): Winsorizing and Trimming

	Dependent variable: log (ROA)					
	Winsorized at:			Trimmed at:		
	3 % & 97 %	5 % & 95 %	10 % & 90 %	3 % & 97 %	5 % & 95 %	10 % & 90 %
	(1)	(2)	(3)	(4)	(5)	(6)
	β (SE)	β (SE)	β (SE)	β (SE)	β (SE)	β (SE)
Deference	0.010***	0.009***	0.006*	0.008*	0.007**	0.008***
	(0.003)	(0.003)	(0.003)	(0.004)	(0.003)	(0.002)
Observations	19246	19246	19246	18091	17322	15398
R^2	0.038	0.043	0.050	0.041	0.048	0.058
Adjusted R^2	0.030	0.035	0.042	0.033	0.039	0.048
Firm FE	yes	yes	yes	yes	yes	yes
Year-industry FE	yes	yes	yes	yes	yes	yes

Note: Difference-in-differences model with panel data (1994-2017). All regressions cluster at the level of the state of incorporation. The variable *Deference* captures whether a firm is incorporated in a state for which a federal court has embraced deference to Delaware precedents without any prior federal or state court decision having embraced deference to Delaware precedents for that particular state. * ** *** denote significance at the 10%, 5%, and 1% levels respectively.

Table C.19: Difference-in-Differences (1994-2017): Including New Firms

	Dependent variable: ROA					
	Locally incorporated firms			All firms		
	(1) β (SE)	(2) β (SE)	(3) β (SE)	(4) β (SE)	(5) β (SE)	(6) β (SE)
Deference	0.044***	0.037***	0.046***	0.056*	0.053	0.058*
	(0.012)	(0.012)	(0.013)	(0.031)	(0.037)	(0.033)
Takeover Statutes						
Mand. stag. board		-0.024	-0.024		-0.052	-0.041
		(0.053)	(0.051)		(0.141)	(0.143)
Constituency statute		-0.032	-0.033		-0.002	-0.000
		(0.022)	(0.023)		(0.054)	(0.054)
Bus. combination		-0.030***	-0.018		-0.042*	-0.035
		(0.011)	(0.012)		(0.021)	(0.021)
Poison pill		0.011	0.006		0.032	0.016
		(0.017)	(0.019)		(0.031)	(0.028)
Takeover Cases						
Pro poison pill case			0.025***			0.063***
			(0.009)			(0.022)
Unocal			0.012			0.056
			(0.025)			(0.047)
Unocal rejected			-0.008			0.042
			(0.014)			(0.031)
Revlon			0.009			-0.003
			(0.020)			(0.019)
Revlon rejected			0.037**			-0.005
			(0.015)			(0.028)
Blasius			0.052			0.089**
			(0.044)			(0.035)
Blasius rejected			0.040***			-0.042
			(0.011)			(0.042)
Observations	27095	27095	27095	112766	112763	112763
R^2	0.019	0.019	0.019	0.010	0.010	0.011
Adjusted R^2	0.013	0.013	0.013	0.009	0.009	0.009
Firm FE	yes	yes	yes	yes	yes	yes
Year-industry FE	yes	yes	yes	yes	yes	yes

Note: Difference-in-differences model with panel data (1994-2017) based on equation (5). All regressions cluster at the level of the state of incorporation. The variable *Deference* captures whether a firm is incorporated in a state for which a federal court has embraced deference to Delaware precedents without any prior federal or state court decision having embraced deference to Delaware precedents for that particular state. The variable ln(assets) is lagged by one year. A firm's industry is given by its one-digit SIC code. The underlying sample includes firms that did not have a firm year observation before 1994. Reincorporating firms are dropped. * ** *** denote significance at the 10%, 5%, and 1% levels respectively.

Table C.20: Difference-in-Differences: ROA (1994-2017): Including New and Reincorporating Firms

	Dependent variable: ROA					
	Locally incorporated firms			All firms		
	(1) β (SE)	(2) β (SE)	(3) β (SE)	(4) β (SE)	(5) β (SE)	(6) β (SE)
Deference	0.033**	0.029	0.028	0.025	0.025	0.024
	(0.016)	(0.018)	(0.019)	(0.023)	(0.028)	(0.028)
Ln(assets)		-0.071***	-0.072***		-0.059***	-0.059***
		(0.014)	(0.014)		(0.009)	(0.009)
Takeover Statutes						
Mand. stag. board			-0.096**			-0.107**
			(0.037)			(0.040)
Bus. combination			-0.021			-0.057**
			(0.027)			(0.028)
Poison pill			-0.004			-0.024
			(0.045)			(0.038)
Strong poison pill			0.121***			0.129***
			(0.036)			(0.039)
Observations	21338	19302	19302	79740	71786	71786
R^2	0.046	0.050	0.050	0.041	0.044	0.044
Adjusted R^2	0.039	0.042	0.042	0.039	0.041	0.041
Firm FE	yes	yes	yes	yes	yes	yes
Year-industry FE	yes	yes	yes	yes	yes	yes

Note: Difference-in-differences model with panel data (1994-2017) based on equation (5). All regressions cluster at the level of the state of incorporation. The variable *Deference* captures whether a firm is incorporated in a state for which a federal court has embraced deference to Delaware precedents without any prior federal or state court decision having embraced deference to Delaware precedents for that particular state. The variable ln(assets) is lagged by one year. A firm's industry is given by its one-digit SIC code. The sample includes both reincorporating firms and firms that did not have any firm year observations before 1994. * ** *** denote significance at the 10%, 5%, and 1% levels respectively.

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