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Finance Working Paper N° 1064/2025
March 2026

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ECGI Working Paper Series in Finance

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Keywords: Shareholder primacy, corporate governance, firm value, investment, acquisitions, stakeholder model, ESG

JEL Classifications: D22, G32, G34, K22, M14

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[1] Bennett is from the Neeley School of Business, Texas Christian University, Stulz is from the Fisher School of Business, The Ohio State University, NBER and ECGI, and Wang is from the Lancaster University Management School. We are grateful for comments from Ilona Babenko (discussant), Michal Barzuza, Maxime Couvert (discussant), Craig Doidge, Alex Edmans, Ofer Eldar, Laurent Fresard, Sinan Gokkaya, Leandro Sanz, Steven Solomon, Eric Talley, Michael Wittry, and participants at the first annual corporate governance academic forum at the University of Toronto and at the EUROFIDAI-ESSEC Paris December Finance Meeting.

1. Introduction

Mainstream corporate governance doctrine in the U.S. posits that the board of directors' and officers' primary responsibility is to the shareholders. This is the doctrine of shareholder primacy. Typically, shareholders want the directors and officers to maximize firm value and, consequently, the duty of directors and officers is to maximize shareholder wealth. If directors and officers stray from their duty, shareholders, capital markets, and the market for corporate control have various mechanisms they can use to constrain or remove directors and officers. An alternative corporate governance doctrine is that the primary responsibility of directors and officers is to the corporation's stakeholders. This stakeholder theory offers limited guidance when decisions affect stakeholders heterogeneously (Jensen, 2001), so that stakeholder theory gives substantially greater discretion to directors and officers than the shareholder primacy theory. As a result, stakeholder theory makes it easier for insiders to pursue their own interests (Bebchuk and Tallarita, 2020; Karpoff, 2021) and to find excuses for underperformance (Flugum and Southern, 2025).

In the U.S., the corporate law applying to a corporation is determined by its state of incorporation. Delaware is the most popular state of incorporation for public companies. Roughly 60% of public corporations are incorporated in that state (Eldor and Magnolfi, 2025). Delaware law is explicit about the duty that the board of directors owes to the shareholders. As the former chief justice of the Delaware Supreme Court put it, "a clear-eyed look at the law of corporations in Delaware reveals that, within the limits of their discretion, directors must make stockholder welfare their sole end" (Strine, 2015). The second most popular state for incorporation of public firms is Nevada. Nevada law does not have the doctrine of shareholder primacy and it protects directors and officers against litigation by shareholders. Despite Nevada's corporate law, before 2017, the Courts applying Nevada law still followed the Courts in Delaware (Penrose and Young, 2019), so that for practical purposes the doctrine of shareholder primacy still impacted judicial decisions for Nevada corporations. For instance, in a 2006 decision, the Nevada Supreme Court, in contrast to the spirit of Nevada corporate law, declared that the duty of loyalty "requires the board and its directors to maintain, in good faith, the corporation's and its shareholders' best interests

over anyone else's interests."[2] In 2017, the Nevada legislature put a stop to this practice by passing Senate Bill No. 203 (the Bill). This Bill made it crystal clear that the doctrine of shareholder primacy does not apply in Nevada and that directors and officers are protected against shareholder litigation. The adoption of this law represents a quasi-natural experiment (the Nevada experiment) to study the implications of weakening shareholder primacy for shareholders, stakeholders, and firm policies.

There is much evidence examining implications of differences in shareholder protection across countries (La Porta, Lopez-de-Silanes, Shleifer, and Vishny, 2000). The advantage of the Nevada experiment is that it represents a change in the level of shareholder protection for only some firms in the U.S. Hence, cross-country differences in economic development or national institutions do not affect our experiment. We can therefore focus directly on the impact of changes in corporate law that weaken the rights of shareholders and give more leeway to insiders to pursue other goals than shareholder wealth maximization. The U.S. has the advantage of high financial development, so that market mechanisms that can discipline managements and boards are as developed as in any country. While the Berle and Means (1932) tradition in governance emphasizes the role of the law in ensuring that investors receive a return on their investment, the agency tradition following Jensen and Meckling (1976) emphasizes the role of market mechanisms (Ma and Shleifer, 2025). If market mechanisms constraining agency costs are strong enough, the Nevada experiment should have little or no impact on firm governance and shareholder wealth. However, if the law plays a crucial role in firm governance in the presence of strong market mechanisms, we expect the Nevada experiment to affect governance and shareholder wealth adversely if before the passage of the law Nevada directors and officers maximized shareholder wealth.

Recent literature has focused on two separate arguments for why giving managements and directors latitude to depart from shareholder wealth maximization could be beneficial for shareholders and/or for society. One argument is that shareholder wealth maximization focused on short-term outcomes destroys shareholder wealth because it means underinvesting in projects that are expected to pay off in the long-run

[2] Schoen v. SAC Holding Corp., 122 Nev. 621 (2006).

but have an adverse impact on earnings in the short-run (e.g., Asker, Farre-Mensa, and Ljungqvist, 2015). This short-termism argument implies that the law should increase shareholder wealth if it enables managements and directors to manage long-run shareholder wealth better. The second argument is that relaxing the constraints resulting from shareholder primacy permits directors and officers to focus on ESG metrics. One view of these goals is that they are metrics of long-run performance (Edmans, 2023). If that is the case, greater discretion to focus on long-term performance metrics would increase firm value. Alternatively, if the actions to increase ESG metrics are valuable for society but not for shareholders, we would expect a law that makes it easier to increase such metrics to affect shareholder wealth adversely as long as investors expect directors and officers to make use of that discretion.

Given the nature of the Nevada experiment, we can compare the evolution of public firms subject to the Bill to the evolution of public firms not subject to the Bill. For that purpose, we use a difference-in-differences (DiD) design for our investigation. Specifically, we compare the evolution of firms incorporated in Nevada to the evolution of other firms for the two years following the adoption of the law to the two years preceding the adoption of the law. We limit our investigation to the two years following the adoption of the law to avoid the impact of the COVID-19 crisis, but we show evidence of robustness if we extend the post-treatment period. Importantly, our empirical design is such that we compare the same firm after the adoption of the law to before the adoption of the law. Consequently, our results cannot be explained by changes in the composition of firms in Nevada or outside of Nevada.

We hypothesize that the Bill had an adverse impact on the value of Nevada firms and find a significant negative abnormal return on the day that the law became effective. We find an abnormal return of -1.21% significant at the 1% level on that day. This abnormal return understates the impact of the law as the legislature was strongly supportive of the bill in the months before the law became effective. Further, we find that Nevada incorporated public firms have poor stock returns in the year following the adoption of the law. Many papers in the corporate governance literature use Tobin's *q* as a valuation measure. A classic paper shows that Delaware firms have higher valuations using Tobin's *q* (Daines, 2001). We find that the Tobin's *q* of Nevada firms falls by more than 4% as a result of the passage of the law. This result is robust

when we exclude gaming firms or focus on firms that benefited little, if at all, from the Tax Cuts and Jobs Act of 2017 (TCJA). In support of the argument of Eldar (2020) and Eldar and Magnolfi (2020) that shareholders have a preference against discretion for insiders at large firms, we find that the adverse impact of the law on large firms is more than twice the size of the impact on small firms.

In principle, the passage of a law that weakens shareholder primacy could trigger market forces that discipline insiders, as market mechanisms would decrease the value of the firm and increase its cost of capital if it becomes less likely to maximize shareholder wealth. By strengthening corporate governance and bonding themselves to a course of action favorable to shareholders, insiders could reverse these outcomes partially or completely. However, the opposite outcome is also possible. As the law reduces the external constraints that previously protected shareholders, governance may be weakened. For insiders to take measures to offset the impact of the law, the loss they make from not doing so must exceed the additional private benefits they can extract under weaker shareholder protections. Consequently, when insiders can gain substantially at the expense of shareholders from greater discretion, they will have no incentives to take actions that mitigate the adverse impact of the law on shareholder wealth.

We investigate whether the Bill caused a worsening in governance. The passage of the law appears to have a striking adverse effect on governance indicators typically used in the literature. Board turnover itself does not indicate a worsening of governance, but if the law worsens governance, we expect the board to change. We find heightened turnover after the passage of the law. We also find that board attendance worsens, board members become busier, and board independence decreases. The entrenchment index of Bebchuk, Cohen, and Ferrell (2009), the E-index, worsens as well. These results show that governance worsens from the perspective of shareholder wealth maximization.

We consider further whether the decrease in valuation is related to the changes in governance. We find that the changes in governance are associated with changes in Tobin's q. Specifically, we find that the greater the increase in the E-index, the greater the fall in Tobin's q. Similarly, the lower the decrease in board independence, the lower the fall in Tobin's q. We also find consistent results for board turnover and bad attendance.

Insiders benefit from the Bill in that they become less subject to external monitoring. Institutional shareholders are often viewed as having a monitoring role (Coffee, 1991; Chen, Harford, and Li, 2007). They are part of the market mechanisms that help make it more likely that directors and officers maximize firm value. When shareholder primacy is weakened, institutional investors may find it more difficult to influence corporate decisions without complementary governance mechanisms. As a result, we expect a decline in overall institutional ownership. In addition, analysts also play a monitoring role, but the demand for their services from institutional investors likely decreases as ownership by institutional investors falls. We therefore expect a decrease in analyst monitoring. We find strong empirical support in the data for these predictions. Since shareholders are hurt by the law and insiders do not attempt to offset the impact of the law on shareholders, it must be that insiders benefit from the law. We find that CEO excess pay, meaning the pay of a CEO in excess of what other CEOs in a comparable situation earn, increases.

Public firms in the U.S. are subject to federal securities laws, which enable shareholders to sue publicly traded corporations in federal courts using the class action mechanism (securities lawsuits). These lawsuits can discipline directors and officers when they take actions that harm shareholders, but they can also impose deadweight costs that ultimately reduce shareholder wealth. The Bill has measures to make it more difficult for shareholders to sue Nevada corporations. While weaker governance normally leads to more reliance on securities class actions, it is also possible that the Bill reduced the incidence of such lawsuits by raising procedural barriers. Empirically, we find that federal securities law class action lawsuits are more likely after the Bill's passage, indicating greater conflicts between shareholders and managements.

Having shown that the Bill worsened governance and decreased firm valuations, we investigate the real effects of the Bill through the investment channel. By weakening shareholder primacy, the Bill potentially enables management to entrench itself and pursue investment strategies that align with the interests of insiders but would not have been adopted under shareholder supremacy. Advocate for the short-termism argument would argue that without shareholder primacy, the firm can invest more. To the extent that R&D is expensed, a decrease in R&D helps meet short-term earnings targets, so that R&D expenses may be more affected by short-termism than capital expenditures (Terry, 2023). We find no evidence of an increase in

capital expenditures or R&D. However, firms make more acquisitions, and especially diversifying acquisitions, after passage of the Bill. Such an increase in acquisitions is consistent with what one would expect if greater discretion for directors and officers leads them to focus on empire building.

With weaker governance, we would expect investment to become less efficient. We find that firms make poorer acquisitions after the adoption of the Bill in that the market reacts more adversely to acquisition announcements. A measure of efficiency for capital expenditures is the sensitivity of investment to Tobin's q. With the q-theory of investment, firms should invest more when q increases. We examine the sensitivity of investment to q. We find that investment essentially becomes insensitive to q after the Bill's adoption. This evidence suggests that firms' investment policies are less efficient after the passage of the Bill, which would contribute to the decrease in firm value that we document. Lastly, we find that efficiency of R&D expenditures drops. These results suggest that weakening shareholder primacy does not lead to outcomes consistent with alleviating short-termist pressures on directors and officers.

Our paper contributes to several literatures. First, it contributes to the literature on the role of laws and markets in corporate governance (Shleifer and Vishny, 1997). While this literature typically compares countries with different laws, here we compare a change in laws within a country that affects only some firms in that country. This makes it possible to better understand the impact of a change in laws that reduces shareholder primacy since financial and economic development are the same for treated firms and non-treaded firms. We show that even in a country where market mechanisms are strong, weakening shareholder primacy has significant adverse effects on the value of corporations, on how they are run, and on how they invest.

Second, the paper contributes to the literature on changes in state corporate laws that weaken the duty of officers and directors to maximize shareholder wealth. Much of this large literature focuses on state anti-takeover amendments (for a review, see Karpoff and Wittry, 2024). A notable exception is the literature that investigates relaxation in the duty of loyalty of officers and directors (e.g., Rauterberg and Talley, 2017; Fich, Harford, and Tran, 2023; Eldar and Grennan, 2024; Babenko, Bennett, and Wang, 2025). Our paper

focuses on a more general change in shareholder primacy that explicitly allows insiders to prioritize stakeholders over shareholders in general rather than in the context of acquisitions.

Third, the paper contributes to the literature on differences across states in corporate law and on competition among states for corporate incorporations. Much recent attention has been focused on the competition between Delaware and Nevada. Elgar and Magnolfi (2020) argue that large firms are hostile to laws that weaken shareholder primacy, but smaller firms can benefit from them and generally prefer laws that protect managers. We find that the decrease in valuations resulting from the Nevada law is much stronger for large firms than for small firms. In the next section, we summarize more directly the smaller literature that focuses on Nevada corporate law.

Fourth, the paper adds to a more recent and more limited literature on corporate purpose and the stakeholder model. We show that reducing shareholder primacy to enable insiders to pursue a stakeholder model is unlikely to improves the welfare of stakeholders, but reduces economic efficiency. This evidence is consistent with the evidence of Bebchuk, Kastiel, and Tallarita (2020) that management or directors do not bargain for stakeholders in takeovers even when they claim to be concerned about the welfare of stakeholders.

Lastly, our evidence speaks to the recent literature on short-termism. We fail to find evidence supportive of the argument that relaxing shareholder primacy benefits firms because it enables management to take into account the interests of stakeholders in a way that benefits shareholders in the long run.

The paper proceeds as follows. Section 2 introduces the institutional background and the empirical design. Section 3 describes our data and sample. Section 4 shows that the Bill led to a decrease in the value of Nevada firms. Section 5 investigates how the Nevada experiment affected the governance of Nevada firms. Section 6 examines the effects of the Bill on investment policies. Section 7 concludes.

2. The Nevada experiment

We first briefly discuss the evolution of Nevada corporate law and how the Nevada Senate Bill 203 fits in with that evolution. We then review the main provisions of the Bill. Lastly, we explain how the experiment we consider motivates our empirical approach.

2.1. Nevada corporate law and Senate Bill 203

Delaware is by far the preferred choice for incorporation for public firms. We show in Figure 1 the number of firms incorporated in the five most popular states for incorporation. While Delaware is first, Nevada is second. However, Delaware's edge is very large, as it has roughly twenty times more incorporations of SEC registered firms than Nevada during our sample period. Yet, Bainbridge (2024) finds that out of the 67 public companies incorporated in Delaware that left Delaware from 2012 to 2024, 49 chose to be incorporated in Nevada. DExit became more of an issue after Delaware found against Musk in the Tornetta v. Musk litigation concerning Musk's pay package. Musk responded to the decision by saying "Never incorporate your company in the state of Delaware. I recommend incorporating in Nevada or Texas if you prefer shareholders to decide matters."[3] Musk moved the incorporation of Neuralink as well as X to Nevada. The Tornetta v. Musk decision is just one decision in a series of decisions that suggest to some observers that Delaware has become more receptive to shareholder litigation (Bainbridge, 2024).

The main difference between Delaware and Nevada in corporate law dates from a law passed in Nevada in 1987. The Nevada law of 1987 has lax protection of shareholders in the event of adverse actions by directors and officers compared to Delaware law (Barzuza and Smith, 2014). While Delaware does not allow corporations to exculpate directors and officers for breach of the duty of loyalty, the Nevada law of 1987 does so for most breaches. An important step in the evolution of the weakening of the liability of officers and directors for breach of the duty of loyalty was a legal reform in 2001 that eliminated monetary penalties for breaches of the duty of loyalty for all incorporated firms rather than just making this option

[3] "Elon Musk shifts Neuralink's incorporation to Nevada," by George Hammond and Sujeet Indap, *Financial Times*, February 9, 2024.

available to firms in their charter. Eldar (2018) investigates this change and his analysis shows that it had no significant effect on Tobin's q. He also argues that this change may have been advantageous to shareholders for smaller fragile firms. These protections of directors and officers have been strengthened through time so that directors and officers are subject to personal liability only if their breach of a duty involves "intentional misconduct, fraud or a knowing violation of the law" (Barzuza, 2024). When it comes to conflicted transactions, Barzuza (2024) states that "Self-interested, conflicted transactions in Nevada are not subject to meaningful judicial scrutiny."

Nevada Senate Bill 203, enacted in 2017, represents a significant development in the evolution of Nevada's corporate law. Over the course of several decades, the Nevada legislature sought to enhance the state's attractiveness as a jurisdiction for incorporation. A central motivation for this legislative agenda has been to provide clarity, predictability, and flexibility in corporate governance, differentiating Nevada from Delaware. An important feature of Nevada is that it is a state where the statute defines bright lines for liability while Delaware relies more on judicial interpretation that changes over time. La Porta, Lopez-de-Silanes, Shleifer, and Vishny (1998) emphasize the greater protection of shareholders in common law countries compared to civil law countries. From the perspective of corporate law, Nevada is more like a civil law country and Delaware is more like a common law country.

Despite these efforts of the legislature, Nevada's statutory framework was often undermined by judicial interpretations that imported corporate governance principles from Delaware case law. For example, in cases such as Hilton Hotels Corp. v. ITT Corp. (1997) and Shoen v. SAC Holding Corp. (2006), courts applied Delaware judicial precedents that diluted the unique governance principles enshrined in Nevada's statutes. This judicial drift created uncertainty for corporations incorporated in Nevada, undermining the state's legislative intent to establish a governance model that explicitly permitted directors and officers to prioritize broader stakeholder interests and resist shareholder pressures. In response, Nevada Senate Bill 203 was introduced and enacted to reaffirm the state's commitment to a distinct corporate governance

regime.[4] Effective October 1, 2017, the legislation strengthened the autonomy of corporate directors and officers to pursue other objectives than shareholder wealth maximization and reduced their vulnerability to shareholder litigation.

While judicial decisions in Delaware are written, so that they form precedents on which future decisions can build as is standard for common law, Nevada courts typically do not produce written decisions. In part, this is because Delaware Chancery does not have jury trials while Nevada often does. It is therefore hard to trace the impact of SB 203 on judicial decisions. However, judges in other states at times have to make decisions where Nevada law applies. A written decision in such a case is Cheffers Holding Company, Inc., and another v. Onpage Ideas, Inc. in the Superior Court of Suffolk, Massachusetts. In that case, Plaintiffs argued in 2023 that the judge should follow Delaware on an issue where Nevada law is silent. The Court rejected the argument of the Plaintiffs referring to the Bill, saying it "suggests that Nevada courts should no longer look to Delaware common law in the same way they once did and that any judicially created standards going forward should be tied to existing Nevada statutes."

2.2. Key Provisions of Senate Bill 203

Senate Bill 203 reaffirms the existing principle in Nevada that Nevada corporations, as well as their directors and officers, are governed by Nevada law rather than the laws of Delaware or any other jurisdiction. In particular, the Bill clarifies and strengthens Nevada's distinct corporate governance framework by providing more concrete and specific guidance on the fiduciary duties of directors and officers, as well as their discretionary powers.

A central feature of the Bill is the explicit recognition that directors and officers are not required to prioritize shareholder interests as the dominant consideration in their decision-making. The Bill authorizes directors and officers to consider a wide range of factors beyond shareholder value, including the interests of employees, customers, suppliers, creditors, the broader community, and societal impacts. It also

[4] We refer to the 2017 legislative reform as SB 203 for simplicity; the Bill amends NRS 78.012.

highlights that directors may weigh both short-term and long-term corporate interests, giving them broader flexibility to make decisions aimed at the sustainability and independence of the corporation. This aligns with Nevada's intent to offer a governance model distinct from Delaware that gives officers and directors great discretion to pursue objectives other than maximizing shareholder wealth.

The Bill further provides clearer instructions on the circumstances under which directors and officers may rely on information provided by internal and external advisors. It also reinforces the protections offered by the business judgment rule, presuming that directors and officers act in good faith, on an informed basis, and in the best interests of the corporation unless proven otherwise. By raising the evidence threshold for challenging decisions made by directors and officers, the Bill reduces their exposure to personal liability for corporate actions and restricts shareholders' power. This clarification ensures that directors and officers can operate with confidence and make decisions without undue interference from shareholder pressures.

In sum, by codifying these provisions, the Senate Bill 203 provides clearer and more concrete guidelines for directors and officers on their fiduciary duties and decision-making powers. It reinforces Nevada's commitment to a governance framework that allows directors and officers much discretion to cater to stakeholders and much protection from shareholder litigation, distinguishing itself from Delaware's shareholder-centric model.

2.3. Empirical Design: Difference-in-Differences Analysis

Our empirical design exploits the adoption of Nevada Senate Bill 203 (SB 203) in 2017 as a quasi-natural experiment that weakened shareholder primacy by altering the legal duties of corporate directors and officers. We employ a difference-in-differences (DiD) framework to estimate the causal effects of the law on firm value, corporate governance, and investments.

To isolate medium-term effects and avoid transitional dynamics, we restrict the baseline DiD analysis to a symmetric event window spanning two years before and after the law's adoption, excluding the event year (i.e., 2015-2016 vs. 2018-2019). We define the treatment group as firms incorporated in Nevada before SB 203. We exclude firms that change their incorporation from other states to Nevada or exit from Nevada

to other states during the event window. Our study is therefore not affected by firms that re-incorporate either in or out of Nevada. We require firms to appear at least one year during the pre-adoption period and one year during the post-adoption period to conduct the DiD analysis. Firms incorporated in other states serve as the control group. Our specification uses firm fixed effects so that our estimate of the treatment effect can be interpreted as the estimate of the treatment effect on a given firm from before the change to after the change. Our estimate is therefore not affected by time-invariant observable and unobservable characteristics of firms.

Our baseline specification is as follows:

$$\mathrm{Y}_{it} = \beta_1 \cdot \mathrm{Treat}_i \times \mathrm{Post}_t + X_{it} \cdot \Gamma + F_{it} + \varepsilon_{it} \quad (1)$$

where *i* is the firm index and *t* is the year index, Y_{it} is the outcome variable of interest, Treat_i, is an indicator for firms incorporated in Nevada, and Post_t is an indicator equal to one for post-adoption years, X is a vector for time-varying firm-level covariates, Γ is a vector for the corresponding coefficients, F_{it} is a vector of fixed effects, and $\varepsilon_{i,t+1}$ is the error term. The interaction term is for the differential change in outcomes for treated firms relative to controls and its coefficient β_1 captures the treatment effect of the DiD analysis. For the vector of fixed effects, we include firm fixed effects and industry-year fixed effects. Further, to account for potential heterogenous treatment effects across firms, following Andreani, Ellahle, and Shivakumar (2025), we create quartile indicator variables for our baseline control variables in 2016 (firm size, leverage, cash holdings) and interact these quartile indicators with the year indicator variable. Therefore, we have five fixed effects in all our DiD regressions. Treat_i and Post_t do not appear individually in the specification because they are absorbed by these fixed effects.

3. Data and Sample

We access annual accounting data from Compustat and stock market data from CRSP. Institutional ownership data is drawn from Thomson Reuters 13F filings, while corporate governance characteristics are obtained from Capital IQ and RiskMetrics. Analyst coverage data is from I/B/E/S (Institutional Brokers'

Estimate System). Securities class action lawsuits (securities lawsuits) data are from the Securities Class Action Clearinghouse of the Stanford Law School. Bank loan data are from DealScan. Data on mergers and acquisitions are from SDC Platinum. Executive compensation information is obtained from ExecuComp. To measure R&D efficiency, we use the Research Quotient (Knott, 2008) available at WRDS. Environmental and social performance measures are drawn from S&P Trucost.[5] Firms' states of incorporation are extracted from SEC 10K filings. Our sample combines firm-level data from multiple sources spanning 2015 to 2019. We restrict the sample to U.S. incorporated, non-financial, non-utility firms with available data over the sample period. We exclude firms with stock prices below $1 to mitigate the influence of microcap and distressed firms. In our main sample, we have 151 treated firms (incorporated in Nevada) and 3,041 control firms (incorporated in other states). All variables are winsorized at the 1st and 99th percentiles. Variable definitions are described in the Appendix.

Table 1 shows the means of variables for Nevada and non-Nevada firms separately in the year before the adoption of SB 203 (i.e., 2016). Nevada firms differ in some dimensions from other listed firms. They are younger and smaller on average. From these differences, it follows that they have lower levels of institutional ownership and a higher Tobin's *q*, consistent with the finding by Barzuza and Smith (2014) that Nevada firms do not have a lower *q* than Delaware firms. Nevada firms do not have higher leverage or more cash holdings than other firms. They acquire less and diversify less but have higher capital expenditures. Their E-index is not distinguishable from other firms. They have a similar likelihood to be involved in federal securities class action lawsuits as firm incorporate in other states. Fewer analysts follow Nevada firms. The environmental performance and social performance of Nevada firms are similar to those of other firms.

[5] More details about the measure constructure are in the S&P official methodology manual available at https://wrds-www.wharton.upenn.edu/documents/1901/sp-global-esg-scores-methodology-2022.pdf

4. Firm Value and the Adoption of Nevada Senate Bill 203

In this section, we first examine the impact of the Bill on shareholder wealth and Tobin's q. We then show the impact of the Bill on the cost of debt.

4.1. The stock-price impact of the Bill

To examine the stock-price reaction to the passage of a law, it is best when there is controversy about whether the law will be passed or not. With SB 203, there was no controversy. The law passed the Nevada Senate unanimously on May 19, 2017. It then passed the Nevada Assembly unanimously on June 5. The law was delivered to the governor on June 8 and he approved it on June 12. The law became effective on October 1, 2017. The only significant short-term reaction to the law is when it became effective. We study the short-run market reaction in a two-day window (i.e., [0, +1]). As the adoption of SB 203 could potentially affect all stocks of firms incorporated in Nevada, cross-sectional correlations among stock returns could lead to high false positive results (Cohn, Johnson, Liu, and Wardlaw, 2024; Fahlenbrach, Ko, and Stulz, 2025). We thus follow Cohn et al. (2024) and use generalized least squares with time-series standard errors of estimates to address the concern of cross-sectional correlations. Specifically, we use daily returns over 252 trading days prior to the effective date (i.e., October 1, 2017) to calculate the covariance matrix and the time series of estimates. Panel A of Table 2 reports abnormal returns over the [0, +1] window surrounding the law's effective date, using the market model, Fama-French three-factor model, and Fama-French plus momentum model, respectively. The abnormal returns are negative and range from -1.21% to -1.55%, statistically significant at the 1% level. These results indicate that investors interpreted the law's passage as detrimental to shareholder wealth, consistent with the idea that weakening shareholder primacy undermines firm performance and increases concerns about conflicts of interest.

Turning to the long-term stock return performance following the adoption of the law, Panel B examines abnormal returns over the two years following the law's adoption. Using the Barber and Lyon (1997) matched portfolio approach, we find economically meaningful and statistically significant negative abnormal performance. Treated firms underperform matched peers by approximately 14.4% on both an

equal-weighted and value-weighted basis (p-value 0.06). Taken together, the short- and long-run abnormal return results provide consistent evidence that markets reacted negatively to the weakening of shareholder primacy.

4.2. The Nevada experiment and Tobin's q

In this section, we estimate DiD regressions using Tobin's q and its natural logarithm as the dependent variables. The empirical specification follows Equation (1), and the baseline analysis compares firm value over an event window of two years before and two years after the law's adoption in 2017. A key identifying assumption in our DiD design is that treated and control firms would have followed parallel trends in firm value in the absence of the law change. To check the validity of this assumption, Figure 2 plots dynamic treatment effects by estimating event-time coefficients from a regression of Tobin's q in Panel A and the natural logarithm of Tobin's q in Panel B on relative year indicators, using the year before the event as the benchmark. The error bars represent 95% confidence intervals based on standard errors clustered at the state of incorporation level. Figure 2 shows that both Tobin's q and the natural logarithm of Tobin's q for Nevada firms are statistically indistinguishable from that of control firms in the two years prior to the law's adoption, supporting the validity of the parallel trends assumption. Following the law's implementation, however, treated firms experience a sharp and statistically significant decline in Tobin's q in both t+1 and t+2, consistent with a negative treatment effect on firm value.

Our main findings on the treatment effect of Nevada Senate Bill 203 on firm value are reported in Panel A of Table 3. The odd-numbered columns use Tobin's q as the dependent variable, while the even-numbered columns use its natural logarithm. Columns 1 and 2 present specifications without additional controls; Columns 3 and 4 add controls for firm size, leverage, and cash holdings. All regressions include the full panoply of fixed effects, and standard errors are clustered at the incorporation state level. The treatment effect, captured by the interaction term Treat × Post, is consistently negative and statistically significant at the 1% level across all specifications. For example, Column 3 shows a decline in Tobin's q of 0.220 following the law's adoption. The log specification in Column 4 yields a coefficient of -0.042, implying a

4.2% relative decline in Tobin's *q* for treated firms compared to control firms. These findings provide strong evidence that weakening shareholder primacy leads to a significant reduction in firm value.

Eldar (2018) and Eldar and Magnolfi (2020) make the case that smaller firms, in contrast to large ones, prefer a corporate law that provides more discretion to insiders. As a result, small firms can benefit from incorporating in a state with a corporate law that provides more discretion (Eldar, 2018). It is therefore important to examine whether the treatment effect differs between small and large firms. We do so in Panel B of Table 3, where we use an indicator variable for firms with a market capitalization larger than the median market capitalization in a year. We find that the adverse impact on Tobin's *q* is significantly worse for large firms. However, the adverse impact is significant both for firms with below-median market capitalization as well as for the larger firms. The magnitude of the size effect is large. For instance, in Column 1, the effect for small firms is -0.271, while the triple-interaction for large firms has a coefficient of -0.242, so that the total treatment effect for large firms is almost double that for small firms.

To assess the robustness of our baseline findings, we conduct further tests that are reported in Panel C. The distribution of firms across industries is similar for firms incorporated in Nevada and firms incorporated in other states. An exception is the importance of gaming firms in Nevada. We therefore estimate our DiD regressions with controls excluding the firms in the gaming industry to ensure that our results are not caused by issues specific to that industry. This is particularly relevant since Nevada adopted new laws for the gaming industry during our event window.[6] We find in Columns (1) and (4) that our results are unchanged if we exclude the gaming industry. In 2017, the TCJA was adopted. It could be that the law affected differentially firms incorporated in Nevada from firms incorporated in other states. In Columns (2) and (5), we exclude firms with foreign profits as those would likely be more affected by the law (tax cut for foreign profit repatriation). Again, our results are not affected meaningfully. We then exclude firms with a tax rate in 2016 greater than 21%, which is the tax rate after adoption of the law. These firms would presumably be less affected by the TCJA, if at all. Again, our results are unaffected, as reported in Columns (3) and (6).

[6] In 2015, video game-style slot machines were allowed; in 2017, rules for cashless wagering were put in place; in 2018, sports betting was expanded; in 2019, rules strengthening anti-money laundering oversight were adopted.

Additionally, in Internet Appendix Table IA1, we estimate the baseline regressions of Panel A of Table 3 for longer event windows. Such an extension is possibly problematic because it means that the year of the COVID crisis, 2020, becomes part of the window. Nevertheless, we find that our conclusions are unaffected.

We perform additional robustness tests that are reported in the Internet Appendix Table IA2. Panel A shows that our results hold when we eliminate the smallest firms, those with market capitalization below $100 million. In Panel B, we restrict the sample to firms listed on the NYSE and NASDAQ. A concern in DiD analyses of law adoption is that firms may influence legislation to pursue their interests by lobbying (Karpoff and Wittry, 2018). Ideally, one would address this concern by excluding firms that actively lobbied for SB 203. However, as far as we know, detailed firm-level lobbying records for Nevada are not publicly available for the relevant period. Available state-level lobbying data from the Nevada Legislature (www.leg.state.nv.us) begins in 2021, well after the law's passage. Nevertheless, we exclude firms that are identified as registered lobbyists in Nevada in 2021 and re-estimate our baseline specifications. As shown in Panel C, our results remain robust.

Panel D of Internet Appendix Table IA2 shows that our results are robust when including additional control variables in the regression analysis. Panel E presents the results using Total q as an alternative measure of firm value (Peters and Tayor, 2017). The results remain consistent. Finally, an additional concern in DiD analyses of law adoption is that new legislation may be correlated with local economic conditions, which are typically tied to firm headquarter locations. This raises the possibility that observed effects could reflect local economic shocks rather than the legal change itself. As a robustness test, we exclude firms that are incorporated in their headquarter state. The results, reported in Panel F, remain robust. Finally, in Panel G, we show results when we match the Nevada firms in our sample to firms incorporated in other states on Log(assets) and industry, and the results are robust.

4.3. The Nevada experiment and the cost of debt

So far, we have investigated the impact of SB 203 using measures that reflect its impact on shareholder wealth. We now consider whether the results extend to debtholders. When shareholder primacy is

weakened, debtholders can also be affected and so do firms' borrowing costs. On the one hand, debtholders may view that, by reducing the liability exposure of directors and officers and expanding managerial discretion, the law weakens internal and external governance mechanisms that may protect creditors by limiting extraction of private benefits by insiders and may offer creditors more trustworthy information about the creditworthiness of the firm. Therefore, such concerns may lead to a higher cost of debt. On the other hand, by explicitly allowing managers to consider the interests of multiple stakeholders, including debtholders, SB 203 could be viewed as strengthening the position of creditors relative to shareholders. In this case, lenders may face lower expropriation risk and could respond by offering capital at more favorable terms (i.e., lower cost of debt). Therefore, the effect of weakening shareholder primacy on the cost of debt is theoretically ambiguous and thus an empirical question. We test these competing hypotheses by examining whether the adoption of the law affects the borrowing costs of treated firms in the commercial loan market.

We measure firms' cost of borrowing using commercial loan data from DealScan. Specifically, we consider the all-in spread drawn as the measure of borrowing cost, which is defined as the amount the borrower pays in basis points over Libor for each dollar drawn down. We use its natural logarithm as the dependent variable in Equation (1). The sample includes new loan facilities issued to treated and control firms in two years before and after the law's adoption, and Table 4 presents the relevant results. Across all specifications, the interaction term Treat × Post is positive and statistically significant, indicating that treated firms face higher loan spreads following the law's adoption. For example, Column 3 shows that the cost of borrowing increases by 6.4%. This result is economically meaningful and consistent with lenders believing that the law makes firms less creditworthy.

5. The Nevada experiment and corporate governance

In Section 4, we showed that the adoption of SB 203 causes a drop in firm value, a loss of shareholder wealth, and an increase in the cost of debt. In this section, we investigate whether SB 203 leads to a worsening in corporate governance. As explained in the introduction, the law could cause insiders to take

steps to improve governance to mitigate its impact on shareholder wealth. Alternatively, insiders could choose to take steps to take advantage of their greater discretion. In the latter case, we would expect a worsening of governance from the perspective of shareholders since the attributes of governance that shareholders value would no longer be as relevant.

In this section, we first investigate whether governance worsens and find that it does. We then show evidence that the conflict of interest between insiders and shareholders worsens and that there is an increase in shareholder lawsuits. We further show that the decrease in Tobin's *q* shown in Section 4 is related to the worsening of governance. Finally, we report that the broader discretion of directors and officers to consider the interests of stakeholders other than shareholders does not appear to benefit other stakeholders.

5.1. Does governance worsen?

Though the goal of maximizing shareholder wealth is unambiguous, any goal involving the welfare of stakeholders is ambiguous in that it does not state how management and the board would deal with situations where an action improves the welfare of one type of stakeholders but hurts another type of stakeholders. It follows from Jensen and Meckling (1976) and the subsequent agency literature that if the legal rights of shareholders are weakened, firms could choose to change their governance to make it harder to pursue courses of action detrimental to shareholders at the expense of a loss of flexibility (Doidge, Karolyi, and Stulz, 2007). However, this presumes that firm-level governance can offset the adverse effects of weak legal protections, which may not be feasible if the private benefits made possible by weaker laws are too valuable for insiders to resist (Shleifer and Vishny, 1997; La Porta, Lopez-de-Silanes, Shleifer, and Vishny, 2000). We examine whether firm-level corporate governance improves or worsens as a result of SB 203.

To empirically examine the effects of SB 203 on corporate governance, we first investigate whether the board experiences more turnover after the passage of the law. Column (1) of Table 5 reports the DiD estimates. Board turnover itself is not necessarily an indicator of poor governance, but for governance at the board level to change, it would likely be necessary that the board changes. The result shows that board

turnover increases after the passage of the law. We then consider four indicia of a worsening of governance. First, we investigate whether the board members become busier, so that monitoring by the board likely would worsen. Our measure of board busyness is the percentage of board members with more than two board seats. Column (2) shows that board busyness increases by 0.011, which is 18% of the sample mean of the variable for Nevada firms. We then estimate whether board attendance worsens. We construct a Bad Attendance indicator that is equal to one if any director misses more than 25% of board meetings in a given year. The coefficient of 0.064 in Column (3) indicates a relative increase of 156% of its sample mean (0.041). We construct an indicator that takes value 1 if the number of independent board members on a board decreases. Column (4) shows that the number of independent board members is more likely to decrease following the adoption of SB 203. The entrenchment of E-index of Bebchuk, Cohen, and Farrell (2009) is a widely used measure of governance quality. With that index, insiders become more entrenched when the value of the index increases.[7] Column (5) shows that the coefficient on Treat × Post is positive and statistically significant at the 5% level, indicating management becomes more entrenched following the adoption of SB 203. The coefficient of 0.114 indicates a relative increase in the E-index of 10% of its standard deviation (1.063). All these findings provide consistent evidence for a broad weakening of board oversight following the erosion of shareholder primacy.

As discussed in the introduction, it is generally accepted that institutional investors perform a monitoring role. However, monitoring by institutional investors involves costs and efforts. If monitoring by institutional investors has less impact because directors and officers have fewer reasons to be responsive, then we would expect institutional ownership to fall. We next examine how the weakening of shareholder primacy under SB 203 affects firms' ownership structure and information production. Weakening shareholder rights can lead to a retreat by institutional investors, who are likely to lack the influence or

[7] The E-index, developed by Bebchuk, Cohen, and Ferrell (2009), is a governance measure that captures the degree of managerial entrenchment based on the presence of six antitakeover provisions. These provisions are: 1) staggered boards, 2) limits to shareholder amendments of bylaws, 3) limits to shareholder amendments of the charter, 4) supermajority requirements for mergers, 5) poison pills, and 6) golden parachutes. The index ranges from 0 to 6, with higher values indicating greater entrenchment and weaker shareholder rights.

incentives to monitor effectively in the face of diminished legal protections. A retreat from institutional investors is likely to affect the level of information production, measured by analyst coverage, which is expected to decline as the institutional investor base becomes smaller.

Column 6 of Table 5 shows that institutional ownership declines significantly following the adoption of SB 203. The coefficient on Treat × Post is negative and statistically significant at the 1% level. The coefficient of -0.018 indicates a 5% decline relative to its sample mean of 0.369 for Nevada incorporated firms. Column 7 shows a decline in analyst coverage, with a coefficient on Treat × Post of -0.305, or a decline of 5% of the average coverage of 5.722, indicating a reduction in firm-level information production and external scrutiny. Collectively, these results show evidence that weakening shareholder primacy reshapes the firm's ownership structure and leads to lower information production.

5.2. Did SB 203 lead to better treatment of stakeholders?

The Bill explicitly allows directors and officers to focus on the interests of other stakeholders besides shareholders. We investigate whether stakeholders other than shareholders benefit from the Bill. A straightforward measure of whether the Bill improves the situation of stakeholders other than shareholders is to examine whether it affects firms' ESG performance, especially the environmental and social performance. A frequently discussed justification for weakening shareholder primacy is to allow managers and directors to consider the interests of all stakeholders, e.g., employees, customers, communities, and the environment, rather than maximizing shareholder value alone. In principle, such a shift could enhance corporate responsibility and generate positive externalities for society. However, delivering meaningful improvements in environmental and social performance often requires sustained managerial effort and the allocation of firm resources. When shareholder rights and monitoring of management are weakened, it does not follow that insiders necessarily want to improve the situation of stakeholders as opposed to pursuing other objectives, such as increasing the private benefits they can extract from the corporation. As such, the effect of SB 203 may not help stakeholders even though insiders are given latitude to do so. We use indices

of environmental performance and social performance to investigate whether stakeholders in general are helped by the Bill.

Table 6 presents the impact of SB 203 on firms' environmental and social performance and the data are from the S&P Trucost dataset. Column (1) shows that the E score declines significantly following the law's adoption. The Environmental (E) score drops by 2.294 ($p < 0.05$), a 6.0% decline relative to its mean of 36.714 for Nevada firms in 2016. In Column 2, the Social (S) score falls by 5.449 ($p < 0.01$), or 16.2% of the mean value of 33.714. The decrease in the Social score is the most direct evidence that stakeholders do not benefit from the Bill since this score incorporates how employees, customers, and the community in which a firm operates are treated by the firm.

These results suggest that despite the legal shift toward allowing greater stakeholder consideration under SB 203, firms' actual environmental performance and social performance both deteriorate. These findings provide no support for the view that relaxing shareholder primacy improves stakeholder welfare. Instead, they suggest that the broadening of managerial discretion under SB 203 did not help stakeholders other than shareholders. A plausible explanation for this outcome is that insiders may be pushed by institutional investors to pay attention to their firm's environmental and social performance, so that when shareholder primacy weakens, these investors have less influence on the actions of the insiders.

5.2. Worse governance, conflicts of interest, lawsuits, and Tobin's *q*

As governance worsens, we expect agency costs to increase and hence firm value to fall. We have seen that SB 203 led to a worsening of governance when the quality of governance is evaluated from the perspective of shareholder primacy. If shareholder rights weaken, an increased ability of managers to extract rents would lead to an increase in managerial excess pay, defined as the compensation above the compensation expected for similar firms. We measure excess pay as the residual from a regression of log(Total Pay) on log(Assets), Debt/Assets, Cash/Assets, Tobin's *q*, and stock return (Gabaix and Landier,

2008; Graham, Li, and Qiu, 2012).[8] In Column (1) of Table 7, we use our baseline DiD and show that excess pay increases significantly. In Column (2), we add the stock return and cash flow divided by assets as additional regressors. The estimate of the treatment effect is similar. The economic significance is that treatment increases excess pay by 8% of the standard deviation of excess pay.

A decrease in quality of governance makes it more likely that insiders take actions that may lead to securities lawsuits. SB 203 was designed to protect insiders from lawsuits and, as a result, it may have hindered the filing of lawsuits. Hence, it is not clear whether we should expect an increase in securities lawsuits or a decrease. To examine the impact of SB 203, we use the Securities Class Action Clearinghouse of the Standford Law School. Columns (3) and (4) show that the passage of SB 203 causes a significant increase in securities lawsuits.

We now provide direct evidence that the degree of governance deterioration following the adoption of SB 203 is associated with the reduction in firm value. We measure the reduction in governance quality by changes in the relevant governance measures around the adoption of the law. Specifically, for Board Turnover, %Busy, and E-index, we compute an indicator variable that takes value 1 if a firm's percentage change (post-adoption average minus pre-adoption average divided by pre-adoption average) exceeds the median increase. For the dummy variable Bad Attendance, we define a dummy variable equal to one if the pre-SB 203 average of Bad Attendance is lower than the post-SB 203 average, and zero otherwise. A larger increase in these governance variables tends to indicate a greater reduction in governance quality. For changes in board independence, we define a dummy variable Decrease_BdInd, which is equal to one if the post-SB 203 average board independence of a firm is lower than that for the pre-SB 203 average, and zero otherwise. Shareholders often view a decrease in board independence as indicative of a reduction in governance quality. In sum, all these five dummy variables are defined as indicators for weaker governance.

We use a triple-interaction setting in our analysis, interacting Treat, Post, and the indicator variables defined above. The whole battery of fixed effects is included. Table 8 reports the results for the tests

[8] Internet Appendix Table IA3 reports the detailed estimates of CEO excess pay.

investigating whether the negative effect on firm value is stronger among firms that experienced a larger deterioration in governance. The coefficient on the triple interaction term is negative for all variables, but not significantly so for Increase_Busy in Column (2). All these results suggest that the adverse valuation effects of SB 203 are magnified in firms where governance became less effective, supporting the interpretation that the law leads to lower firm value through weakened ability of shareholders to protect their interests through effective governance.

6. Investment Policy

So far, we have explored the impact of the Bill on governance and firm valuation. In this section, we investigate the real effects of the Bill on investment policy. To the extent that firms invest less because of short-termism, SB 203 should lead to an increase in investment. Worse governance should lead to less efficient investment. We consider first changes in the level of investment and then investigate the efficiency of investment for acquisitions, capital expenditures, and R&D.

6.1. Level changes in investment policies

If SB 203 reduces short-termism pressures on management that lead management to invest less, we should see an increase in investment following SB 203. However, this increase could also be due to poorer governance that may give management more discretion for empire-building. In Table 9, we show in Column (1) that capital expenditures fall after SB 203. The coefficient on Treat × Post is -0.007, statistically significant at the 1% level and representing a 14% decrease relative to the sample mean for Nevada firms of 0.05 in 2016. We show next in Column (2) that R&D does not change significantly. Column (3) shows that firms are more likely to make acquisitions after SB 203. It follows from Column (4) that these acquisitions are more likely to be diversifying acquisitions.

6.2. Market Reaction to Acquisition Announcements

We next investigate the efficiency of firms' investment decisions. Regarding acquisitions, we focus on the market's response to acquisition announcements. Specifically, we use the M&A announcement date from SDC Platinum and compute cumulative abnormal returns (CARs) over a [-1, +1] window (3 days) surrounding each deal announcement based on the Fama-French 3-factor plus momentum model. We then test whether the adoption of SB 203 affects the market's reaction to acquisition decisions. Table 10 presents the results. Across all three specifications, the coefficient on Treat × Post is negative and statistically significant at the 1% level, with estimates ranging from -1.4% to -2%. These results suggest that investors respond more negatively to acquisition announcements by treated firms in the post-SB 203 period. This finding implies a deterioration in acquisition quality, so that reduced shareholder power and weaker oversight under SB 203 lead to poorer acquisitions.

6.3. Efficiency of investment expenditures

We first consider the impact of SB 203 on the efficiency of capital expenditures and then turn to the impact on the efficiency of R&D expenditures.

According to standard *q*-theory (Tobin, 1969; Hayashi, 1982), firms should increase investment when Tobin's *q* is high, as it signals favorable growth prospects and a high marginal return on capital. A strong empirical link between investment and *q* is therefore indicative of efficient capital allocation. A weakening of that link is evidence of a decrease in the efficiency of capital expenditures (Chen, Goldstein, and Jiang, 2007; McLean, Zhang, and Zhao, 2012). With reduced shareholder oversight, such as that induced by SB 203, insiders may have greater discretion to pursue investments irrespective of their net present value. As a result, we expect that the sensitivity of investment to Tobin's *q* declines following the adoption of SB 203, reflecting a deterioration in investment efficiency.

To empirically investigate the impact on investment-*q* sensitivity, we use the following specification for the relevant analysis:

$$\text{Capex}_{i,t+1} = \beta_0 + \beta_1 \cdot q_{it} \times Treat_i \times Post_t + \beta_2 \cdot q_{it} \times Treat_i + \beta_3 \cdot q_{it} + \cdots + X_{it} \cdot \Gamma + F_{it} + \varepsilon_{i,t+1}, \quad (2)$$

where *i* is the firm index, *t* is the year index, *Capex* is capital expenditures (scaled by total assets), q is Tobin's q, F_{it} is the vector of fixed effects, and $\varepsilon_{i,t+1}$ is the error term. Our focus is the coefficient on the triple interaction term, β_1. A negative β_1 suggests that investment-q sensitivity decreases following the adoption of SB 203.

Table 11 reports the results. Column (1) shows the model without controlling for firm characteristics beyond the use of fixed effects, Column (2) reports the estimates of the model with typical control variables in the investment literature, and Column (3) adds to the controls the baseline controls that are not included in Column (2). All three columns show that β_1 is negative and statistically significant at the 1% level. This indicates a notable reduction in the responsiveness of investment to Tobin's q for treated firms post-SB 203, consistent with a decrease in focus on maximization of shareholder wealth. For example, in Column (2), the coefficient on Tobin's q (β_3) is significantly positive, suggesting that control firms' capital expenditures are positively associated with their Tobin's q, as expected. The coefficient on Tobin's q × Treat (β_2) is positive and significant, which means that before SB 203 treated firms had greater investment-q sensitivity than control firms. Importantly, the coefficient on the triple interaction term Tobin's q × Treat × Post (β_1) is negative and statistically significant at the 1% level, which means that compared to control firms, treated firms' investment-q sensitivity decreases significantly following the adoption of SB 203.[9] The magnitude of the coefficients is such that after SB 203 we cannot reject that the q-sensitivity of investment for Nevada firms is insignificantly different from zero. The decline in investment-q sensitivity among treated firms supports the interpretation that SB 203 impairs investment efficiency from the perspective of shareholders.

[9] Column 2 shows that the coefficient on Treat × Post (denoted as β_4) is significantly positive. However, it does not mean that treated firms' Capex significantly increases following SB 203. In this specification, the total loading on Treat × Post is ($\beta_1 \cdot \text{Tobin's } q + \beta_4$). For a firm with average Tobin's q (2.325) in our sample, this total loading is still negative at -0.003.

These results are consistent with the prediction that the erosion of shareholder primacy weakens the alignment between investment decisions and shareholder value, leading to less efficient capital allocation.

We next examine how the erosion of shareholder primacy affects the efficiency of R&D expenses. Unlike capital expenditures, which often involve tangible assets and clearer near-term payoffs, R&D investments are riskier, less observable, and more discretionary, making them particularly sensitive to agency conflicts and governance quality (Jensen, 1993). In theory, the effect of weakened shareholder primacy on R&D efficiency could make R&D expenditures more efficient if pressures from short-termism of shareholders creates distortion. However, poorer governance could make R&D expenditures less efficient as it could lead to greater entrenchment of management, increase the cost of capital, and increase extraction of private benefits.

To test whether the weakening of shareholder primacy affects the efficiency of R&D expenditures adversely, we measure R&D efficiency by the Research Quotient (RQ), which is the percentage increase in a firm's revenue resulting from a 1% increase in its R&D expenses (Knott, 2008). A reduction in RQ would indicate that R&D becomes less effective, consistent with a decline in innovation efficiency under weakened shareholder primacy. The test specification follows Equation (1) with RQ as the dependent variable.

Table 12 reports how the efficiency of R&D expenses changes in response to the adoption of SB 203. In both specifications, the coefficient on the interaction term Treat × Post is negative and statistically significant at the 1% level. For example, Column (2) shows that the coefficient on the interaction term is -0.007, indicating a reduction in research efficiency of 6.4% of its mean of 0.109 for Nevada firms in the year before the passage of SB 203. The findings suggest that while the level of R&D spending does not change significantly, as shown earlier, the effectiveness of those expenses deteriorates after shareholder primacy weakens. These results are consistent with the prediction that weakened shareholder primacy can lead to a less efficient allocation of innovative capital, and thus lower innovation efficiency.

7. Conclusion

This paper studies the consequences of weakening shareholder primacy by examining the adoption of Nevada Senate Bill 203 as a quasi-natural experiment. We find that the law's passage leads to a statistically and economically significant decline in firm value corresponding to a decrease in Tobin's q of 4%. We show that this result survives a battery of robustness tests.

Using a difference-in-differences design, we show that the adoption of the law results in a significant decrease in the quality of governance for Nevada firms. Such a decrease does not necessarily follow from the law. Firms could respond to the law by strengthening their governance to offset its adverse impact on firm value. We find that governance worsens. Such an outcome obtains if insiders find that their increased discretion is profitable enough that they would rather have this increased discretion than try to mitigate the effect of the law on firm value. This evidence shows that market responses are not substitutes for laws when it comes to monitoring insiders and preventing them from taking advantage of their position.

We investigate the real effects of the law and show that it led to changes in investment policy. We find that capital expenditures fall, R&D expenses are unaffected, and acquisitions increase. However, more importantly, acquisitions have a worse impact on firm value after the adoption of the Bill and the efficiency of both capital expenditures and R&D falls.

In recent years, there has been much criticism of shareholder primacy. It has been blamed for short-termism and neglect of factors that can increase long-run firm value represented by ESG metrics. Our investigation finds no support for the proposition that removing constraints on directors and officers resulting from shareholder primacy enables directors and officers to focus more on source of long-term value creation or on increasing ESG metrics. Put differently, reducing shareholder primacy does not benefit stakeholders or long-term value creation. In fact, the opposite is the case. Rather than focusing on the long-run, directors and officers seem to focus on their interests at the expense of those of shareholders.

In sum, our findings provide robust evidence that weakening shareholder primacy imposes real costs on firms. Hart and Zingales (2017) emphasize that firms should maximize shareholder welfare. In general, shareholder welfare increases with shareholder wealth. However, shareholder welfare might increase if the

firm pursues non-pecuniary goals shareholders care about. We see no evidence of that taking place. Our results speak to ongoing debates in corporate governance and legal scholarship about the appropriate objectives of the firm, suggesting that shareholder primacy plays a central role in supporting accountability, efficiency, and value creation. Future reforms that shift fiduciary duties of directors and officers in a way that reduces their duties to shareholders need to carefully consider these unintended consequences. While many observers and corporate governance experts argue for a stakeholder model of governance and for giving more tools to directors and officers to resist short-termism pressures by shareholders, our evidence suggests that such tools may not result in directors and officers paying more attention to stakeholders and to the firm's long-term interests than the model of shareholder primacy.

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Appendix: Variable Definitions

Tobin's q – sum of shares outstanding multiplied by price per share plus the book value of debt all scaled by total book assets

Log(Assets) – natural logarithm of total book assets

Debt/Assets – short- and long-term debt scaled by total book assets

Cash/Assets – cash and short-term equivalents scaled by total book assets

%Busy – percent of directors on more than two outside boards

Board Turnover – the number new directors scaled by total directors in a year

BdIndDec – dummy variable equal to one if board independence decreases in a year and zero otherwise

E Score – Environmental score for a firm-year from S&P Trucost (Environmental Dimension)

S Score – Societal score for a firm-year from S&P Trucost (Social Dimension)

Excess Pay – the residual in the regression of log(TDC1) on log(Assets), Debt/Assets, Cash/Assets, Tobin's q, and stock return, where TDC1 is the total CEO compensation (in 1000s)

Return – Annual stock return over the previous fiscal year based on data from Compustat

Analysts – number of analysts covering a firm in a year

E-index – entrenchment index following Bebchuk, Cohen, and Farrell (2009)

Log(Spread) – natural log of all-in-spread loan cost. Data are from Dealscan

Bad Attendance – dummy variable equal to one if any of a firm's directors have bad attendance in a firm-year, where bad attendance is defined as missing at least 25% of a firm's board meetings within a year

Securities Lawsuit – dummy variable equal to one if the firm experiences a securities lawsuit in a year and zero otherwise. The data are from the Securities Class Action Clearinghouse by the Standford Law School.

InstOwnership – percent of firm's shares outstanding held by institutional investors (13F)

Increase_BdTurnover – dummy variable equal to one if the increase in Board Turnover is above the median and zero otherwise, where the increase is the post-adoption average minus the pre-adoption average, and then scaled by the pre-adoption average

Increase_Busy – dummy variable equal to one if the increase in %Busy is above the median and zero otherwise, where the increase is the post-adoption average minus the pre-adoption average, and then scaled by the pre-adoption average

Increase_BadAttend – dummy variable equal to one if the pre-SB 203 average of Bad Attendance is lower than the post-SB 203 average, and zero otherwise

Decrease_BdInd – dummy variable equal to one if the post-SB 203 average board independence of a firm is lower than the pre-SB 203 average, and zero otherwise

Increase_E-index – dummy variable equal to one if the increase in the E-index is above the median and zero otherwise, where the increase is the post-adoption average minus the pre-adoption average, and then scaled by the pre-adoption average

Capex/Assets – capital expenditures scaled by total book assets

R&D/Assets – research and development expenditures scaled by total book assets

Acq dummy – an indicator variable for acquisition activities of a firm in a year

DiverseAcq – a dummy variable equal to one if a firm made a diverse acquisition in a year and zero otherwise, where a diverse acquisition refers to one with acquirer and target in different industries given in SDC

R&D Efficiency – measured by Research Quotient (RQ), the percentage increase in a firm's revenue resulting from a 1% increase in its R&D expenditure (Knott, 2008)

Figure 1. Number of Firms by State of Incorporation

This figure illustrates the number of firms by incorporation state for the top 5 states in the US across our sample period 2015-2019 (event year excluded). The data on states of incorporation is from SEC 10K filings. The right vertical axis is for Delaware (DE). The left vertical axis is for the remaining four states, with the second largest state by numbers of incorporated firms as Nevada (NV) in red.

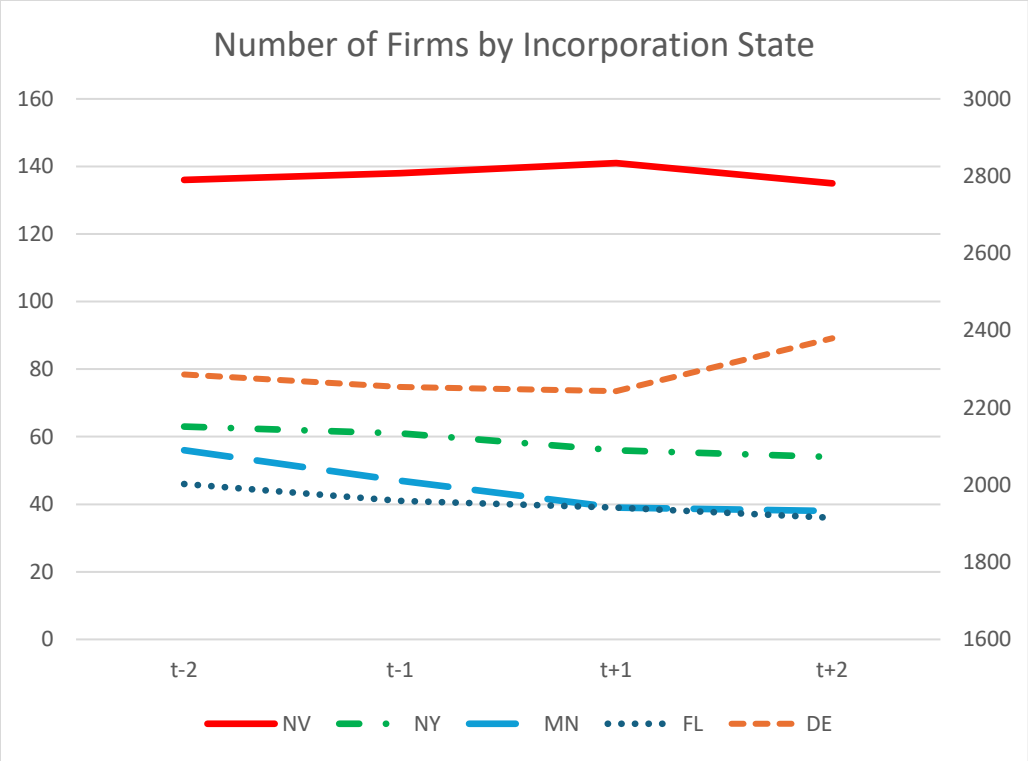
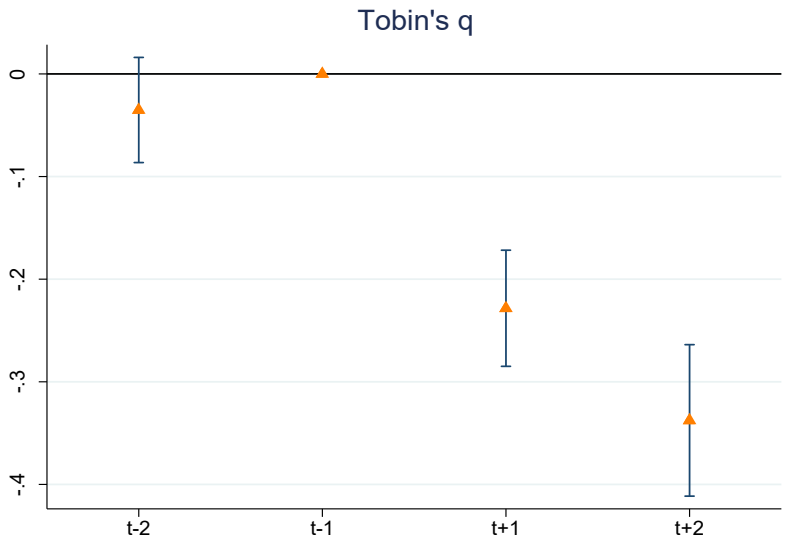


Figure 2. Dynamic Treatment effects of Nevada Senate Bill 203 on Firm Value

This figure illustrates the dynamic treatment effects of SB 203 on firm value. In Panel A (B), Tobin's *q* (Log(*q*)) is regressed on year indicator variables (relative to the event year), including the relevant fixed effects in Equation (1). The y-axis plots the coefficient estimates on each year indicator variable. The x-axis shows the time relative to the event year. Year t-1 is the benchmark year. The sample is from 2015 to 2019 and the event year is excluded. The error bars illustrate the 95% confidence intervals of the coefficient estimates. The confidence intervals are based on standard errors clustered at the state level.

Panel A Tobin's *q*



Panel B. Log(*q*)

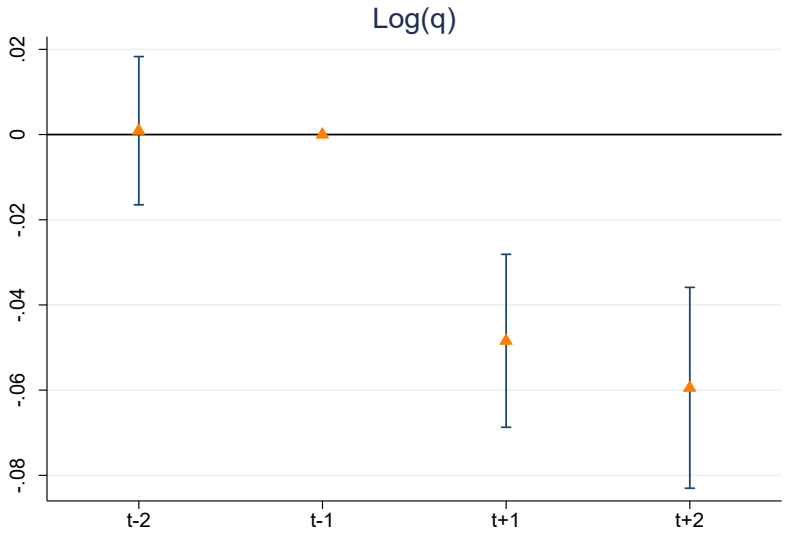


Table 1. Comparison Between Nevada vs. Non-Nevada Firms

This table presents the sample means of the main variables in analysis for Nevada and non-Nevada firms separately in the year before the law adoption (i.e., 2016). Column 3 reports the differences in the means, where ***, **, * denote significance for the *t*-tests at the 1%, 5%, and 10% levels, respectively. Variables are winsorized at the 1st and 99th percentile values. Variable definitions are in the Appendix.

	(1)	(2)	(3)
Variable	Nevada	Non-Nevada	(1) - (2)
Tobin's *q*	3.236	2.232	1.004***
Log(Assets)	4.550	6.581	-2.031***
Debt/Assets	0.233	0.261	-0.028
Cash/Assets	0.237	0.233	0.004
Firm Age	14.310	21.675	-7.365***
Log(Spread)	5.266	5.315	-0.049
Board Turnover	0.064	0.094	-0.03
%Busy	0.060	0.085	-0.025
BadAttend	0.000	0.048	-0.048
BrdIndDec	0.25	0.217	0.033
E-index	2.857	2.629	0.228
InstOwnership	0.369	0.697	-0.328***
Analysts	5.722	9.158	-3.436***
E-Score	36.714	41.025	-4.311
S-Score	33.714	35.771	-2.057
Excess Pay	-0.328	-0.025	-0.303**
Securities Lawsuits	0.009	0.037	-0.028
Capex/Assets	0.050	0.040	0.01**
R&D/Assets	0.063	0.073	-0.01
Acq Dummy	0.15	0.367	-0.217***
DiverseAcq	0.071	0.189	-0.118***
R&D Efficiency	0.109	0.084	0.025*

Table 2. Stock Market Reaction to the Adoption of Nevada Senate Bill 203

This table presents the stock abnormal returns around and following the effective date of the Nevada law (October 1, 2017). Panel A reports the average abnormal returns using a [0,1] window. We show results using three asset pricing models: market model, Fama-French 3-factor model, and Fama-French 3-factor plus Momentum model. Factor loadings are calculated using daily data from the previous year. Following Cohn, Johnson, Liu, and Wardlaw (2024), we calculate the standard errors based on the volatility of the time series of estimates in the previous year. We use generalized least squares to calculate the average returns for pre-periods and abnormal returns. Panel B presents long-run returns (24 months) using monthly abnormal returns calculated by subtracting the firm return from a matched portfolio return calculated following Barber and Lyon (1997). *, **, and *** denote significance at the 10%, 5%, and 1% levels, respectively.

Panel A: Short-run

Model	Mean	*p*-value
Market model	-0.0121	0.00***
FF3	-0.0155	0.00***
FF3+Momentum	-0.0152	0.00***

Panel B: Long-run

Weighting	Abnormal return	*p*-value
Equal-weighted	-0.1447	0.06*
Value-weighted	-0.1441	0.06*

Table 3. Firm Value and the Adoption of Nevada Senate Bill 203

This table presents the effect of the Nevada Senate Bill 203 on firm value, which is measured by *Tobin's q*. *Log(q)* is the natural logarithm of Tobin's *q*. *Treat* is a dummy variable equal to one if a firm is incorporated in Nevada and zero otherwise. *Post* is a dummy variable equal to one after the law adoption and zero otherwise. Panel A shows the treatment effect on Tobin's *q* and Log(*q*). Panel B shows the heterogeneous effects by firm size, where *Large* is a dummy variable equal to one if a firm's market capitalization is above median in a year and zero otherwise. Panel C reports the robustness tests excluding gaming industry and dealing with the potential concern about TCJA in 2017. Fixed effects are indicated at the bottom of the table. Industry classification is Fama-French 30. Standard errors are clustered at the state of incorporation and reported in brackets. The sample is from 2015 to 2019 and the event year is excluded. ***, **, * denote significance at the 1%, 5%, and 10% levels, respectively. Variable definitions are in the Appendix.

Panel A. Treatment effect on Tobin's *q*

	(1)	(2)	(3)	(4)
VARIABLES	Tobin's *q*	Log(*q*)	Tobin's *q*	Log(*q*)
Treat x Post	-0.262***	-0.054***	-0.220***	-0.042***
	[0.028]	[0.010]	[0.033]	[0.009]
Log(Assets)			-0.563***	-0.170***
			[0.100]	[0.026]
Debt/Assets			-0.279**	-0.081***
			[0.106]	[0.027]
Cash/Assets			0.784***	0.327***
			[0.132]	[0.032]
Observations	10,452	10,452	10,452	10,452
R-squared	0.828	0.864	0.835	0.871
Firm FE	Y	Y	Y	Y
Year-Size FE	Y	Y	Y	Y
Year-Leverage FE	Y	Y	Y	Y
Year-CashRatio FE	Y	Y	Y	Y
Year-Industry FE	Y	Y	Y	Y

Panel B. Heterogeneous effects by firm size

VARIABLES	(1) Tobin's q	(2) Log(q)	(3) Tobin's q	(4) Log(q)
Treat x Post x Large	-0.242***	-0.095***	-0.254***	-0.095***
	[0.066]	[0.017]	[0.075]	[0.018]
Treat x Post	-0.271***	-0.047***	-0.222***	-0.035**
	[0.041]	[0.012]	[0.055]	[0.014]
Log(Assets)			-0.552***	-0.167***
			[0.089]	[0.024]
Debt/Assets			-0.336***	-0.090***
			[0.110]	[0.028]
Cash/Assets			0.594***	0.294***
			[0.154]	[0.035]
Observations	9,909	9,909	9,909	9,909
R-squared	0.827	0.864	0.834	0.870
Firm FE	Y	Y	Y	Y
Year-Size FE	Y	Y	Y	Y
Year-Leverage FE	Y	Y	Y	Y
Year-CashRatio FE	Y	Y	Y	Y
Year-Industry FE	Y	Y	Y	Y

Panel C. Exclude gaming industry and deal with the TCJA in 2017

	(1)	(2)	(3)	(4)	(5)	(6)
VARIABLES	Tobin's *q*	Tobin's *q*	Tobin's *q*	Log(*q*)	Log(*q*)	Log(*q*)
Sample	Excl Gaming	No PosForProf	ETR<0.21	Excl Gaming	No PosForProf	ETR<0.21
Treat x Post	-0.248***	-0.178***	-0.207***	-0.053***	-0.024**	-0.042***
	[0.035]	[0.045]	[0.053]	[0.010]	[0.011]	[0.012]
Log(Assets)	-0.567***	-0.597***	-0.585***	-0.170***	-0.163***	-0.162***
	[0.105]	[0.120]	[0.133]	[0.027]	[0.031]	[0.037]
Debt/Assets	-0.296***	-0.220	-0.285**	-0.084***	-0.045	-0.034
	[0.107]	[0.199]	[0.141]	[0.027]	[0.043]	[0.035]
Cash/Assets	0.769***	0.884***	0.892***	0.321***	0.345***	0.336***
	[0.136]	[0.237]	[0.211]	[0.033]	[0.056]	[0.041]
Observations	10,343	5,782	7,105	10,343	5,782	7,105
R-squared	0.835	0.823	0.830	0.871	0.862	0.868
Firm FE	Y	Y	Y	Y	Y	Y
Year-Size FE	Y	Y	Y	Y	Y	Y
Year-Leverage FE	Y	Y	Y	Y	Y	Y
Year-CashRatio FE	Y	Y	Y	Y	Y	Y
Year-Industry FE	Y	Y	Y	Y	Y	Y

Table 4. Cost of Debt: Evidence from Commercial Loans

This table presents the effect of SB 203 on the firm's cost of borrowing. *Log(Spread)* is the natural logarithm of all-in spread drawn (AISD), which is from *Dealscan* and represents the amount a borrower pays in basis points over Libor for each dollar drawn down. *Treat* is a dummy variable equal to one if a firm is incorporated in Navada and zero otherwise. Post is a dummy variable equal to one after SB 203 and zero otherwise. The data is in event time (not a firm-year panel). Fixed effects are indicated at the bottom of the table. Standard errors are clustered at the state of incorporation and reported in brackets. The sample is from 2015 to 2019 and the event year is excluded. ***, **, * denote significance at the 1%, 5%, and 10% levels, respectively. Variable definitions are in the Appendix.

	(1)	(2)	(3)
VARIABLES	Log(Spread)	Log(Spread)	Log(Spread)
Treat x Post	0.083***	0.076***	0.064**
	[0.022]	[0.021]	[0.026]
Log(Maturity)		0.019	0.034**
		[0.015]	[0.014]
Log(LoanAmt)		-0.059***	-0.062***
		[0.008]	[0.008]
Log(Assets)			-0.006
			[0.039]
Debt/Assets			0.496***
			[0.073]
CF Vol			-0.175
			[0.246]
Default			0.002*
			[0.001]
CF/Assets			-0.792***
			[0.159]
Observations	4,240	4,215	3,954
R-squared	0.751	0.759	0.768
Firm FE	Y	Y	Y
Year-Size FE	Y	Y	Y
Year-Leverage FE	Y	Y	Y
Year-Cash Ratio FE	Y	Y	Y
Year-Industry FE	Y	Y	Y

Table 5. Corporate Governance, External Monitoring, and the Nevada Senate Bill 203

This table presents the effect of SB 203 on corporate governance. *Board Turnover* is the ratio of the number of new directors over the total number of directors in a board. %Busy is the fraction of directors on more than two outside boards. *Bad Attendance* is a dummy variable equal to one if at least one director misses more than 25% of the board meetings within a year and zero otherwise. *BdIndDec* is a dummy variable equal to one if board independence decreases in a year and zero otherwise. *E-Index* is the entrenchment index following Bebchuk, Cohen, and Ferrell (2009). *InstOwnership* is the fraction of firm's shares outstanding held by 13F institutional investors. *Analysts* is the number of analysts covering a firm in a year. *Treat* is a dummy variable equal to one if a firm is incorporated in Nevada and zero otherwise. *Post* is a dummy variable equal to one after SB 203 and zero otherwise. Fixed effects are indicated at the bottom of the table. Standard errors are clustered at the state of incorporation and reported in brackets. The sample is from 2015 to 2019 and the event year is excluded. ***, **, * denote significance at the 1%, 5%, and 10% levels, respectively. Variable definitions are in the Appendix.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
VARIABLES	Board Turnover	%Busy	Bad Attendance	BdIndDec	E-index	InstOwnership	Analysts
Treat x Post	0.037***	0.011***	0.064***	0.042**	0.114**	-0.018***	-0.305***
	[0.006]	[0.004]	[0.009]	[0.019]	[0.044]	[0.004]	[0.066]
Log(Assets)	-0.023***	-0.010	0.014	-0.087***	-0.040	0.088***	1.687***
	[0.008]	[0.006]	[0.011]	[0.028]	[0.030]	[0.005]	[0.165]
Debt/Assets	0.031	0.035***	-0.028	0.175	-0.066	-0.073***	0.539***
	[0.022]	[0.010]	[0.022]	[0.147]	[0.093]	[0.010]	[0.164]
Cash/Assets	-0.030	-0.037**	-0.016	0.430***	-0.033	0.044***	-0.250
	[0.019]	[0.017]	[0.043]	[0.107]	[0.113]	[0.011]	[0.290]
Observations	3,644	3,837	3,838	3,623	4,039	8,657	7,989
R-squared	0.303	0.732	0.338	0.274	0.920	0.941	0.946
Firm FE	Y	Y	Y	Y	Y	Y	Y
Year-Size FE	Y	Y	Y	Y	Y	Y	Y
Year-Leverage FE	Y	Y	Y	Y	Y	Y	Y
Year-CashRatio FE	Y	Y	Y	Y	Y	Y	Y
Year-Industry FE	Y	Y	Y	Y	Y	Y	Y

Table 6. Environmental and Social Performance

This table presents the effect of SB 203 on firm-level environmental and social performance. *E Score* is the environmental s score and *S Score* is the societal score, both are from S&P Trucost dataset. *Treat* is a dummy variable equal to one if a firm is incorporated in Nevada and zero otherwise. *Post* is a dummy variable equal to one after SB 203 and zero otherwise. Fixed effects are indicated at the bottom of the table. Standard errors are clustered at the state of incorporation and reported in brackets. The sample is from 2015 to 2019 and the event year is excluded. ***, **, * denote significance at the 1%, 5%, and 10% levels, respectively. Variable definitions are in the Appendix.

	(1)	(2)
VARIABLES	E Score	S Score
Treat x Post	-2.294**	-5.449***
	[1.090]	[0.596]
Log(Assets)	-0.177	0.411
	[1.170]	[0.902]
Debt/Assets	0.953	-0.758
	[3.649]	[1.872]
Cash/Assets	2.382	7.394***
	[4.096]	[2.425]
Observations	2,307	2,307
R-squared	0.909	0.907
Firm FE	Y	Y
Year-Size FE	Y	Y
Year-Leverage FE	Y	Y
Year-CashRatio FE	Y	Y
Year-Industry FE	Y	Y

Table 7. CEO Excess Pay and Securities Class Action Lawsuits

This table presents the effect of SB 203 on CEO excess pay and securities lawsuits. *Excess Pay* is the residual in the regression of log(Total Pay) on log(Assets), Debt/Assets, Cash/Assets, Tobin's *q*, and stock return, as reported in the Internet Appendix IA3. Securities Lawsuit is a dummy variable equal to one if the firm experiences a securities class action lawsuit in a year and zero otherwise. The lawsuit data are from the Securities Class Action Clearinghouse by the Standford Law School. *Treat* is a dummy variable equal to one if a firm is incorporated in Navada and zero otherwise. *Post* is a dummy variable equal to one after SB 203 and zero otherwise. Fixed effects are indicated at the bottom of the table. Standard errors are clustered at the state of incorporation and reported in brackets. The sample is from 2015 to 2019 and the event year is excluded. ***, **, * denote significance at the 1%, 5%, and 10% levels, respectively. Variable definitions are in the Appendix.

	(1)	(2)	(3)	(4)
VARIABLES	Excess Pay		Securities Lawsuits	
Treat x Post	0.041**	0.044**	0.031***	0.019***
	[0.020]	[0.019]	[0.003]	[0.003]
Log(Assets)	-0.110***	-0.107***	0.015***	0.011**
	[0.015]	[0.014]	[0.005]	[0.005]
Debt/Assets	-0.295***	-0.290***	-0.015*	-0.028**
	[0.057]	[0.052]	[0.009]	[0.013]
Cash/Assets	0.057	0.040	-0.019**	-0.018
	[0.062]	[0.061]	[0.009]	[0.012]
Return		0.048***		-0.020***
		[0.010]		[0.004]
CF/Assets		-0.048		-0.036***
		[0.087]		[0.014]
Observations	5,198	5,185	11,092	9,850
R-squared	0.676	0.677	0.318	0.339
Firm FE	Y	Y	Y	Y
Year-Size FE	Y	Y	Y	Y
Year-Leverage FE	Y	Y	Y	Y
Year-CashRatio FE	Y	Y	Y	Y
Year-Industry FE	Y	Y	Y	Y

Table 8. Impact on Firm Value: The Corporate Governance Channel

This table presents evidence linking weaker governance with lower firm value. *Increase_BdTurnover* (*Increase_Busy*, E-index *Increase_E-index*) is a dummy variable equal to one if the increase in Board Turnover (%Busy, E-index) is above the median and zero otherwise, where the increase is the post-adoption average minus the pre-adoption average, and then scaled by the pre-adoption average. *Increase_BadAttend* is a dummy variable equal to one if the pre-SB 203 average of Bad Attendance is lower than the post-SB 203 average, and zero otherwise. Decrease_*BdInd* is a dummy variable equal to one if the post-SB 203 average board independence is lower than the pre-SB 203 average, and zero otherwise. *Treat* is a dummy variable equal to one if a firm is incorporated in Nevada and zero otherwise. *Post* is a dummy variable equal to one after SB 203 and zero otherwise. Fixed effects are indicated at the bottom of the table. Standard errors are clustered at the state of incorporation and reported in brackets. The sample is from 2015 to 2019 and the event year is excluded. ***, **, * denote significance at the 1%, 5%, and 10% levels, respectively. Variable definitions are in the Appendix.

VARIABLES	(1) Tobin's *q*	(2) Tobin's *q*	(3) Tobin's *q*	(4) Tobin's *q*	(5) Tobin's *q*
Treat x Post	0.184***	0.144	0.151***	0.272***	0.084**
	[0.039]	[0.103]	[0.027]	[0.044]	[0.038]
Treat x Post x Increase_BdTurnover	-0.232***				
	[0.075]				
Treat x Post x Increase_Busy		-0.094			
		[0.095]			
Treat x Post x Increase_BadAttend			-0.566***		
			[0.093]		
Treat x Post x Decrease_BdInd				-0.427***	
				[0.057]	
Treat x Post x Increase_E-index					-0.229**
					[0.101]
Log(Assets)	-0.840***	-0.735***	-0.710***	-0.715***	-0.663***
	[0.070]	[0.200]	[0.066]	[0.069]	[0.073]
Debt/Assets	-0.548**	-0.525*	-0.717***	-0.730***	-0.543**
	[0.260]	[0.304]	[0.204]	[0.206]	[0.209]
Cash/Assets	0.227	-0.196	0.558**	0.577**	0.632**
	[0.189]	[0.252]	[0.233]	[0.233]	[0.252]
Observations	2,477	2,121	3,547	3,547	3,775
R-squared	0.896	0.892	0.882	0.882	0.883
Firm FE	Y	Y	Y	Y	Y
Year-Size FE	Y	Y	Y	Y	Y
Year-Leverage FE	Y	Y	Y	Y	Y
Year-CashRatio FE	Y	Y	Y	Y	Y
Year-Industry FE	Y	Y	Y	Y	Y

Table 9. Corporate Investments

This table presents the effect of SB 203 on firm investments. Capex and R&D are both scaled by total assets. *Acq dummy* is an indicator variable for acquisition activities of a firm in a year. *DiverseAcq* is a dummy variable equal to one if a firm made a diverse acquisition in a year and zero otherwise, where a diverse acquisition refers to one with acquirer and target in different industries given in SDC. *Treat* is a dummy variable equal to one if a firm is incorporated in Navada and zero otherwise. *Post* is a dummy variable equal to one after SB 203 and zero otherwise. Fixed effects are indicated at the bottom of the table. Standard errors are clustered at the state of incorporation and reported in brackets. The sample is from 2015 to 2019 and the event year is excluded. ***, **, * denote significance at the 1%, 5%, and 10% levels, respectively. Variable definitions are in the Appendix.

	(1)	(2)	(3)	(4)
VARIABLES	Capex/Assets	R&D/Assets	Acq dummy	DiverseAcq
Treat x Post	-0.007***	0.004	0.044***	0.040***
	[0.001]	[0.002]	[0.008]	[0.006]
Log(Assets)	-0.008***	-0.041***	0.167***	0.063***
	[0.001]	[0.003]	[0.014]	[0.007]
CF/Assets	0.003	-0.262***	-0.129***	-0.021
	[0.004]	[0.019]	[0.024]	[0.015]
Debt/Assets	-0.018***	-0.006	0.025	0.000
	[0.003]	[0.004]	[0.020]	[0.019]
Cash/Assets	-0.047***	-0.030***	-0.346***	-0.115***
	[0.005]	[0.006]	[0.040]	[0.025]
Observations	11,069	11,069	11,069	11,069
R-squared	0.808	0.919	0.605	0.538
Firm FE	Y	Y	Y	Y
Year-Size FE	Y	Y	Y	Y
Year-Leverage FE	Y	Y	Y	Y
Year-CashRatio FE	Y	Y	Y	Y
Year-Industry FE	Y	Y	Y	Y

Table 10. Market Reaction to Acquisition Announcements

This table presents the effect of SB 203 on announcement returns of acquirers. *CAR* is the 3-day abnormal return [-1, +1] around the announcement of a merger based on the Fama-French 3-factor plus momentum model. *Treat* is a dummy variable equal to one if a firm is incorporated in Nevada and zero otherwise. *Post* is a dummy variable equal to one after SB 203 and zero otherwise. The announcement data is from SDC. Fixed effects are indicated at the bottom of the table. Standard errors are clustered at the state of incorporation and reported in brackets. The sample is from 2015 to 2019 and the event year is excluded. ***, **, * denote significance at the 1%, 5%, and 10% levels, respectively. Variable definitions are in the Appendix.

	(1)	(2)	(3)
VARIABLES	CAR	CAR	CAR
Treat x Post	-0.020***	-0.014**	-0.014**
	[0.006]	[0.005]	[0.006]
Log(Assets)		-0.006***	-0.006***
		[0.001]	[0.001]
Debt/Assets		0.002	0.002
		[0.007]	[0.007]
Cash/Assets		0.024***	0.023***
		[0.007]	[0.007]
Cash deal			0.009***
			[0.001]
Diverse			0.000
			[0.001]
Observations	5,829	5,831	5,665
R-squared	0.045	0.036	0.044
Year-Size FE	Y	Y	Y
Year-Leverage FE	Y	Y	Y
Year-CashRatio FE	Y	Y	Y
Year-Industry FE	Y	Y	Y

Table 11. Investment-*q* Sensitivity

This table presents the effect of SB 203 on investment-*q* sensitivity following Chen, Goldstein, and Jiang (2007). *Capex/Assets* is capital expenditures scaled by total assets. *Treat* is a dummy variable equal to one if a firm is incorporated in Navada and zero otherwise. *Post* is a dummy variable equal to one after SB 203 and zero otherwise. Fixed effects are indicated at the bottom of the table. Standard errors are clustered at the state of incorporation and reported in brackets. The sample is from 2015 to 2019 and the event year is excluded. ***, **, * denote significance at the 1%, 5%, and 10% levels, respectively. Variable definitions are in the Appendix.

	(1)	(2)	(3)
VARIABLES	Capex/Assets	Capex/Assets	Capex/Assets
Tobin's *q*	0.003***	0.002***	0.002***
	[0.000]	[0.000]	[0.000]
Tobin's *q* x Treat x Post	-0.003***	-0.004***	-0.003***
	[0.000]	[0.000]	[0.000]
Tobin's *q* x Treat	0.001***	0.001**	0.001***
	[0.000]	[0.000]	[0.000]
Tobin's *q* x Post	-0.001**	-0.001*	-0.000
	[0.000]	[0.000]	[0.000]
Treat x Post	0.005***	0.006***	0.005***
	[0.002]	[0.002]	[0.002]
Log(Assets)		-0.005***	-0.004***
		[0.001]	[0.001]
CF/Assets		0.008***	0.001
		[0.003]	[0.003]
Debt/Assets			-0.024***
			[0.003]
Cash/Assets			0.013***
			[0.004]
Observations	9,741	9,723	9,723
R-squared	0.788	0.788	0.791
Firm FE	Y	Y	Y
Year-Size FE	Y	Y	Y
Year-Leverage FE	Y	Y	Y
Year-CashRatio FE	Y	Y	Y
Year-Industry FE	Y	Y	Y

Table 12. R&D Efficiency

This table presents the effect of SB 203 on firms' R&D efficiency, which is measured by Research Quotient, the percentage increase in a firm's revenues resulting from a 1% increase in its R&D expenditure (Knott, 2008). *Treat* is a dummy variable equal to one if a firm is incorporated in NV and zero otherwise. *Post* is a dummy variable equal to one after SB 203 and zero otherwise. Fixed effects are indicated at the bottom of the table. Standard errors are clustered at the state of incorporation and reported in brackets. The sample is from 2015 to 2019 and the event year is excluded. ***, **, * denote significance at the 1%, 5%, and 10% levels, respectively. Variable definitions are in the Appendix.

	(1)	(2)
VARIABLES	R&D Efficiency	R&D Efficiency
Treat x Post	-0.008***	-0.007***
	[0.002]	[0.002]
Log(Assets)		0.001
		[0.002]
Debt/Assets		-0.015***
		[0.004]
Cash/Assets		0.006
		[0.005]
Observations	3,730	3,730
R-squared	0.813	0.814
Firm FE	Y	Y
Year-Size FE	Y	Y
Year-Leverage FE	Y	Y
Year-CashRatio FE	Y	Y
Year-Industry FE	Y	Y

Internet Appendix

Table IA1. Robustness Tests on Firm Value: Longer Event Windows

This table presents the treatment effect of SB 203 on firm value using longer event windows as robustness tests. *Log(q)* is the natural logarithm of Tobin's *q*. *Treat* is a dummy variable equal to one if a firm is incorporated in Navada and zero otherwise. *Post* is a dummy variable equal to one after the law adoption and zero otherwise. The analysis using a window of [-3,+3] ([-4,+4]) is reported in the first (last) four columns. Fixed effects are indicated at the bottom of the table. Standard errors are clustered at the state of incorporation and reported in brackets. The sample is from 2015 to 2019 and the event year is excluded. ***, **, * denote significance at the 1%, 5%, and 10% levels, respectively. Variable definitions are in the Appendix.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
VARIABLES	Tobin's *q*	Log(*q*)	Tobin's *q*	Log(*q*)	Tobin's *q*	Log(*q*)	Tobin's *q*	Log(*q*)
Window	[-3,+3]	[-3,+3]	[-3,+3]	[-3,+3]	[-4,+4]	[-4,+4]	[-4,+4]	[-4,+4]
Treat x Post	-0.381***	-0.076***	-0.339***	-0.064***	-0.404***	-0.104***	-0.354***	-0.090***
	[0.031]	[0.009]	[0.035]	[0.009]	[0.028]	[0.009]	[0.027]	[0.009]
Log(Assets)			-0.487***	-0.151***			-0.468***	-0.142***
			[0.074]	[0.016]			[0.059]	[0.012]
Debt/Assets			-0.260***	-0.036**			-0.174***	-0.014
			[0.073]	[0.017]			[0.061]	[0.015]
Cash/Assets			0.952***	0.371***			0.943***	0.344***
			[0.110]	[0.026]			[0.097]	[0.020]
Observations	15,478	15,478	15,478	15,478	20,183	20,183	20,183	20,183
R-squared	0.773	0.824	0.780	0.833	0.739	0.794	0.748	0.804
Firm FE	Y	Y	Y	Y	Y	Y	Y	Y
Year-Size FE	Y	Y	Y	Y	Y	Y	Y	Y
Year-Leverage FE	Y	Y	Y	Y	Y	Y	Y	Y
Year-CashRatio FE	Y	Y	Y	Y	Y	Y	Y	Y
Year-Industry FE	Y	Y	Y	Y	Y	Y	Y	Y

Table IA2. Additional Robustness Tests for the Effect of SB 203 on Firm Value:

This table reports the results of additional robustness tests for the effect of SB 203 on firm value. Log(q) is the natural logarithm of Tobin's q. Treat is a dummy variable equal to one if a firm is incorporated in Navada and zero otherwise. Post is a dummy variable equal to one after the law adoption and zero otherwise. Panel A excludes small firms (market capitalization below USD 100 million). Panel B restricts the sample to firms listed on the NYSE and NASDAQ. Panel C excludes firms identified as registered lobbyists in Nevada in 2021. Panel D augments the baseline specification with additional control variables. Panel E re-estimates the main analysis using Total q (Peters and Taylor, 2017) as an alternative measure of firm value. Panel F excludes firms incorporated in their headquarter state. Panel G reports matched-sample results, where each Nevada firm is matched to up to seven non-Nevada firms by Fama–French 30 industry and Log(assets) in the year prior to the event. Fixed effects are indicated at the bottom of the table. Standard errors are clustered at the state of incorporation and reported in brackets. The sample is from 2015 to 2019 and the event year is excluded. ***, **, * denote significance at the 1%, 5%, and 10% levels, respectively. Variable definitions are in the Appendix.

Panel A: Exclude small firms (market capitalization smaller than USD 100 million)

	(1)	(2)	(3)	(4)
VARIABLES	Tobin's q	Log(q)	Tobin's q	Log(q)
Treat x Post	-0.361***	-0.092***	-0.313***	-0.076***
	[0.025]	[0.009]	[0.021]	[0.009]
Log(Assets)			-0.690***	-0.230***
			[0.079]	[0.016]
Debt/Assets			-0.325**	-0.116***
			[0.135]	[0.027]
Cash/Assets			0.995***	0.384***
			[0.099]	[0.032]
Observations	8,408	8,408	8,408	8,408
R-squared	0.848	0.885	0.857	0.895
Firm FE	Y	Y	Y	Y
Year-Size FE	Y	Y	Y	Y
Year-Leverage FE	Y	Y	Y	Y
Year-CashRatio FE	Y	Y	Y	Y
Year-Industry FE	Y	Y	Y	Y

Panel B. Listed on the NYSE and NASDAQ only

VARIABLES	(1) Tobin's q	(2) Log(q)	(3) Tobin's q	(4) Log(q)
Treat x Post	-0.273***	-0.049***	-0.239***	-0.040***
	[0.043]	[0.012]	[0.047]	[0.013]
Log(Assets)			-0.489***	-0.153***
			[0.082]	[0.024]
Debt/Assets			-0.322**	-0.094***
			[0.121]	[0.030]
Cash/Assets			0.489***	0.275***
			[0.100]	[0.039]
Observations	9,004	9,004	9,004	9,004
R-squared	0.824	0.865	0.829	0.870
Firm FE	Y	Y	Y	Y
Year-Size FE	Y	Y	Y	Y
Year-Leverage FE	Y	Y	Y	Y
Year-CashRatio FE	Y	Y	Y	Y
Year-Industry FE	Y	Y	Y	Y

Panel C. Exclude Nevada lobbying firms

VARIABLES	(1) Tobin's q	(2) Log(q)	(3) Tobin's q	(4) Log(q)
Treat x Post	-0.255***	-0.049***	-0.214***	-0.037***
	[0.028]	[0.010]	[0.033]	[0.009]
Log(Assets)			-0.563***	-0.170***
			[0.100]	[0.026]
Debt/Assets			-0.280**	-0.082***
			[0.106]	[0.026]
Cash/Assets			0.784***	0.327***
			[0.132]	[0.032]
Observations	10,446	10,446	10,446	10,446
R-squared	0.828	0.864	0.835	0.871
Firm FE	Y	Y	Y	Y
Year-Size FE	Y	Y	Y	Y
Year-Leverage FE	Y	Y	Y	Y
Year-CashRatio FE	Y	Y	Y	Y
Year-Industry FE	Y	Y	Y	Y

Panel D. Additional control variables

VARIABLES	(1) Tobin's *q*	(2) Log(*q*)
Treat x Post	-0.220***	-0.055***
	[0.030]	[0.010]
Log(Assets)	-0.367***	-0.138***
	[0.064]	[0.024]
Debt/Assets	-0.328***	-0.086***
	[0.118]	[0.030]
Cash/Assets	0.543***	0.263***
	[0.134]	[0.045]
PP&E/Assets	-0.416**	-0.202***
	[0.170]	[0.064]
R&D/Assets	1.895***	0.264***
	[0.229]	[0.053]
Advertising/Assets	2.526***	1.293***
	[0.605]	[0.224]
Volatility	1.588***	0.124
	[0.521]	[0.093]
Observations	9,864	9,864
R-squared	0.825	0.869
Firm FE	Y	Y
Year-Size FE	Y	Y
Year-Leverage FE	Y	Y
Year-CashRatio FE	Y	Y
Year-Industry FE	Y	Y

Panel E. Total *q* as an alternative measure of firm value

VARIABLES	(1) Total *q*	(2) Total *q*
Treat x Post	-0.208***	-0.238***
	[0.032]	[0.033]
Log(Assets)		0.167
		[0.153]
Debt/Assets		-0.558***
		[0.122]
Cash/Assets		2.280***
		[0.167]
Observations	10,286	10,286
R-squared	0.812	0.818
Firm FE	Y	Y
Year-Size FE	Y	Y
Year-Leverage FE	Y	Y
Year-CashRatio FE	Y	Y
Year-Industry FE	Y	Y

Panel F. Exclude firms headquartered and incorporated in the same state

VARIABLES	(1) Tobin's *q*	(2) Log(*q*)	(3) Tobin's *q*	(4) Log(*q*)
Treat x Post	-0.452***	-0.085***	-0.417***	-0.076***
	[0.021]	[0.009]	[0.021]	[0.008]
Log(Assets)			-0.497***	-0.152***
			[0.052]	[0.011]
Debt/Assets			-0.302***	-0.081***
			[0.071]	[0.021]
Cash/Assets			0.638***	0.303***
			[0.060]	[0.016]
Observations	8,148	8,148	8,148	8,148
R-squared	0.822	0.860	0.828	0.866
Firm FE	Y	Y	Y	Y
Year-Size FE	Y	Y	Y	Y
Year-Leverage FE	Y	Y	Y	Y
Year-CashRatio FE	Y	Y	Y	Y
Year-Industry FE	Y	Y	Y	Y

Panel G. Matching on industry and Log(Assets)

VARIABLES	(1) Log(*q*)	(2) Log(*q*)
Treat x Post	-0.114***	-0.103***
	[0.019]	[0.015]
Log(Assets)		-0.165**
		[0.064]
Debt/Assets		-0.091
		[0.124]
Cash/Assets		0.416***
		[0.109]
Observations	1,749	1,749
R-squared	0.869	0.877
Firm FE	Y	Y
Year-Size FE	Y	Y
Year-Leverage FE	Y	Y
Year-CashRatio FE	Y	Y
Year-Industry FE	Y	Y

Table IA3. Estimation of CEO Excess Pay

This table reports the estimates of CEO excess pay, which is the residual from a regression of log(TDC1) on log(Assets), Debt/Assets, Cash/Assets, Tobin's q, and stock return. TDC1 is CEO total compensation from Execucomp. The sample is from 2015 to 2019 and the event year is excluded. ***, **, * denote significance at the 1%, 5%, and 10% levels, respectively. Variable definitions are in the Appendix.

	(1)
VARIABLES	Log(TDC1)
Log(Assets)	0.410***
	[0.005]
Debt/Assets	0.148***
	[0.040]
Cash/Assets	0.120**
	[0.058]
Tobin's *q*	0.090***
	[0.006]
StockReturn	0.082***
	[0.019]
Observations	5,445
R-squared	0.555

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