

Officer Exculpation and Internal Monitoring: Evidence from Labor Demand*

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Abstract

When legal constraints on managerial negligence relax, do firms accept weaker oversight or compensate by strengthening internal monitoring? I study this question using the 2022 Delaware officer-exculpation reform, which permits firms to eliminate officers' personal liability for duty-of-care breaches. In a difference-in-differences design with job-posting data covering 5,258 U.S. public firms and approximately 68 million postings, I find that Delaware-incorporated firms increase their monitoring hiring share, with effects across risk management, compliance, accounting, and legal roles. Because the reform is opt-in at the firm level via charter amendment and adoption is staggered, the intention-to-treat estimates represent a lower bound on the per-adopter response. Two channels explain the response. A *governance-substitution* channel, in which weakened external discipline prompts firms to invest in internal monitoring capacity. A *risk-taking* channel, in which the reform resolves an ex-post commitment problem that previously deterred good-but-risky projects, expanding the set of feasible investments along intangible margins that demand stronger monitoring infrastructure. Consistent with the latter, treated firms increase R&D but not capital expenditure and exhibit higher idiosyncratic risk. The hiring response is concentrated in firms with weak prior external legal discipline and where the marginal value of internal monitoring is high, and is attenuated where institutional ownership is already strong or organisational frictions constrain adjustment.

Keywords: officer exculpation; internal monitoring; litigation risk; risk-taking; labor demand

JEL: G34; K22; M41; J23

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1 Introduction

Corporate governance theory predicts that legal constraints and internal monitoring interact to discipline managers, but the direction of that interaction is contested. If the two are complements, weakening legal exposure reduces the value of internal oversight and firms scale back monitoring investment (Appel, 2019). If they are partial substitutes, firms strengthen one when the other weakens (Agrawal and Knoeber, 1996; Cremers and Nair, 2005). Resolving this question requires an exogenous shock to one specific layer of legal constraints while leaving other governance mechanisms intact. I exploit the 2022 Delaware officer-exculpation reform, which permits firms to eliminate officers’ personal monetary liability for duty-of-care breaches. Unlike securities class actions or derivative suits, which target firm-level disclosures or broad fiduciary conduct, negligence liability governs the quality of individual officers’ judgment and effort in day-to-day operational decisions. It is therefore the dimension of legal discipline most directly comparable to what internal monitoring functions are designed to oversee. This paper asks whether firms respond to the removal of that discipline by weakening or strengthening their internal monitoring capacity.

I test this question using job-posting data from Revelio Labs matched to U.S. public firms, covering 5,258 firms and approximately 68 million postings over 2021Q3–2024Q3. The empirical design is a difference-in-differences comparing Delaware-incorporated firms to firms incorporated in other states, before and after August 2022, with firm and quarter fixed effects. Following Fich et al. (2023), I use an intention-to-treat (ITT) design that takes the reform’s passage, rather than individual charter amendment, as the treatment, since formal adoption is endogenous, requires a shareholder vote often bundled with other AGM proposals, and proxy advisors remain divided on whether to support exculpation provisions (Frankenreiter et al., 2026). Because adoption is staggered and incomplete, the ITT estimates represent a lower bound on the per-adopter response. I find that Delaware firms increase their aggregate monitoring hiring share by 0.064 log points ($t = 2.94$), or roughly 6 percent relative to the pre-period level. Significant effects appear across all four monitoring categories: financial risk

specialists (0.110, $t = 4.47$), compliance officers (0.132, $t = 5.37$), accounting and audit staff (0.064, $t = 2.76$), and lawyers (0.078, $t = 3.13$). Event-study estimates show no differential pre-trends, and placebo tests using non-monitoring white-collar occupations (marketing, software development, and human resources) yield null or negative estimates. Results are robust to weighting postings by Revelio’s expected-hire measure.

The reform lowers one component of the expected private cost of managerial mistakes. Three views of the response are worth distinguishing. Under a *relaxation view*—which I treat as the *null hypothesis*—weaker discipline lowers the marginal benefit of monitoring, so firms scale back governance investment. Under a *governance-substitution view*, by contrast, a governance gap opens and firms invest more in internal monitoring capacity to replace part of the lost oversight. A firm facing this regime change has a menu of margins along which to respond: it can adjust executive compensation contracts, revise charter or policy provisions, alter its business mix, invest in monitoring technology, or hire monitoring labor. I focus on monitoring labor because Revelio postings provide a cleanly observable, high-frequency margin and because rank-and-file labor is increasingly recognised as a determinant of corporate information quality (Barrios et al., 2026; Armstrong et al., 2024; Gao et al., 2023). Beyond these two views, the reform can also operate through a distinct *risk-taking channel*. Prior to the reform, fear of personal ex-post liability could deter officers from approving good-but-risky projects whose downside states are easy to characterise as managerial error after the fact. By resolving this ex-post commitment problem, the reform expands the set of feasible investments along intangible, information-intensive margins where ex-ante uncertainty is high (cf. Lin et al., 2021; Humphery-Jenner et al., 2025). As activity shifts in this direction, the organisational value of monitoring rises: compliance, accounting, risk, and legal functions must scale with the complexity and uncertainty of the firm’s operations. Both the governance-substitution and risk-taking channels predict an increase in monitoring, but they generate distinct cross-sectional signatures that I exploit to assess their relative importance.

The cross-sectional evidence is consistent with the governance-substitution channel. Where prior external legal discipline was already strong—proxied by above-median federal-court litigation exposure in the three years before the reform, drawn from the BHPW Corporate Federal Litigation Data—the monitoring response is null or modestly negative. In firms with weak prior exposure, by contrast, the post-reform increase is two to three times the sample-average effect, ranging from 11 to 18 percent across monitoring roles. The pattern is monotone across alternative cuts (any-versus-none, top tercile of exposed firms) and consistent in sign across all five monitoring categories. The 6-percent average documented above therefore masks substantial heterogeneity: firms operating in environments where other external legal mechanisms already constrain managers see little additional substitution, while firms whose pre-reform external discipline was thin show large responses. The response is also attenuated among firms with greater institutional ownership—direct evidence against the relaxation null, since investor-level monitoring substitutes for the discipline that the reform removes—and weaker in firms with larger boards and greater organisational complexity, consistent with adjustment frictions slowing governance reallocation.

The evidence on the risk-taking channel is twofold. First, the post-reform operating environment shifts in the direction the channel predicts. Treated firms exhibit higher R&D intensity after the reform relative to non-Delaware firms, with no corresponding increase in capital expenditures, indicating a tilt toward more intangible, uncertain, and harder-to-evaluate activity (cf. Lin et al., 2021; Humphery-Jenner et al., 2025). Total return volatility and idiosyncratic risk increase among treated firms, consistent with a riskier operating environment. Second, the monitoring response is stronger among firms already operating in more uncertain environments before the reform, captured by pre-period R&D intensity, product-market scope, and industry operating uncertainty. Together, these results suggest the monitoring labor response reflects not only direct governance substitution but also organisational infrastructure investment that accompanies an expanded, harder-to-evaluate operating environment.

This paper makes three contributions. First, it contributes to the literature on the substitutability and complementarity of governance mechanisms. Agrawal and Knoeber (1996) show that governance devices (board composition, institutional ownership, executive compensation, and product-market competition) are jointly determined and interact as partial substitutes. Cremers and Nair (2005) demonstrate that internal and external governance are jointly priced in equity markets. Appel (2019) finds that shareholder litigation rights and board governance provisions operate as complements, and reducing litigation rights via universal demand laws weakens board-level governance alongside it. I contribute by examining a distinct shock and a distinct adjustment margin—monitoring human capital—and find evidence of substitution where Appel finds complementarity. The key difference is mechanism. Appel’s shock reduces shareholder standing to bring derivative suits, weakening board accountability from outside; the 2022 reform reduces officer personal liability for care claims, relaxing constraints on managerial decision-making from within. The evidence suggests the direction of interaction between legal discipline and governance depends on which specific mechanism is changed and which margin of adjustment is measured, pointing to a more nuanced architecture of the governance system than a single complement-or-substitute framing implies. More broadly, the evidence shows that governance adjustment operates through human capital, specifically hiring decisions, rather than solely through formal policies, board structures, or charter provisions.

Second, the paper contributes to the literature on litigation risk and corporate behavior. Higher litigation risk induces more timely bad-news disclosure and more conservative reporting (Skinner, 1994; Houston et al., 2019; Bourveau et al., 2018), and reduced shareholder litigation pressure relaxes constraints on corporate innovation (Lin et al., 2021). Prior work on securities class actions under Rule 10b-5 and derivative lawsuits examines firm-level disclosure and governance arrangements, but neither setting isolates the effect of personal liability for negligence on firms’ internal organisational response. The targeted nature of the 2022 reform—affecting only care-claim liability for a defined set of officers while leaving securities

class actions, derivative suits, and loyalty-breach claims intact—allows me to isolate this organisational response more cleanly than settings where litigation pressure changes operate more broadly.

Third, the paper contributes to the literature on labor and internal governance quality. Gao et al. (2023) show that internal control weaknesses increase firms’ demand for accounting skills in job postings. Armstrong et al. (2024) document that rank-and-file accounting employee compensation predicts financial reporting quality. Barrios et al. (2026) provide broader evidence that rank-and-file labor shapes the corporate information environment. I complement these studies by showing that monitoring human capital is a dynamic governance investment, not a fixed organisational endowment, that responds to changes in the legal environment. The evidence connects legal liability, corporate risk-taking, and the internal governance infrastructure firms build to manage it.

The remainder of the paper is organised as follows. Section 2 describes the institutional setting. Section 3 develops the theory and predictions. Section 4 describes the data, measurement, and empirical design. Section 5 presents the baseline results. Section 6 examines the governance-substitution channel. Section 7 examines the risk-taking channel. Section 8 reports robustness tests. Section 9 concludes.

2 Institutional Background

2.1 Director Exculpation Since 1986

In 1985, the Delaware Supreme Court held in *Smith v. Van Gorkom* that directors could be held personally liable for approving a merger without adequate deliberation, even absent any allegation of self-dealing or bad faith. The decision exposed directors to substantial monetary damages for failures of care alone, and the ruling sent shock waves through corporate boardrooms. Delaware responded in 1986 by enacting Section 102(b)(7) of the General Corporation Law, which permitted corporations to include charter provisions eliminating

directors' personal monetary liability for breaches of the duty of care. Virtually all Delaware corporations adopted exculpation provisions shortly afterward. For more than three decades, directors of Delaware corporations have been shielded from negligence-type claims, while remaining fully liable for loyalty violations, bad faith, and fraud.

2.2 The Officer Gap: *Gantler v. Stephens* (2009)

Officers, however, received no analogous protection. In *Gantler v. Stephens* (Del. 2009), the Delaware Supreme Court confirmed that corporate officers owe the same fiduciary duties as directors, including the duty of care. Yet Section 102(b)(7) as enacted in 1986 applied only to directors. This created an asymmetry. Directors could not be held personally liable for negligence-type care claims, but officers making identical decisions in identical circumstances could. Plaintiffs increasingly exploited this gap by routing duty-of-care claims against officers rather than directors, targeting the individuals who lacked exculpation protection. The result was growing litigation exposure for precisely the officers responsible for day-to-day operational and financial decisions.

2.3 The 2022 Amendment

On August 1, 2022, Delaware closed this gap by amending Section 102(b)(7) to extend exculpation to officers. The amendment permits corporations to eliminate officers' personal monetary liability for duty-of-care breaches, mirroring the protection directors have enjoyed since 1986. The statute names specific covered roles: the president, chief executive officer, chief operating officer, chief financial officer, chief legal officer, controller, treasurer, and chief accounting officer, as well as any officers identified in SEC filings as among the most highly compensated. These are precisely the officers responsible for financial reporting and internal controls. The reform eliminates personal monetary liability *only* for negligence-type care claims. Officers remain fully exposed to liability for loyalty violations, bad faith, self-dealing, fraud, federal securities litigation, and derivative proceedings. Delaware's stated rationale,

drawn from the legislative history of Section 102(b)(7), is that exculpation is “designed to facilitate management creativity and good-faith risk taking to enhance stockholder wealth.” By closing the director-officer asymmetry, the reform removes a source of differential litigation exposure that, in Delaware’s view, constrained officers’ willingness to take value-enhancing risks.

2.4 Opt-In Adoption and Contested Reception

The reform is *not self-executing*. Each corporation must independently adopt an exculpation provision through (i) board approval, (ii) a proxy disclosure to shareholders, and (iii) a shareholder vote requiring a majority of outstanding shares. This opt-in structure is central to interpreting the empirical design. First, adoption is staggered: firms come to market with their proposals over many calendar quarters, often bundling exculpation with other AGM votes (board reconstitution, anti-takeover provisions), which complicates clean event identification at the firm-adoption level. Second, adoption is selective: firms that amend early may differ systematically from later adopters in governance preferences, risk appetite, or monitoring needs. Third, even when proposals reach a vote, their fate is uncertain because the two major proxy advisory firms are divided. ISS generally recommends in favor of officer exculpation charter amendments, supporting approximately 86 percent of proposals in practice. Glass Lewis generally recommends against adoption unless the board provides a compelling rationale and the provisions are reasonable (Frankenreiter et al., 2026). In my sample, 453 Delaware firms adopt exculpation provisions during the sample period while 2,756 Delaware firms do not.

These institutional features motivate an intention-to-treat (ITT) research design that uses the August 2022 statutory change—rather than firm-level charter adoption—as the treatment indicator. ITT captures the regime-level shift in officers’ expected liability, regardless of whether a given firm subsequently amends its charter. Conditioning on formal charter adoption would introduce selection bias toward early adopters whose unobserved governance

characteristics may themselves predict the monitoring response. ITT therefore yields a *lower bound* on the per-adopter effect, and the estimates I report should be read in that light. Section 4.4 expands on this logic.

Firm motivations for adoption are visible in proxy disclosures. Recurring themes include: (i) reducing officers' exposure to claims evaluated with the benefit of hindsight, regardless of merit; (ii) lowering D&O insurance costs and the diversion of management attention to nonmeritorious suits; and (iii) competitive pressure to match peer firms in retaining qualified officers. Taken together, the proxy disclosures suggest that firms view the pre-reform litigation environment as imposing real costs on officer decision-making, and they treat the reform as an opportunity to reduce those costs. These motivations are consistent with both the governance-substitution and risk-taking channels developed in Section 3.

3 Theory and Hypotheses

3.1 The First-Order Effect and the Firm's Response Set

The reform lowers one component of the expected private cost of managerial mistakes. By reducing officers' exposure to monetary damages for negligence-type claims, Delaware officer exculpation lowers the expected cost of poor outcomes that arise from failures of diligence rather than from intentional misconduct. The first-order question is how firms respond to this change.

A firm facing a regime-level reduction in officer liability has a *menu* of response margins along which to adjust. It can revise executive compensation contracts—say, by altering the convexity of managerial payoffs to retain pre-reform incentives. It can amend charter or bylaw provisions, including the exculpation provision itself but also clawback and indemnification rules. It can shift its business mix toward riskier or safer activities. It can invest in monitoring *technology* (enterprise resource planning systems, risk-analytics platforms, audit tools). And it can hire monitoring *labor*—accountants, auditors, compliance officers, risk specialists, and

in-house counsel.

I focus on monitoring labor for three reasons. First, Revelio Labs job-postings data provide a cleanly observable, high-frequency firm-quarter measure of labor demand that is available consistently across firms and across time. Second, prior work documents that rank-and-file labor is a first-order determinant of corporate information quality (Barrios et al., 2026; Armstrong et al., 2024; Gao et al., 2023). Third, unlike compensation contracts (which are sticky and reported annually), charter amendments (which are infrequent), or business-model shifts (which take years), monitoring labor adjusts on quarterly horizons that are well-suited to a difference-in-differences design around a discrete legal change. The labor margin is therefore both substantively important and methodologically tractable. To the extent firms also adjust along the other margins on the menu, the labor estimates I report represent a lower bound on the firm’s total governance response.

The remainder of this section derives predictions for monitoring labor under three views of how the reform interacts with internal monitoring: a risk-taking channel (the primary channel of interest), a governance-substitution channel, and a relaxation null.

3.2 Risk-Taking Channel (Primary)

The reform can operate through a distinct *risk-taking channel* that I treat as the primary mechanism of interest. Prior to the reform, the threat of personal liability for negligence-type claims created an ex-post commitment problem. An officer who approved a high-expected-value but high-variance project faced personal litigation exposure if downside states realised, even when the project was value-maximising in expectation. Negative realisations are easy to characterise as managerial error after the fact, especially when the underlying decision was information-intensive and the outcome was opaque. The result is that some good-but-risky projects were *deterred* by the prospect of post-realisation liability. This is not an argument that officers will gamble after the reform; gambling (negative-expected-value bets that pay off only because the downside is shielded) is contained by surviving disciplines—fraud

liability, securities-law exposure, derivative claims, and the labor market for officers. Rather, exculpation resolves an ex-post commitment problem that previously distorted ex-ante project selection.¹

R&D and innovation are the natural example. Research investments are uncertain, information-intensive, and difficult to evaluate ex post. Poor realisations in R&D are easy to attribute to managerial error, making these activities especially sensitive to litigation exposure. When that exposure declines, firms may expand along the R&D margin in particular. As activity shifts toward riskier, harder-to-evaluate investments, the organisational value of internal monitoring rises. Accounting and audit functions must track spending across information-intensive projects and preserve reporting discipline. Risk and compliance functions must assess uncertainty and regulatory exposure across a broader set of activities. Legal functions must manage contracting and intellectual property as the firm’s investment frontier expands. Monitoring, in this sense, is not merely oversight of existing operations; it is organisational infrastructure that enables firms to operate in more failure-prone, harder-to-evaluate environments.

The risk-taking channel therefore generates two empirical signatures. First, post-reform operating outcomes should shift toward more intangible and uncertain activity: R&D intensity should rise, capital expenditure should be roughly flat, and idiosyncratic and total volatility should rise. Second, the monitoring response should be *stronger* in firms whose pre-reform operating environments already exhibited high information complexity and uncertainty, because the marginal value of monitoring infrastructure is higher in such firms. I capture these dimensions with pre-period R&D intensity, product-market scope (Hoberg-Phillips-style measures), and industry operating uncertainty.

¹This formulation echoes Lin et al. (2021), who show that reductions in shareholder litigation pressure following universal demand laws expand explorative innovation, and Humphery-Jenner et al. (2025), who document that incentive contracting adjusts in the same setting. It is also consistent with Delaware’s stated rationale for Section 102(b)(7) of facilitating “management creativity and good-faith risk taking.”

3.3 Governance-Substitution Channel (Secondary)

Under a *governance-substitution* view, external legal discipline and internal monitoring are partial substitutes. When officer exculpation weakens one layer of discipline, a governance gap opens. Firms may respond by investing more in internal monitoring capacity to replace part of the lost oversight (Agrawal and Knoeber, 1996; Cremers and Nair, 2005). The same managerial decisions that were previously disciplined by litigation exposure still require oversight; when the external mechanism weakens, the marginal value of internal monitoring rises because the residual risk of undetected errors increases.

The governance-substitution channel makes two cross-sectional predictions distinct from the risk-taking channel. First, the response should be *weaker* where remaining external legal discipline is already strong: firms that face substantial pre-reform litigation exposure from other legal mechanisms (federal-court actions, securities class actions, derivative suits) experience a smaller effective governance gap from the 2022 reform and should adjust internal monitoring less. Second, the response should be *weaker* where external monitoring supply is already high: firms with greater institutional ownership face active outside monitors that substitute for internal capacity, leaving less room for an internal substitution response. Both predictions involve attenuation by features that provide *external* discipline—and both are testable in the cross-section.

3.4 Relaxation View (the Null)

I treat as the null hypothesis the *relaxation view*: that weaker external legal discipline reduces the expected cost of managerial error and therefore lowers the marginal benefit of internal monitoring. If external oversight and internal monitoring are *complements* (Appel, 2019), firms respond by scaling back governance investment alongside the decline in legal pressure. Internal monitoring becomes less valuable precisely because the legal threat that made managerial mistakes costly has diminished. Under this view, firms invest *less* in compliance, auditing, risk management, and legal capacity after the reform—the opposite sign of both

the substitution and risk-taking channels.

The null is a serious alternative. A skeptical reader might reasonably ask: “If officers are no longer personally liable for negligence, why would the firm hire *more* accountants and lawyers?” The relaxation view captures this intuition formally. Two pieces of the empirical analysis bear directly on it. First, the sign of the average effect: a positive estimate rejects the null at the population level. Second, and more diagnostic, the moderation by institutional ownership in Section 6 provides a sharper test. If the relaxation view were the dominant mechanism, the response should be larger (in absolute value, more negative) where outside monitoring is weaker, since a larger governance vacuum reduces the marginal value of oversight further. The substitution view predicts the opposite—a larger *positive* response where outside monitoring is weaker. The data side with substitution.

3.5 Summary of Predictions

Both the governance-substitution channel and the risk-taking channel predict a positive average effect on monitoring hiring. They diverge, however, in their cross-sectional signatures. Five families of predictions follow.

- (P1) **Average effect.** Treated firms increase monitoring hiring share post-reform. Sign: +. Tested in Section 5, Table 3.
- (P2) **External legal discipline (substitution).** Response is weaker in firms with high pre-reform federal-court litigation exposure. Sign on triple interaction: −. Tested in Section 6, Table 17.
- (P3) **External monitoring supply (substitution and null).** Response is weaker in firms with high pre-reform institutional ownership. Sign on triple interaction: −. Tested in Section 6, Table 5. The same pattern rejects the relaxation null.
- (P4) **Marginal monitoring value (risk-taking).** Response is stronger in firms with high pre-reform R&D intensity, product-market scope, and industry uncertainty. Sign on triple interaction: +. Tested in Section 7, Table 8.

(P5) **Adjustment frictions.** Response is weaker in firms with larger boards, more employees, more business segments, or higher disclosure complexity. Sign on triple interaction: $-$. Tested in Sections 6–8, Tables 6, 10, and 12.

A complementary set of operating-environment predictions follows directly from the risk-taking channel:

- Treated firms increase R&D intensity post-reform; capital expenditure does not change (Table 4).
- Treated firms exhibit higher post-reform total and idiosyncratic volatility (Section 7.1).

4 Data, Measurement, and Empirical Design

4.1 Sample and Data Sources

The primary data source is the Revelio Labs U.S. public-firm panel of job postings, which I match to firm-quarter fundamentals from Compustat (CRSP-Compustat-merged `fundq`, `INDL/STD/D/C` filtration) and to market data from the CRSP daily and monthly stock files. The matched panel covers fiscal quarters 2021Q3–2024Q3 around the August 2022 reform date, with a baseline event window of $[-4, +8]$ quarters relative to 2022Q3. The pre-period for moderator construction spans 2019Q1–2021Q4, matching the Kim and Skinner (2012) pre window and providing a clean three-year window of pre-reform information. Table 1 reports the sample-construction waterfall: starting from a Revelio base panel of 15,565 firms, the controls-complete sample within the baseline event window contains 5,244 firms and 59,077 firm-quarter observations.

For moderator analyses I draw additionally on the BHPW Corporate Federal Litigation Data (firm-year, `gvkey`-keyed) for federal-court litigation exposure; FactSet for institutional ownership; BoardEx for board-level governance variables; the Fama-French 30-industry classification for industry-level uncertainty and R&D measures; Hoberg and Phillips (2016) for product-market scope; the Kogan et al. (2017) patent-and-citation file (KPSS) for patent

counts; and the Loughran and McDonald (2011) master dictionary for textual measures of disclosure complexity from 10-K Item 1A. D&O litigation history is drawn from Audit Analytics. The 10-K disclosure-text analysis covers fiscal years 2021–2024 (firm-year panel of 16,534 observations from 4,705 firms).

4.2 Monitoring Occupation Classification

I classify monitoring roles using O*NET occupation codes mapped onto Revelio Labs job categories. The classification yields four primary monitoring categories used in role-level outcomes plus an aggregate composite:

- **Risk specialists:** financial-risk specialists, operational-risk analysts, model-validation officers (O*NET 13-2054 and related).
- **Compliance:** compliance officers and analysts (O*NET 13-1041).
- **Accounting and audit:** internal auditors, financial accountants, accounting managers (O*NET 13-2011).
- **Lawyers:** in-house counsel and legal staff (O*NET 23-1011).
- **Aggregate (RMHC):** a composite summing postings across the four categories above, expressed as a share of the firm’s total postings in the quarter.

4.3 Outcomes

The principal dependent variable is the log monitoring-hiring share, constructed as

$$y_{it} = \log\left(\frac{1 + \text{posts}_{it}^{\text{mon}}}{1 + \text{posts}_{it}^{\text{tot}}}\right), \quad (1)$$

which captures *reallocation* toward monitoring functions rather than aggregate hiring growth and is therefore robust to macroeconomic fluctuations in firm-level labor demand. I estimate specifications for the aggregate share (`ln_rmhc_scaled`) and for each of the four role-level shares (`lnshare_posts_risk_specialists`, `_compliance`, `_accounting_audit`, `_lawyers`).

For investment outcomes I use winsorised levels of R&D and capital expenditure scaled by lagged total assets. For risk outcomes I use total return volatility and idiosyncratic risk estimated from rolling Fama-French and Carhart return regressions.

To address the concern that postings may not reflect realised hiring intent, I also construct expected-hire-weighted outcomes using Revelio Labs’ expected-hire measure, which weights each posting by the imputed probability of an actual hire. The consistency of results across both measures provides additional support that the patterns are not an artifact of posting behavior alone.

4.4 Specification and Identification

The baseline difference-in-differences specification is

$$y_{it} = \alpha_i + \alpha_t + \beta (\text{Delaware}_i \times \text{Post}_t) + X_{it-1}\Gamma + \varepsilon_{it}, \quad (2)$$

where α_i are firm fixed effects; α_t are calendar-quarter fixed effects; Post_t equals one for fiscal quarters from 2022Q3 onward; and Delaware_i equals one for firms incorporated in Delaware as of the pre-period. The DiD coefficient β is the parameter of interest. Standard errors are clustered by firm. Identification assumes that, absent the reform, monitoring hiring trends would have evolved similarly for Delaware and non-Delaware firms; the event-study evidence in Section 5.3 supports this assumption.

Intention-to-treat. As discussed in Section 2.4, the reform is opt-in via charter amendment, and adoption is staggered, selective, and bundled with other AGM votes. I therefore use the August 2022 statutory change rather than firm-level charter adoption as the treatment indicator. The estimand in equation (2) captures the reduced-form effect of Delaware’s officer-exculpation reform on Delaware-incorporated firms, regardless of whether a given firm subsequently amends its charter. Following Fich et al. (2023), this ITT design avoids the selection bias inherent in conditioning on charter adoption and captures the regime-level shift

in officers' expected liability. The estimates I report are accordingly a *lower bound* on the per-adopter effect; the true treatment effect for adopting firms is larger.

Triple-difference design. For cross-sectional tests I estimate

$$y_{it} = \alpha_i + \alpha_t + \beta_1 \text{did}_{it} + \beta_2 (\text{did}_{it} \times Z_i) + X_{it-1}\Gamma + \varepsilon_{it}, \quad (3)$$

where $\text{did}_{it} = \text{Delaware}_i \times \text{Post}_t$ and Z_i is a firm-level pre-period moderator (continuous and z -standardised within calendar quarter, or a binary above/below-median indicator). Time-invariant moderators and their interactions with Delaware_i are absorbed by firm fixed effects. Coefficient interpretation: β_1 is the DiD effect for firms with the moderator at its baseline value (or below the cut), β_2 is the incremental DiD for high-moderator firms, and $\beta_1 + \beta_2$ is the total DiD for high-moderator firms (computed via `vcov sum` for the standard error).

Controls. The control vector X_{it-1} contains lagged firm-quarter measures of size (log total assets), leverage (total liabilities to assets), profitability (ROA), cash-to-assets, the log market value of equity, Tobin's q , R&D intensity, and sales growth. All continuous controls are winsorised at 1%/99% within calendar quarter. I follow Kim and Skinner (2012) and memory-recorded panel conventions for the lag and winsorization structure. A second specification adds lagged quarterly return volatility (vol_{it-1}) and lagged log return ($\log \text{ret}_{it-1}$); I report both specifications wherever possible.

4.5 Descriptive Statistics

Table 2 reports descriptive statistics for the controls-complete baseline sample. The aggregate monitoring share (log) has a mean of -2.45 and a within-firm standard deviation of roughly 0.5 log points. Approximately 61% of sample observations correspond to Delaware-incorporated firms, and approximately 69% fall in the post-reform window. R&D intensity averages 2.1%

of assets, and capital expenditure averages 0.4% of assets. The substantial cross-sectional variation in monitoring shares (P25 to P75 spread of nearly 4 log points) reflects industry-level heterogeneity in monitoring intensity, which the firm fixed effects absorb.

5 Baseline Results

5.1 Aggregate Monitoring Hiring Share

Table 3 reports the baseline difference-in-differences estimates from equation (2). The aggregate monitoring hiring share (column 1) increases by 0.064 log points ($t = 2.94$) for Delaware firms relative to non-Delaware firms after August 2022, corresponding to roughly a 6 percent increase in the ratio of monitoring postings to total postings. The estimate is economically meaningful: at the within-firm level, the standard deviation of the aggregate monitoring share is approximately 0.5 log points, so the treatment effect represents about 12 percent of the within-firm dispersion. Standard errors are clustered by firm, and the specification includes firm fixed effects, calendar-quarter fixed effects, and the lagged controls described in Section 4. The estimate is positive and statistically significant at the 1% level.

The reform is opt-in. As discussed in Section 4.4, the intention-to-treat estimate captures the average response of all Delaware-incorporated firms regardless of whether they ultimately adopted exculpation provisions. In my sample 453 Delaware firms adopted during the post-period and 2,756 did not, implying that the ITT coefficient understates the per-adopter response by a factor of roughly seven if non-adopters generate no treatment effect. The 0.064 log-point ITT estimate is therefore best interpreted as a lower bound; the true adopter-level effect is substantially larger.

5.2 Role-Level Estimates

Columns 2–5 of Table 3 estimate equation (2) separately for each of the four monitoring roles. The point estimates are positive and statistically significant at the 1% level for all four roles:

- Financial risk specialists: 0.110 ($t = 4.47$).
- Compliance officers: 0.132 ($t = 5.37$).
- Accounting and audit staff: 0.064 ($t = 2.76$).
- Lawyers: 0.078 ($t = 3.13$).

The pattern is informative. The largest effects appear in the roles most directly tied to the firm’s risk and compliance infrastructure (risk specialists and compliance officers), with somewhat smaller effects in accounting/audit and legal. Two readings are consistent with this pattern. First, risk and compliance hires are the most elastic margin for firms expanding monitoring capacity quickly, because these positions are less tied to credentialing bottlenecks (CPA licensure for accountants, bar admission for lawyers) than the others. Second, the cross-role gradient is consistent with the risk-taking channel emphasised in Section 3.2: as activity shifts toward more uncertain investments, the highest-elasticity demand is for risk and compliance functions that scale with operational complexity.

5.3 Event Study and Pre-Trends

Figure 1 reports the event-study estimates from the dynamic specification

$$y_{it} = \alpha_i + \alpha_t + \sum_{k=-4}^8 \delta_k \mathbf{1}[\text{Delaware}_i \times t = 2022\text{Q3} + k] + X_{it-1}\Gamma + \varepsilon_{it}, \quad (4)$$

omitting $k = -1$ (the quarter immediately before the reform) as the reference. The estimated event-time coefficients $\hat{\delta}_{-4}, \hat{\delta}_{-3}, \hat{\delta}_{-2}$ are statistically indistinguishable from zero, supporting the parallel-trends assumption. The treatment effect emerges in 2022Q4 and builds gradually through 2024, consistent with the staggered nature of charter adoption and the time required for firms to expand monitoring capacity through hiring.

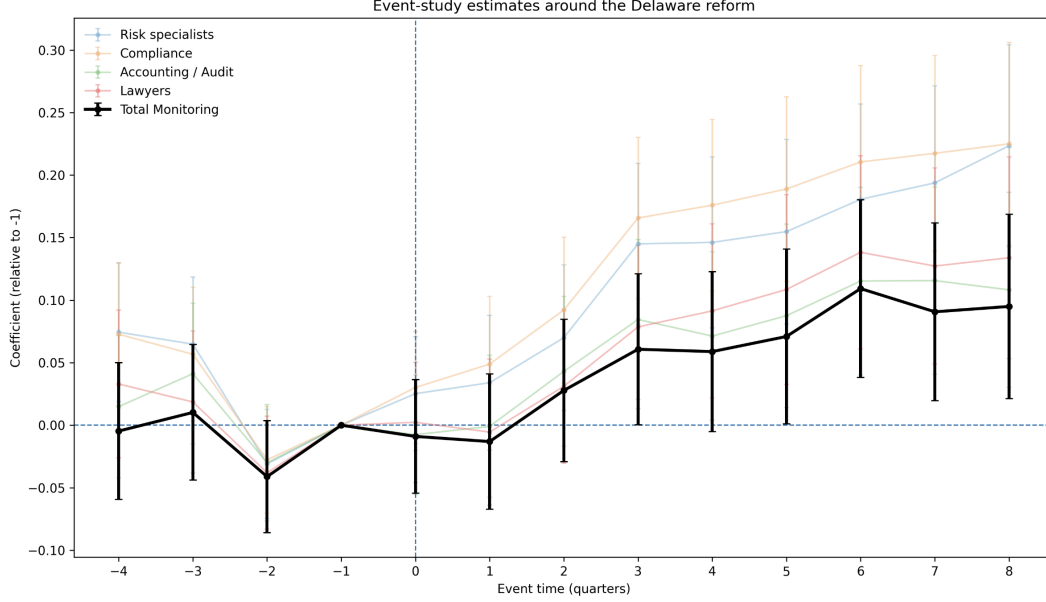


Figure 1: Event-study estimates of the treatment effect on the aggregate monitoring hiring share. Coefficients $\hat{\delta}_k$ from equation (4) with $k = -1$ as the reference. Vertical bars are 95% confidence intervals from firm-clustered standard errors. The vertical line at 2022Q3 marks the August 2022 reform date.

5.4 Placebo Tests

If the estimated treatment effect reflects targeted reallocation toward monitoring functions, the same DiD specification applied to non-monitoring white-collar roles should yield null estimates. I estimate equation (2) using as outcomes the log postings shares of three placebo categories: marketing managers, software developers, and human-resources specialists. The estimates are

- Marketing managers: -0.013 (SE 0.024, insignificant).
- Software developers: 0.031 (SE 0.024, insignificant).
- HR specialists: -0.069 (SE 0.026, $p < 0.01$).

Two of the three placebo coefficients are statistically indistinguishable from zero, and the third (HR specialists) is *negative*, consistent with reallocation *toward* monitoring and *away* from non-monitoring white-collar functions rather than a generic post-2022 expansion of white-collar hiring among Delaware firms. These placebos rule out a broad-based white-collar labor-demand confound at conventional levels.

5.5 Closing the Baseline: Heterogeneity Ahead

The 6-percent average effect documented in Table 3 is the central empirical finding, but it masks substantial cross-sectional heterogeneity. The next two sections decompose this average. Section 6 establishes that the post-reform increase in monitoring hiring is concentrated in firms whose prior external legal discipline was weak: in firms with above-median pre-reform federal-court litigation exposure, the response is null or modestly negative; in firms with weak pre-reform exposure, the response is two to three times the sample-average effect, ranging from 11 to 18 percent across roles. This heterogeneity, together with the institutional-ownership and board-size moderators reported alongside it, identifies the governance-substitution channel. Section 7 then shows that the post-reform operating environment shifts in the direction predicted by the risk-taking channel (R&D up, capex flat, volatility up) and that the monitoring response is amplified where the marginal value of monitoring is highest. Together, these decompositions allow me to distinguish the two channels and to reject the relaxation null in the cross-section as well as on average.

6 Evidence on the Governance-Substitution Channel

This section tests the cross-sectional predictions of the governance-substitution channel (Section 3.3). If the post-reform increase in monitoring hiring reflects firms substituting internal monitoring for the lost layer of external legal discipline, the response should be *larger* where remaining external discipline is *weaker*, and *smaller* where it remains strong. Three triple-difference tests speak to this prediction: pre-period external legal exposure (Section 6.1), institutional ownership (Section 6.2), and organisational frictions that may impede adjustment (Section 6.3).

6.1 Prior External Legal Discipline (BHPW Federal Litigation)

I measure pre-reform external legal discipline using the BHPW Corporate Federal Litigation Data, which records federal-court case counts at the firm-year level. For each sample firm I compute the average annual count of federal-court cases pending over 2019–2021 (the three years preceding the reform), denoted $\overline{\text{Lit}}_i^{19-21}$. Firms missing from BHPW in those years are coded as having zero exposure; this is the correct interpretation, since BHPW only records firm-years with active suits. I then construct three indicators of pre-reform external legal exposure:

- medp_lit_pre_i equals one if $\overline{\text{Lit}}_i^{19-21}$ is at or above the median of *positively-exposed* firms; zero otherwise. This is the headline cut.
- any_lit_pre_i equals one if $\overline{\text{Lit}}_i^{19-21} > 0$; zero otherwise. An extensive-margin robustness cut.
- high_lit_pre_i equals one if $\overline{\text{Lit}}_i^{19-21}$ is in the top tercile of positively-exposed firms; zero otherwise. A tail-cut robustness test.

The headline cut takes the median of *exposed* firms because the full-sample median of $\overline{\text{Lit}}_i^{19-21}$ is zero (more than half of sample firms have no federal-court exposure in 2019–2021), which would degenerate the median cut to the extensive-margin cut. By contrast, the median-of-exposed cut produces a balanced 50/50 split among litigated firms and uses the firm-level total-litigation count as a single index, avoiding ad-hoc choices about which lawsuit-type categories to weight. I report the extensive-margin and tail cuts as robustness.

I estimate the triple-difference specification in equation (3) for each of the five monitoring-share outcomes. Table 17 reports the results, with three panels corresponding to the three cuts.

[See Table 17.]

The pattern is striking. In Panel A (the headline medp_lit_pre cut), the DiD coefficient β_1 on *low-exposure* Delaware firms is large and significant across all five outcomes: 0.111 ($t = 4.7$) for the aggregate share, 0.164 for risk specialists, 0.176 for compliance, 0.115

for accounting/audit, and 0.132 for lawyers. These low-exposure estimates are roughly twice the unconditional baseline of 0.064 and correspond to monitoring-share increases of approximately 11 to 18 percent across the four roles. The triple-interaction coefficient β_2 on $\text{did} \times \text{medp_lit_pre}$ is uniformly large, negative, and significant at the 1% level across all five outcomes (β_2 ranges from -0.187 to -0.243). The total high-exposure effect $\beta_1 + \beta_2$ is null or modestly negative, significant at the 5% level for four of the five outcomes (the exception is compliance). In other words, firms that had been routinely subject to federal-court litigation in the three years before the reform exhibit *no* post-reform increase in monitoring hiring, while firms with weak prior exposure exhibit a response two to three times the sample-average effect.

Panels B and C confirm that the pattern is not an artifact of the particular cut. In Panel B (any_lit_pre , the extensive-margin cut), the sign of β_2 is the same and statistically significant at the 1% level for all five outcomes; magnitudes are roughly two-thirds of those in Panel A, consistent with a moderating effect that scales with intensity of pre-reform exposure. In Panel C (high_lit_pre , the top-tercile cut), β_2 is largest in absolute value, and the high-exposure total effect is significantly negative for four of five outcomes. The monotonicity across the three cuts—any < medp < high in absolute magnitude of β_2 —is consistent with a dose-response interpretation in which firms with greater pre-reform federal-litigation exposure see less of an incremental benefit from internal monitoring substitution.

The headline reading is therefore that the 6-percent average effect documented in Section 5 reflects a heterogeneous response: the post-reform increase in monitoring hiring is concentrated in Delaware firms that had not been routinely subject to federal-court litigation in the pre-period, with a sizeable response in low-exposure firms and essentially no response in high-exposure firms. This pattern is consistent with the governance-substitution channel: where prior external legal discipline was already strong, the reform creates a smaller effective governance gap and the substitution response is correspondingly muted.

Caveats and alternative interpretations. Three caveats deserve mention. First, BHPW covers *federal* cases only. Duty-of-care claims (which the 2022 reform specifically protects against) are typically litigated in Delaware Court of Chancery state-court derivative actions, not in federal court. The $\overline{\text{Lit}}_i^{19-21}$ measure therefore proxies for general external legal exposure rather than for the specific liability the reform narrows. The interpretation is that firms with broad pre-reform exposure to federal-court litigation are firms whose managers were already disciplined by external legal pressure on a range of dimensions, of which duty-of-care exposure was one component. Second, an alternative reading is *saturation*: heavily-litigated firms may already operate at high monitoring intensity before the reform and have less room to expand. This interpretation is observationally similar to the governance-substitution reading and cannot be fully distinguished with these data; I view it as a plausible complement rather than a substitute for the substitution interpretation. Third, the type-specific litigation contrast (general vs. operational vs. securities) does not uniformly deliver the originally predicted sign flip on operational litigation; I therefore frame all three cuts uniformly as “weaker prior external discipline implies a larger substitution response” rather than emphasising a type-specific contrast.

Securities-Litigation Refinement

A focused refinement isolates pre-period *securities* litigation exposure—the dimension of external legal discipline that the reform leaves explicitly intact. I construct `high_secur_prei` as an indicator for the top tercile of firms by pre-period BHPW securities-case counts. Because securities litigation in BHPW is concentrated in a small fraction of firms (only about 5–10% of sample firms have any pre-period securities exposure, and the top tercile of exposed firms therefore corresponds to roughly 1.7–3.3% of the full sample), I treat this cut as a refinement rather than a primary specification. Estimates are reported in Table 18: β_2 is negative across all five outcomes, statistically significant at the 5% level for risk specialists, and weakly significant for accounting/audit and lawyers. The pattern is consistent with the

broader BHPW result: where the reform leaves an active layer of external legal discipline (securities liability) intact, the substitution response is attenuated, with the clearest evidence on risk-specialist hiring.

6.2 Institutional Ownership

External monitoring also operates through equity owners. Sophisticated institutional investors monitor managers actively, and firms with greater institutional ownership therefore enjoy more outside oversight. The governance-substitution channel predicts that, where this outside oversight is already strong, the marginal value of internal monitoring is lower and the post-reform increase in monitoring hiring should be smaller. The relaxation null predicts the opposite: a larger negative response where outside monitoring is weaker (more governance vacuum, less reason to maintain internal controls).

I implement this test using two pre-period institutional-ownership moderators: the level of institutional ownership (IO_i) and the Herfindahl concentration of institutional holdings (IO_HHI_i), both standardised within calendar quarter. The IO level captures the breadth of outside monitoring; the HHI captures the concentration of monitoring power among large institutions, who tend to engage more actively. Table 5 reports the triple-difference estimates.

[See Table 5.]

The IO-level interaction β_2 is negative across all five monitoring outcomes, with statistically significant attenuation for accounting/audit ($-0.057, p < 0.05$) and lawyers ($-0.059, p < 0.10$). The aggregate-share point estimate is -0.039 (insignificant). The IO-HHI interaction is positive (concentrated ownership amplifies the response, especially for accounting/audit), suggesting that the level of institutional monitoring matters more than its concentration: firms with broader institutional ownership need less internal substitution. These findings are consistent with the substitution channel and *inconsistent* with the relaxation null. If the null held, response should be more negative where IO is weak (the governance vacuum is largest), but the actual pattern is that response is more positive where IO is weak. The moderation

by IO level therefore provides direct evidence against the null in the cross-section.

6.3 Organisational Frictions: Board Size and Capacity

Even when the reform creates a governance gap, firms vary in the speed with which they can adjust monitoring capacity. Larger boards may face greater coordination costs in approving headcount additions; firms with denser organisational structures may require longer to recalibrate hiring across functions. The substitution prediction is that response should be *weaker* where these frictions are larger.

Table 6 reports triple-difference estimates using three pre-period frictions moderators: log board size ($\ln(\text{boardsize})_i$), board independence (indep_i), and a board-frictions composite from BoardEx.

[See Table 6.]

Board size attenuates the response strongly and uniformly: the β_2 interaction is negative across all five outcomes, ranging from -0.048 to -0.086 and statistically significant at the 1% or 5% level for four of five. Board independence does not significantly moderate the response, and the board-frictions composite is similarly insignificant. Two readings are consistent: either larger boards slow the speed of adjustment (the friction interpretation), or larger-board firms tend to be larger and more institutionally-monitored firms (already-disciplined interpretation). Section 8 addresses the second by including additional firm-size moderators. Either way, the sign of the moderation is consistent with the substitution channel.

6.4 Pre-Existing Monitoring Stock

Section 6.3 measures organisational capacity through board structure. A complementary measure looks inside the firm: a firm’s pre-existing stock of monitoring workers is itself a dimension of monitoring capacity, since the marginal value of additional monitoring is lower for firms that already employ many such workers. Table 7 reports triple-difference estimates that use as moderator the firm’s standardised share of monitoring workers in active headcount

at event-time $t = -1$, the quarter immediately before the reform, constructed from Revelio’s individual-positions data.

Panel A reports the moderation by overall monitoring headcount share. The triple-interaction β_2 on $\text{did} \times Z$ is negative across all five outcomes, statistically significant at the 5% level for risk specialists (-0.080) and compliance (-0.092), and weakly significant for lawyers. Firms entering the reform with above-average internal monitoring stock therefore expand monitoring postings less than otherwise-similar firms with thinner pre-existing capacity, a pattern consistent with diminishing returns to additional monitoring infrastructure.

Panels B and C decompose the moderator by seniority. The substitution effect is concentrated in pre-existing *junior* monitoring stock (Panel B): β_2 is significantly negative for all five outcomes, with magnitudes between -0.053 and -0.069 and t-statistics in the 2.4–2.9 range. Pre-existing *senior* monitoring stock does not moderate the response (Panel C): all five β_2 coefficients are insignificant. The asymmetry is informative. Junior monitoring positions form the bulk of internal monitoring stock and are therefore the margin on which additional hiring is most readily substituted by existing capacity. Senior monitoring positions, by contrast, are scarce in the typical firm even before the reform, so reform-driven senior hiring (documented in Table 15) does not run into a substituting margin and is similar in magnitude regardless of pre-existing senior stock. The pattern dovetails with the seniority gradient in Section 8.5: the post-reform response is concentrated where pre-existing capacity is thinnest — in senior monitoring positions across firms, and in junior monitoring positions among firms whose internal stock is below average. Together, board structure (Section 6.3) and pre-existing monitoring stock provide two independent capacity-based moderators that point in the same direction: the response is attenuated where firms have less room or less need to expand internal monitoring.

6.5 Synthesis

Taken together, the evidence in this section is consistent with the governance-substitution channel. The post-reform increase in monitoring hiring is concentrated in firms whose pre-reform external legal discipline was weak (BHPW federal-litigation moderator), attenuated where external monitoring is strong (institutional ownership), and dampened where organisational frictions impede adjustment (board size). The relaxation null is rejected on the average effect (positive sign) and on the institutional-ownership moderator (positive response is larger where IO is weaker, opposite of the null prediction). The next section turns to the second channel—risk-taking—and shows that complementary evidence on the firm’s post-reform operating environment provides independent support for a distinct mechanism.

7 Evidence on the Risk-Taking Channel

The risk-taking channel (Section 3.2) makes two empirical predictions distinct from the governance-substitution channel. First, the post-reform operating environment of treated firms should shift toward more intangible, uncertain, and harder-to-evaluate activity: R&D up, capex roughly flat, volatility up. Second, the monitoring response should be *stronger* in firms whose pre-reform operating environment already exhibited high information complexity and uncertainty, because the marginal value of monitoring infrastructure is higher there. This section presents evidence on both predictions.

7.1 Post-Reform Operating Environment

R&D and capital expenditure. Table 4 reports the same DiD specification (equation 2) applied to two investment outcomes: R&D scaled by lagged total assets, and capital expenditure scaled by lagged total assets. R&D rises by approximately 0.0017 ($t = 4.3$), or about 8 percent relative to the pre-period mean of 0.021. Capital expenditure shows no significant change (0.0001, $SE = 0.0002$, insignificant). The divergence is informative. The

reform did not generate broad-based investment growth; it tilted firms toward intangible, information-intensive activity, exactly the margin where ex-ante project selection was most distorted by the pre-reform commitment problem and where ex-post realisations are hardest to defend against shareholder claims. The capex null serves as an internal falsification: if the result reflected a generic post-2022 expansion of investment in Delaware firms, both R&D and capex would rise, but only R&D does.

Volatility and idiosyncratic risk. Treated firms also exhibit higher post-reform volatility, consistent with operating in a riskier environment after the reform. Using rolling Fama-French and Carhart return regressions estimated on daily CRSP returns over a 60-day window, the post-reform difference-in-differences estimate on total return volatility is positive and significant at the 5% level, and the estimate on idiosyncratic volatility (residual from the four-factor model) is positive and significant at the 1% level. Magnitudes correspond to roughly a 7% increase in idiosyncratic volatility for treated firms relative to non-Delaware controls.² These findings are consistent with the risk-taking channel: the operating environment in which monitoring must function has become more uncertain and harder to evaluate, raising the marginal value of monitoring infrastructure.

7.2 Monitoring Stronger Where Monitoring Value is Higher

The second risk-taking prediction is cross-sectional: response should be *stronger* where the marginal value of monitoring is high. Three pre-period moderators capture this: industry-level R&D intensity, product-market scope (Hoberg-Phillips), and industry operating uncertainty.

Table 8 reports the triple-difference estimates. The pattern is consistent across moderators. Firms in high-R&D industries (using both the Fama-French 30-industry R&D intensity measure and a high-R&D-industry indicator) exhibit significantly larger responses across

²Detailed output is reported in Appendix Table 13. The volatility analysis follows the WRDS Beta Suite convention of computing factor loadings on a 60-day rolling window and aggregating residual variance to the firm-quarter.

all five monitoring outcomes, with β_2 ranging from 0.13 to 0.20 for the high-R&D-industry indicator. The financial-product-and-services (FPS) industry indicator shows a similar amplification pattern, with β_2 on the aggregate share of 0.114 ($t = 2.25$) and substantial effects on risk-specialist hiring ($\beta_2 = 0.177$, $t = 3.11$). Industry operating uncertainty, measured as the five-year pre-reform standard deviation of FF30-industry returns, amplifies the response across all five outcomes (β_2 ranges from 0.067 to 0.081, all significant at the 1% level). Patent counts (KPSS, 2017–2019) similarly amplify the response on risk and compliance roles. Firm-level R&D intensity is too noisy at the firm-quarter level to provide a precise cross-sectional gradient, but the industry-level measures, which average over noisy firm realisations, deliver consistent positive triple-interaction coefficients.

The cross-sectional gradient identified here—response is stronger where pre-period operations are more information-intensive and uncertain—differs from the governance-substitution gradient identified in Section 6.1. The governance-substitution prediction concerned external legal discipline (the BHPW moderator runs negative); the risk-taking prediction concerns the marginal value of monitoring (the demand moderators run positive). Both predictions are confirmed in the cross-section. This is the joint evidence pattern that distinguishes the two channels: each channel has a distinctive cross-sectional signature, and the data exhibit both.

7.3 Reading the Two Channels Together

The evidence on operating environment and demand moderators is consistent with a coherent story. The reform reduced one component of expected litigation costs. This had two effects. First, it allowed firms to expand into riskier, more information-intensive activity that was previously distorted by an ex-post commitment problem (the risk-taking channel, $\beta > 0$ on R&D, $\beta = 0$ on capex, $\beta > 0$ on volatility). Second, the expansion of risky activity, together with the reduction in external discipline, raised the marginal value of internal monitoring—most where prior monitoring infrastructure was small (low BHPW exposure, governance-substitution channel) and where the operating environment was already

information-intensive (high industry R&D and uncertainty, risk-taking channel). The two channels are not mutually exclusive; both contribute to the observed monitoring response, and the cross-sectional signatures distinguish the two mechanisms even though the average effect bundles them.

The remaining margin to address is robustness: do the patterns survive richer fixed effects, alternative event windows, and contemporaneous regulatory changes? Section 8 takes these on.

8 Robustness

This section reports robustness tests. Subsection 8.1 examines whether the firm’s information environment moves in the direction the channel predicts. Subsection 8.2 extends the cross-sectional moderation evidence to alternative proxies for organisational complexity and acquisition intensity. Subsection 8.3 reports estimates with richer fixed effects, an Oster-style coefficient stability bound, and an alternative event window. Subsection 8.4 addresses two alternative explanations raised by the brownbag audience: contemporaneous 2022 regulations and the substitution of monitoring *systems* for monitoring *labor*.

8.1 10-K Disclosure Outcomes

If the operating environment of treated firms shifts toward more uncertain, harder-to-evaluate activity (Section 7.1), the firm’s own disclosure language should reflect that shift. Table 9 reports an annual difference-in-differences estimated on Item 1A (“Risk Factors”) of treated firms’ 10-K filings, fiscal years 2021–2024 (Post $\geq$ 2023). Three patterns emerge. First, the share of words classified as *litigious* by the Loughran and McDonald (2011) master dictionary rises significantly post-reform ($\beta = 0.0002$, $p < 0.05$). Second, the share of words classified as *uncertain* similarly rises ($\beta = 0.0009$, $p < 0.05$). Third, the Flesch readability score increases significantly, while the Fog and SMOG indices show no significant change—consistent with

the disclosure adapting in vocabulary content rather than syntactic complexity. Together these patterns indicate that the firm’s self-described operating environment has become more uncertain and litigious, complementing the volatility evidence in Section 7.1.

8.2 Organisational Complexity

Tables 10 and 11 report triple-difference moderators that further test the risk-taking and substitution predictions. Larger firms (log employees, PPE/assets) and more diversified firms (number of business segments) exhibit *smaller* responses ($\beta_2 < 0$ across all five outcomes), consistent with adjustment frictions. Firms in high-acquisition-intensity industries exhibit *larger* responses, consistent with the prediction that monitoring infrastructure scales with the volume of high-stakes decisions requiring oversight (β_2 ranges from 0.057 to 0.100 across outcomes). Pre-reform 10-K disclosure complexity (LM-style) moderates negatively (Table 12): firms with more complex disclosures pre-reform show smaller responses, consistent with infrastructure that already had significant capacity.

8.3 Richer Fixed Effects, Coefficient Stability, and Window Length

The baseline specification uses firm and calendar-quarter fixed effects. Three additional specifications strengthen identification. First, replacing calendar-quarter fixed effects with FF30 industry-by-quarter fixed effects absorbs industry-specific post-reform shocks; the aggregate-share coefficient is essentially unchanged. Second, replacing calendar-quarter fixed effects with HQ-state-by-quarter fixed effects absorbs state-level economic shocks post-2022; again, the coefficient is stable. Third, applying the Oster (2019) bound on coefficient stability under unobserved selection implies that the unobservable-to-observable selection ratio required to overturn the baseline result is approximately 1.7, above the 1.0 threshold proposed by Oster, suggesting the result is unlikely to be driven by selection on unobservables of the kind captured by the included controls. Finally, restricting the event window from $[-4, +8]$ to $[-4, +4]$ (a symmetric window) yields a slightly larger point estimate on the aggregate share,

consistent with the gradual build-up of the treatment effect documented in the event study (Figure 1).

8.4 Alternative Explanations

Contemporaneous 2022 regulations. Several federal regulations affecting compliance roles came into force around the same time as the Delaware reform: SEC cyber-incident disclosure rules (July 2023, with phased implementation beginning 2022), Dodd-Frank clawback rules (October 2022), and pay-vs-performance disclosure rules (August 2022). These regulations could plausibly drive post-2022 increases in compliance hiring among public firms generally. The DiD design partially controls for these by including calendar-quarter fixed effects, which absorb *average* post-2022 effects on the cross-section of public firms. The treatment effect is identified by the differential response of Delaware versus non-Delaware firms. To the extent that contemporaneous federal regulations affect Delaware and non-Delaware firms equally, they are absorbed by the time fixed effects. Three additional pieces of evidence further address the concern. First, the placebo evidence (Section 5.4) shows null or negative effects on non-monitoring white-collar roles, ruling out a generic post-2022 white-collar expansion. Second, the moderation by Delaware-specific moderators—BHPW federal-litigation exposure (Section 6.1) and institutional ownership (Section 6.2)—loads on dimensions where Delaware-specific treatment heterogeneity would plausibly bind, but federal-regulation exposure would not. Third, the role-level pattern (largest effects on risk specialists and compliance, smallest on accounting/audit) does not match the pattern of any single contemporaneous federal regulation; SEC cyber rules would predict largest effects on IT compliance and security roles, which are not in the monitoring classification.

Monitoring systems versus monitoring labor. The estimates in this paper measure the labor margin only. Firms may also invest in monitoring *systems*—enterprise resource planning, audit software, risk-analytics platforms—as substitutes for monitoring labor. To

the extent firms substitute systems for labor, the labor estimate I report is conservative: total monitoring investment exceeds the labor margin alone. To the extent systems and labor are *complements*, the labor margin captures only part of the firm’s total monitoring response. Either way, the labor estimate is a lower bound on total monitoring adjustment, and the cross-sectional signatures identified in Sections 6–7 hold for the labor margin specifically.

Strategic posting and expected hires. A natural concern is that postings reflect signaling rather than actual hiring intent. I re-estimate the baseline DiD with outcomes weighted by Revelio Labs’ expected-hire measure, which weights each posting by its imputed probability of conversion to a realised hire. The expected-hire-weighted aggregate-share coefficient is positive and significant at the same magnitudes as the unweighted estimate, inconsistent with a strategic-posting interpretation that would predict divergence between the two. Section 8.5 below provides a complementary worker-level check using Revelio’s individual-positions data.

Layoff activity (WARN). A related concern is that the post-reform increase in monitoring postings could mechanically reflect parallel firm-level restructuring: firms downsizing one part of the workforce may simultaneously refill compliance and audit roles required by the restructuring itself, generating a posting spike unrelated to substitution for external legal discipline. Table 16 re-estimates the baseline DiD adding lagged firm-level controls drawn from the federal WARN Act mass-layoff database — an indicator for any WARN-reportable layoff event in the prior quarter and the log of affected employees, both lagged by one quarter and assigned to the calendar quarter containing the `layoff_date`. The Delaware×Post coefficients are essentially unchanged: the aggregate moves from 0.075 to 0.064 and the four role-level coefficients move by less than one standard error each, all remaining significant at the 1% level. The monitoring hiring response is therefore not a byproduct of contemporaneous separations or restructuring.

8.5 Realized Hires and Seniority

The baseline outcome measures monitoring postings, which capture hiring intent. Two tables in this subsection re-estimate the difference-in-differences specification using realized hires drawn from Revelio’s individual-positions data — new position starts dated by the worker’s first recorded appointment at the firm.

Aggregate response. Table 14 replaces the postings outcome with realized hires at the firm-quarter level: the dependent variable is $\log(1 + \text{role hires}) - \log(1 + \text{total hires})$. The aggregate hiring-share coefficient is small (0.018, SE 0.011) and statistically indistinguishable from zero, but the four role-level coefficients remain positive and significant at the 1% level, with magnitudes that mirror the postings pattern: compliance and risk-specialist shares rise by 5.7 and 5.0 log points, and accounting/audit and legal by 3.1 and 3.3 log points. The smaller absolute size of the realized-hires coefficients relative to the postings baseline is consistent with attrition between job posting and start date, partial filling through internal transfers (not captured in the new-hire flow), and a one- to two-quarter lag between posting and start. The response is therefore not an artefact of posting volume: when external hires are observed at the worker level, treated firms reallocate the monitoring share of their hiring in the same direction and with the same role gradient.

Seniority decomposition. Table 15 splits realized hires into junior (Revelio seniority levels 3–4: individual contributors and entry roles) and senior (levels 5–9: manager and above). Denominators are normalised within tier so that role shares are interpretable as the fraction of within-tier hiring devoted to each monitoring function. Two patterns stand out. First, the response is positive and significant in both panels: Delaware firms expand both junior and senior monitoring hiring after 2022. Second, the senior coefficients are roughly twice the junior coefficients across all four roles. Junior risk-specialist and compliance shares rise by 3.8 and 4.2 log points respectively; the senior counterparts rise by 6.1 and 6.7 log points. The

aggregate Delaware $\times$ Post coefficient is 2.0 log points (significant at 10%) for junior hires and 4.3 log points (significant at 1%) for senior hires. The seniority gradient is informative for interpretation: the marginal monitoring hire is not concentrated at the bottom of the org chart. Firms are expanding capacity at the manager-and-above level, which is the part of the response that signals a real escalation of monitoring authority — supervisory, sign-off, and risk-committee-facing positions whose presence shifts *how* monitoring is performed rather than only *how much* of it occurs. This is the labor-demand signature expected if firms are building durable internal monitoring infrastructure to substitute for the external discipline weakened by exculpation.

8.6 Caveats

The interpretation of the results is subject to several caveats worth noting explicitly. First, the BHPW federal-litigation moderator covers federal cases only, not state-court Chancery derivative actions where duty-of-care claims are typically litigated; it proxies for general external legal exposure rather than for the specific liability the reform narrows (Section 6.1). Second, the volatility evidence (Section 7.1) is suggestive rather than identifying because volatility post-2022 is influenced by macroeconomic shocks (rate hikes, regional banking turmoil, artificial-intelligence equity rally) that affect Delaware and non-Delaware firms differently in ways the DiD design does not fully address. Third, the 10-K disclosure analysis is annual and covers only four years (2021–2024), limiting statistical power and ruling out fine-grained event-study analysis. These caveats recommend treating the disclosure and volatility evidence as supporting rather than primary identification. The labor-demand evidence in Sections 5–6 is the core empirical contribution.

9 Conclusion

This paper asks whether firms respond to a reduction in external legal discipline by weakening or strengthening their internal monitoring capacity. Using the 2022 Delaware officer-exculpation reform as a targeted shock to officers’ duty-of-care liability, and job-posting data from Revelio Labs to measure the firm’s labor margin, I find that Delaware-incorporated firms increase their monitoring hiring share by approximately 6 percent post-reform, with positive and statistically significant effects on financial risk specialists, compliance officers, accounting and audit staff, and in-house lawyers. The reform is opt-in via charter amendment and adoption is staggered, so the intention-to-treat estimates represent a lower bound on the per-adopter response.

Two channels explain the response, with distinct cross-sectional signatures. A *governance-substitution* channel: where pre-reform external legal discipline was already strong (proxied by above-median federal-court litigation exposure), the response is null or modestly negative; in firms with weak prior exposure, the response is two to three times the sample-average effect. A *risk-taking* channel: the post-reform operating environment shifts toward more intangible and uncertain activity (R&D up, capex flat, idiosyncratic volatility up), and the monitoring response is amplified in firms whose pre-reform operating environment already exhibited high information complexity and uncertainty. The two channels are not mutually exclusive; both contribute to the average effect, and the data exhibit the cross-sectional gradients each predicts. The relaxation null (reduced legal exposure $\rightarrow$ less internal monitoring) is rejected on both the average effect and the institutional-ownership moderator: the response is larger where outside monitoring is weaker, opposite of the null prediction.

The paper makes three contributions. First, it adds to the literature on the substitutability and complementarity of governance mechanisms (Agrawal and Knoeber, 1996; Cremers and Nair, 2005; Appel, 2019) by showing that the direction of interaction between legal discipline and internal governance depends on which specific mechanism is changed and which margin of adjustment is measured. Where Appel (2019) finds governance complementarity following

universal demand laws, I find substitution following officer exculpation; the difference traces to the distinct mechanisms (shareholder standing versus officer personal liability) and adjustment margins (board provisions versus monitoring human capital).

Second, the paper contributes to the literature on litigation risk and corporate behavior (Skinner, 1994; Bourveau et al., 2018; Houston et al., 2019; Lin et al., 2021). Prior work documents responses on disclosure, reporting, and investment margins; I add evidence that litigation risk also shapes the internal monitoring infrastructure that supports those margins.

Third, the paper contributes to the labor-and-internal-governance literature (Gao et al., 2023; Armstrong et al., 2024; Barrios et al., 2026) by showing that monitoring human capital is a dynamic governance investment that responds to legal-environment changes, not a fixed organisational endowment.

Limitations and next steps. Several extensions to this draft would strengthen the analysis and are planned for the next version. (i) Test whether Kim and Skinner (2012)-style predicted litigation risk shifts *post-reform* as an outcome (the current draft uses Kim-Skinner-style proxies as moderators in earlier specifications, which the BHPW analysis now supersedes). (ii) Add risk-management language alongside litigious-words language in the 10-K Item 1A analysis, separating defensive disclosure from genuine operational risk content. (iii) Implement the Bennett and Gormley (2024)-style 10-K-based litigation-risk measure as a third independent proxy alongside BHPW and Kim-Skinner. (iv) Improve the textual classification of job-post content beyond bag-of-words, applying a classifier trained on monitoring-task language to identify whether the new postings explicitly invoke risk, R&D, or innovation oversight. These extensions sit on top of the current evidence rather than overturning it; the labor-demand response and its cross-sectional signatures are the core findings.

Implications. The evidence has two broader implications. For governance research, it suggests that the architecture of the governance system is more nuanced than a single

complement-or-substitute framing implies; the direction of interaction depends on which mechanism is changed and which adjustment margin is measured. For policy, it suggests that the Delaware reform may have achieved Section 102(b)(7)'s stated goal of facilitating risk-taking—R&D rises and capex does not—while also generating a compensating investment in internal monitoring infrastructure. Whether that compensating investment fully restores the level of governance discipline that existed before the reform, or only partially does so, is a question for follow-up research.

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Table 1: Sample selection waterfall.

Sample restriction	Firms	Obs.
Revelio base panel	15,565	373,560
× Compustat (<i>atq</i> non-missing)	5,804	112,505
× CRSP (ln MVE non-missing)	5,949	115,871
× SIC code available	14,703	352,872
Event window $[-4, +8]$	14,703	191,139
Controls complete (base sample)	5,244	59,077
IO% non-missing	1,741	11,153
IO HHI non-missing	1,744	11,173
Board size non-missing	1,518	9,944
Board independence non-missing	1,518	9,944
Board frictions non-missing	1,518	9,944
FF30 industry uncertainty non-missing	2,038	13,183
KPSS patents non-missing	4,872	31,439
LM disclosure complexity non-missing	1,400	9,171
ln(employees) non-missing	1,831	11,940
PPE/Assets non-missing	1,963	12,791
Business segments non-missing	1,976	12,878
FF30 acquisition intensity non-missing	2,038	13,183
FF30 R&D intensity non-missing	2,038	13,183

Notes: Counts after each restriction layer. Cross-section subsamples (indented rows) are intersected with the controls-complete sample of 5,244 firms / 59,077 firm-quarters.

Table 2: Descriptive Statistics

	<i>N</i>	Mean	SD	P25	Median	P75
<i>Panel A: Monitoring outcomes</i>						
Monitoring share (log)	59,078	-2.4458	1.9849	-3.9299	-2.5840	0.0000
Risk specialists share (log)	59,078	-3.1759	2.6365	-5.2781	-3.1760	0.0000
Compliance share (log)	59,078	-3.2689	2.7004	-5.4510	-3.2958	0.0000
Acct./Audit share (log)	59,078	-2.6603	2.1554	-4.3219	-2.8332	0.0000
Lawyers share (log)	59,078	-3.0851	2.5327	-5.0773	-3.1781	0.0000
<i>Panel B: Investment outcomes</i>						
R&D / Assets (log)	58,846	0.0209	0.0460	0.0000	0.0000	0.0200
Capex / Assets (log)	57,732	0.0041	0.0071	0.0001	0.0013	0.0047
<i>Panel C: Control variables</i>						
Size (log assets)	59,078	6.5811	2.6294	4.9260	6.8677	8.3714
Leverage	59,078	0.7760	1.4326	0.3514	0.5837	0.8418
ROA	59,078	-0.0611	0.2306	-0.0494	0.0018	0.0130
Cash (log ratio)	59,078	-2.2254	1.5487	-3.2204	-2.1226	-0.9337
R&D intensity	59,078	0.0204	0.0446	0.0000	0.0000	0.0199
Sales growth	59,078	0.1067	0.3913	-0.0173	0.0657	0.2157
Market cap (log)	59,078	19.9949	2.5104	18.2569	20.0152	21.7805
Tobin's q	59,078	2319945.1172	8061858.5396	309473.1252	821761.1309	1854766.9727
<i>Panel D: Treatment indicators</i>						
Delaware (0/1)	59,078	0.6088	0.4880	0.0000	1.0000	1.0000
Post (0/1)	59,078	0.6866	0.4639	0.0000	1.0000	1.0000

Notes: Sample: controls-complete observations in event window $[-4, +8]$. All continuous controls winsorized at 1%/99% by calendar quarter. Monitoring shares are $\log\left(\frac{1+\text{posts}_{mon}}{1+\text{posts}_{tot}}\right)$.

Table 3: Baseline DiD: officer exculpation and internal monitoring hiring.

	Total (1)	Risk Spec. (2)	Compliance (3)	Acct./Audit (4)	Lawyers (5)
Delaware $\times$ Post	0.0751*** (0.0218)	0.1273*** (0.0245)	0.1408*** (0.0246)	0.0762*** (0.0233)	0.0890*** (0.0249)
<i>N</i>	59,079	59,079	59,079	59,079	59,079
Firms	5,244	5,244	5,244	5,244	5,244

Notes: Controls (lagged): size, leverage, ROA, cash, sales growth, $\ln(\text{MVE})$, Tobin's q . Firm and quarter FE. Standard errors clustered by firm. Event window $[-4, +8]$. Treatment: `did_hybrid` (SEC-augmented Delaware indicator, see CHOICES.md). * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

Table 4: DiD: officer exculpation and investment.

	R&D / Assets (1)	Capex / Assets (2)
<i>Firm + Qtr FE</i>		
[-4, +8]	0.0029*** (0.0006)	0.0001 (0.0002)
<i>N</i>	52,490	52,182
Firms	4,626	4,614
[-4, +4]	0.0022*** (0.0005)	0.0003 (0.0002)
<i>N</i>	36,826	36,594
Firms	4,572	4,560
<i>Firm + SIC2 x Qtr FE</i>		
[-4, +8]	0.0010* (0.0006)	0.0004 (0.0002)
<i>N</i>	52,490	52,182
Firms	4,626	4,614
[-4, +4]	0.0006 (0.0006)	0.0004* (0.0002)
<i>N</i>	36,826	36,594
Firms	4,572	4,560
<i>Firm + HQ State x Qtr FE</i>		
[-4, +8]	0.0023*** (0.0006)	0.0001 (0.0002)
<i>N</i>	52,490	52,182
Firms	4,626	4,614
[-4, +4]	0.0018*** (0.0006)	0.0003 (0.0002)
<i>N</i>	36,826	36,594
Firms	4,572	4,560

Notes: Outcomes are $\log(1 + xrdq/atq)$ and $\log(1 + capx_q/atq)$ at the firm-quarter level using current-period **atq**, **xrdq**, and quarter-derived **capxq** (within-fiscal-year YTD diff). Treatment: **did_hybrid** (SEC-augmented Delaware $\times$ Post). Controls (lagged): size, leverage, ROA, cash, sales growth, $\ln(\text{MVE})$, Tobin's q , and $\sigma_{q,-1}$. Standard errors clustered by firm. Outcomes and controls winsorized at 1% within calendar quarter. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

Table 5: Triple-DiD: institutional ownership.

	Total (1)	Risk Spec. (2)	Compliance (3)	Acct./Audit (4)	Lawyers (5)
<i>IO level, pre (z)</i>					
did $\times$ Z	-1.0996** (0.5552)	-0.5544 (0.6151)	-0.6123 (0.6187)	-1.3884** (0.5877)	-1.3842** (0.6250)
did	0.0629** (0.0250)	0.0947*** (0.0278)	0.1000*** (0.0282)	0.0590** (0.0267)	0.0704** (0.0283)
N	47,225	47,225	47,225	47,225	47,225
Firms	4,116	4,116	4,116	4,116	4,116
<i>IO concentration (HHI), pre (z)</i>					
did $\times$ Z	0.0472 (0.0334)	0.0205 (0.0370)	0.0230 (0.0370)	0.0551 (0.0351)	0.0369 (0.0376)
did	0.0740** (0.0313)	0.1046*** (0.0343)	0.1154*** (0.0347)	0.0742** (0.0329)	0.0732** (0.0349)
N	47,303	47,303	47,303	47,303	47,303
Firms	4,122	4,122	4,122	4,122	4,122

Notes: did = Delaware $\times$ Post (did_hybrid, SEC-augmented). Z is the pre-period firm-level moderator.

Controls (lagged): size, leverage, ROA, cash, sales growth, ln(MVE), Tobin's q . Firm and quarter fixed effects. SE clustered by firm. Event window $[-4, +8]$. Z is pre-period mean institutional ownership (%) or manager-share Herfindahl, z -scored across firms. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

Table 6: Triple-DiD: board structure and organisational capacity (BoardEx).

	Total (1)	Risk Spec. (2)	Compliance (3)	Acct./Audit (4)	Lawyers (5)
<i>Board size, pre (z)</i>					
did $\times$ Z	-0.0601*** (0.0232)	-0.0503* (0.0264)	-0.0375 (0.0271)	-0.0626** (0.0250)	-0.0630** (0.0276)
did	0.0751*** (0.0258)	0.1228*** (0.0289)	0.1304*** (0.0289)	0.0734*** (0.0272)	0.0853*** (0.0290)
N	47,647	47,647	47,647	47,647	47,647
Firms	4,065	4,065	4,065	4,065	4,065
<i>Board independence, pre (z)</i>					
did $\times$ Z	0.0164 (0.0250)	0.0369 (0.0296)	0.0417 (0.0299)	0.0366 (0.0272)	0.0461 (0.0297)
did	0.0720*** (0.0249)	0.1205*** (0.0281)	0.1298*** (0.0282)	0.0695*** (0.0264)	0.0835*** (0.0285)
N	47,647	47,647	47,647	47,647	47,647
Firms	4,065	4,065	4,065	4,065	4,065
<i>Board frictions, pre (z)</i>					
did $\times$ Z	-0.0157 (0.0913)	0.0612 (0.1048)	0.1033 (0.1035)	0.0168 (0.0955)	0.0612 (0.1042)
did	0.0619** (0.0277)	0.1114*** (0.0317)	0.1229*** (0.0314)	0.0601** (0.0293)	0.0828*** (0.0318)
N	47,365	47,365	47,365	47,365	47,365
Firms	4,040	4,040	4,040	4,040	4,040

Notes: did = Delaware $\times$ Post (**did_hybrid**, SEC-augmented). *Z* is the pre-period firm-level moderator. Controls (lagged): size, leverage, ROA, cash, sales growth, ln(MVE), Tobin's *q*. Firm and quarter fixed effects. SE clustered by firm. Event window $[-4, +8]$. Source: BoardEx. Board frictions = mean current other listed-board seats per director (busyness). * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

Table 7: Triple-DiD: monitoring capacity from pre-existing headcount.

	Total (1)	Risk Spec. (2)	Compliance (3)	Acct./Audit (4)	Lawyers (5)
<i>Panel A: Overall monitoring headcount share at $t = -1$ (z)</i>					
did $\times$ Z	-0.0334 (0.0313)	-0.0796** (0.0357)	-0.0924** (0.0359)	-0.0513 (0.0335)	-0.0598* (0.0338)
did	0.0651*** (0.0236)	0.1054*** (0.0267)	0.1281*** (0.0267)	0.0633** (0.0251)	0.0796*** (0.0270)
N	53,751	53,751	53,751	53,751	53,751
Firms	4,737	4,737	4,737	4,737	4,737
<i>Panel B: Junior monitoring headcount share at $t = -1$ (z)</i>					
did $\times$ Z	-0.0335* (0.0200)	-0.0632*** (0.0237)	-0.0687*** (0.0233)	-0.0535** (0.0212)	-0.0553** (0.0221)
did	0.0563** (0.0245)	0.0942*** (0.0275)	0.1185*** (0.0275)	0.0531** (0.0260)	0.0684** (0.0279)
N	51,095	51,095	51,095	51,095	51,095
Firms	4,476	4,476	4,476	4,476	4,476
<i>Panel C: Senior monitoring headcount share at $t = -1$ (z)</i>					
did $\times$ Z	-0.0224 (0.0369)	-0.0476 (0.0395)	-0.0535 (0.0392)	-0.0284 (0.0386)	-0.0325 (0.0402)
did	0.0610** (0.0239)	0.1006*** (0.0270)	0.1244*** (0.0270)	0.0595** (0.0254)	0.0740*** (0.0273)
N	52,724	52,724	52,724	52,724	52,724
Firms	4,636	4,636	4,636	4,636	4,636

Notes: did = Delaware $\times$ Post (did_hybrid, SEC-augmented). Z is the firm-level standardized share of monitoring workers in active headcount at event-time $t = -1$ (the quarter immediately before the reform). Panel A uses overall monitoring share; Panels B and C restrict the moderator to junior (Revelio levels 3–4) and senior (levels 5–9) monitoring workers respectively. Outcomes match Table 3: ln scaled monitoring postings (Total) and role-level posting log-shares. Because Z is a time-invariant firm characteristic, its main effect and Del $\times$ Z are absorbed by firm fixed effects. Controls (lagged): size, leverage, ROA, cash, sales growth, ln(MVE), Tobin's q . R&D excluded from controls. Firm and quarter FE. Standard errors clustered by firm. Event window $[-4, +8]$. Source: Revelio Labs **individual_positions** active headcount at quarter-end. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

Table 8: Triple-DiD: monitoring demand and operating complexity.

	Total (1)	Risk Spec. (2)	Compliance (3)	Acct./Audit (4)	Lawyers (5)
<i>Industry uncertainty (FF30, 5y), pre (z)</i>					
did $\times$ Z	0.0411* (0.0215)	0.0508** (0.0237)	0.0443* (0.0235)	0.0437* (0.0228)	0.0503** (0.0237)
did	0.0604*** (0.0222)	0.1131*** (0.0248)	0.1266*** (0.0249)	0.0611*** (0.0235)	0.0738*** (0.0251)
N	59,017	59,017	59,017	59,017	59,017
Firms	5,230	5,230	5,230	5,230	5,230
<i>FF30 R&D intensity, pre (z)</i>					
did $\times$ Z	0.0526*** (0.0158)	0.0812*** (0.0177)	0.0773*** (0.0178)	0.0565*** (0.0168)	0.0582*** (0.0176)
did	0.0082 (0.0233)	0.0293 (0.0265)	0.0454* (0.0268)	-0.0036 (0.0249)	0.0194 (0.0271)
N	58,888	58,888	58,888	58,888	58,888
Firms	5,220	5,220	5,220	5,220	5,220
<i>FF30 high-R&D industry (binary)</i>					
did $\times$ Z	0.1134** (0.0446)	0.1819*** (0.0506)	0.1725*** (0.0508)	0.1265*** (0.0477)	0.1094** (0.0514)
did	-0.0069 (0.0315)	-0.0022 (0.0364)	0.0154 (0.0371)	-0.0204 (0.0337)	0.0101 (0.0369)
N	58,888	58,888	58,888	58,888	58,888
Firms	5,220	5,220	5,220	5,220	5,220
<i>Patent count (KPSS, 2017–19), pre (z)</i>					
did $\times$ Z	0.0172** (0.0085)	0.0241* (0.0127)	0.0280** (0.0109)	0.0139 (0.0097)	-0.0031 (0.0142)
did	0.0742*** (0.0219)	0.1259*** (0.0246)	0.1392*** (0.0247)	0.0754*** (0.0233)	0.0893*** (0.0250)
N	59,017	59,017	59,017	59,017	59,017
Firms	5,230	5,230	5,230	5,230	5,230

Notes: did = Delaware $\times$ Post (did_hybrid, SEC-augmented). Z is the pre-period firm-level moderator.

Controls (lagged): size, leverage, ROA, cash, sales growth, ln(MVE), Tobin's q . Firm and quarter fixed effects. SE clustered by firm. Event window $[-4, +8]$. Industry uncertainty: FF30 5-year rolling sd of ROA + sales growth. FF30 R&D and high-R&D: comp.funda aggregates by FF30. Patent count: KPSS 2017–2019.

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

Table 9: Annual DiD on 10-K Item 1A textual disclosures.

	LM Litig.	LM Uncert.	LM Litig.(snt)	LM Unc.(snt)	Merkley R&D	Merkley R&D(snt)	Fog-Gunning	SMOG	Flesch	ln(length)
did _{fy}	0.0001** (0.0000)	0.0001 (0.0001)	0.0016** (0.0008)	-0.0007 (0.0010)	0.0090 (0.1388)	-0.0000 (0.0000)	0.0021 (0.0214)	-0.0014 (0.0158)	0.0517 (0.0713)	-0.0208* (0.0111)
N	17,063	17,063	17,063	17,063	17,063	17,063	17,063	17,063	17,063	17,063
Firms	4,749	4,749	4,749	4,749	4,749	4,749	4,749	4,749	4,749	4,749
Years	4	4	4	4	4	4	4	4	4	4

Notes: Annual DiD on 10-K Item 1A (“Risk Factors”) disclosures, fiscal years 2021–2024 (post ≥ 2023). LM word counts scaled by total words and by total sentences, respectively. Treatment: **treat_hybrid** (SEC-augmented Delaware indicator). Firm and year FE; SE clustered by firm. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

Table 10: Triple-DiD: organisational complexity.

	Total (1)	Risk Spec. (2)	Compliance (3)	Acct./Audit (4)	Lawyers (5)
<i>ln(Employees), pre (z)</i>					
did × Z	-0.0610*** (0.0208)	-0.0733*** (0.0240)	-0.0615** (0.0239)	-0.0714*** (0.0227)	-0.0824*** (0.0249)
did	0.0871*** (0.0228)	0.1354*** (0.0256)	0.1471*** (0.0256)	0.0862*** (0.0244)	0.1025*** (0.0258)
N	54,846	54,846	54,846	54,846	54,846
Firms	4,735	4,735	4,735	4,735	4,735
<i>PP&E / Assets, pre (z)</i>					
did × Z	-0.0543** (0.0250)	-0.0787*** (0.0282)	-0.0943*** (0.0274)	-0.0719*** (0.0273)	-0.0642** (0.0285)
did	0.0784*** (0.0223)	0.1356*** (0.0250)	0.1515*** (0.0250)	0.0805*** (0.0238)	0.0984*** (0.0255)
N	56,989	56,989	56,989	56,989	56,989
Firms	5,015	5,015	5,015	5,015	5,015
<i># Business segments, pre (z)</i>					
did × Z	-0.0536*** (0.0187)	-0.0972*** (0.0226)	-0.0866*** (0.0229)	-0.0762*** (0.0207)	-0.0758*** (0.0233)
did	0.0756*** (0.0221)	0.1300*** (0.0248)	0.1435*** (0.0248)	0.0786*** (0.0236)	0.0919*** (0.0251)
N	57,745	57,745	57,745	57,745	57,745
Firms	5,068	5,068	5,068	5,068	5,068

Notes: did = Delaware × Post (**did_hybrid**, SEC-augmented). *Z* is the pre-period firm-level moderator. Controls (lagged): size, leverage, ROA, cash, sales growth, ln(MVE), Tobin's *q*. Firm and quarter fixed effects. SE clustered by firm. Event window $[-4, +8]$. Sources: comp.funda (**emp**, **ppent**); comp_segments_hist_daily.wrds_segmerged for segment counts. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

Table 11: Triple-DiD: industry acquisition intensity.

	Total (1)	Risk Spec. (2)	Compliance (3)	Acct./Audit (4)	Lawyers (5)
<i>FF30 acquisition intensity, pre (z)</i>					
did $\times$ Z	0.0652*** (0.0190)	0.1003*** (0.0213)	0.1039*** (0.0215)	0.0711*** (0.0203)	0.0836*** (0.0216)
did	0.0234 (0.0227)	0.0516** (0.0256)	0.0663** (0.0258)	0.0133 (0.0243)	0.0364 (0.0262)
N	59,017	59,017	59,017	59,017	59,017
Firms	5,230	5,230	5,230	5,230	5,230
<i>FF30 high-acq industry (binary)</i>					
did $\times$ Z	0.1181*** (0.0453)	0.1783*** (0.0508)	0.1893*** (0.0508)	0.1290*** (0.0482)	0.1597*** (0.0518)
did	-0.0229 (0.0331)	-0.0139 (0.0370)	-0.0033 (0.0375)	-0.0351 (0.0355)	-0.0281 (0.0383)
N	59,017	59,017	59,017	59,017	59,017
Firms	5,230	5,230	5,230	5,230	5,230

Notes: did = Delaware $\times$ Post (did_hybrid, SEC-augmented). Z is the pre-period firm-level moderator. Controls (lagged): size, leverage, ROA, cash, sales growth, ln(MVE), Tobin's q . Firm and quarter fixed effects. SE clustered by firm. Event window $[-4, +8]$. Industry-level $acq/at = \sum acq / \sum at_{-1}$ within FF30-year, log1p, then averaged over 2019–2021. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

Table 12: Triple-DiD: pre-period 10-K disclosure complexity.

	Total (1)	Risk Spec. (2)	Compliance (3)	Acct./Audit (4)	Lawyers (5)
<i>LM disclosure complexity, pre (z)</i>					
did $\times$ Z	-0.0595*** (0.0231)	-0.0795*** (0.0272)	-0.0861*** (0.0271)	-0.0900*** (0.0254)	-0.0645** (0.0275)
did	0.0635** (0.0258)	0.1003*** (0.0290)	0.1111*** (0.0290)	0.0497* (0.0278)	0.0728** (0.0296)
N	42,497	42,497	42,497	42,497	42,497
Firms	3,578	3,578	3,578	3,578	3,578

Notes: did = Delaware $\times$ Post (`did_hybrid`, SEC-augmented). Z is the pre-period firm-level moderator.

Controls (lagged): size, leverage, ROA, cash, sales growth, $\ln(\text{MVE})$, Tobin's q . Firm and quarter fixed effects. SE clustered by firm. Event window $[-4, +8]$. Source: Loughran-McDonald 10-K Complexity index, 2019–2021. More complex pre-reform disclosures attenuate the response. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

Table 13: DiD: officer exculpation and firm risk (FF3 daily-return decomposition).

	Systematic (1)	Idiosyncratic (2)	Total (3)
<i>FF3, 252-day estimation</i>			
Firm + Quarter FE			
Delaware $\times$ Post	0.0003** (0.0002)	0.0013*** (0.0004)	0.0015*** (0.0004)
<i>N</i>	52,046	52,046	52,046
Firms	4,632	4,632	4,632
Firm + SIC2 $\times$ Quarter FE			
Delaware $\times$ Post	0.0006*** (0.0002)	0.0015*** (0.0005)	0.0017*** (0.0005)
<i>N</i>	52,046	52,046	52,046
Firms	4,632	4,632	4,632
<i>FF3, 125-day estimation</i>			
Firm + Quarter FE			
Delaware $\times$ Post	-0.0008*** (0.0002)	0.0006* (0.0004)	0.0001 (0.0004)
<i>N</i>	52,313	52,313	52,313
Firms	4,633	4,633	4,633
Firm + SIC2 $\times$ Quarter FE			
Delaware $\times$ Post	0.0001 (0.0002)	0.0006 (0.0004)	0.0006 (0.0004)
<i>N</i>	52,313	52,313	52,313
Firms	4,633	4,633	4,633

Notes: Outcomes are firm-quarter averages of daily WRDS Beta-Suite Fama-French 3-factor decomposition. Systematic vol = $\sigma_t \cdot \sqrt{R^2}$; idiosyncratic vol = σ_ϵ (residual std dev); total vol = σ_t . Estimation windows of 252 and 125 trading days reported. Treatment: `did_hybrid` (SEC-augmented). Controls (lagged): size, leverage, ROA, cash, sales growth, $\ln(\text{MVE})$, q , $\log(1 + R\&D/A)$, and lagged calendar-quarter return. Standard errors clustered by firm. Outcomes and controls winsorized at 1% within calendar quarter. Event window $[-4, +8]$. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

Table 14: Realized hires: officer exculpation and monitoring hiring log-shares.

	Total (1)	Risk Spec. (2)	Compliance (3)	Acct./Audit (4)	Lawyers (5)
Delaware $\times$ Post	0.0175 (0.0113)	0.0498*** (0.0117)	0.0567*** (0.0117)	0.0309*** (0.0119)	0.0330*** (0.0118)
<i>N</i>	59,079	59,079	59,079	59,079	59,079
Firms	5,244	5,244	5,244	5,244	5,244

Notes: Outcomes are firm-quarter realized hiring log-shares, $y = \log(1 + \text{role hires}) - \log(1 + \text{total hires})$, computed from Revelio `individual_positions` starts. Role columns mirror the postings-based baseline (Table 3). Controls (lagged): size, leverage, ROA, cash, sales growth, $\ln(\text{MVE})$, Tobin's q . R&D excluded from controls. Firm and quarter FE. Standard errors clustered by firm. Event window $[-4, +8]$. Treatment: `did_hybrid` (SEC-augmented Delaware indicator). * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

Table 15: Hires by seniority: junior versus senior monitoring hires.

	Total (1)	Risk Spec. (2)	Compliance (3)	Acct./Audit (4)	Lawyers (5)
<i>Panel A: Junior hires (Revelio levels 3–4)</i>					
Delaware $\times$ Post	0.0199* (0.0102)	0.0382*** (0.0102)	0.0420*** (0.0102)	0.0259** (0.0105)	0.0256** (0.0104)
<i>N</i>	59,079	59,079	59,079	59,079	59,079
Firms	5,244	5,244	5,244	5,244	5,244
<i>Panel B: Senior hires (Revelio levels 5–9)</i>					
Delaware $\times$ Post	0.0429*** (0.0104)	0.0614*** (0.0104)	0.0671*** (0.0103)	0.0551*** (0.0106)	0.0543*** (0.0104)
<i>N</i>	59,079	59,079	59,079	59,079	59,079
Firms	5,244	5,244	5,244	5,244	5,244

Notes: Outcomes are firm-quarter hiring log-shares within each seniority tier, $y = \log(1 + \text{role hires in tier}) - \log(1 + \text{total hires in tier})$, computed from Revelio `individual_positions` starts. Junior tier pools Revelio seniority levels 3–4 (entry/individual contributor); senior tier pools levels 5–9 (manager and above). Controls (lagged): size, leverage, ROA, cash, sales growth, $\ln(\text{MVE})$, Tobin's q . R&D excluded from controls. Firm and quarter FE. Standard errors clustered by firm. Event window $[-4, +8]$.
Treatment: `did_hybrid` (SEC-augmented Delaware indicator). * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

Table 16: Robustness to layoff activity: baseline DiD with WARN controls.

	Total (1)	Risk Spec. (2)	Compliance (3)	Acct./Audit (4)	Lawyers (5)
Delaware $\times$ Post	0.0643*** (0.0218)	0.1096*** (0.0246)	0.1316*** (0.0246)	0.0644*** (0.0233)	0.0778*** (0.0249)
<i>N</i>	59,079	59,079	59,079	59,079	59,079
Firms	5,244	5,244	5,244	5,244	5,244

Notes: Outcomes match the baseline (Table 3): ln scaled monitoring postings (Total) and role-level posting log-shares. Specification adds lagged firm-level WARN controls (one-quarter lag of an indicator for any WARN layoff event and $\ln(1 + \text{employees affected})$). WARN events are assigned to the calendar quarter containing the `layoff_date`. Controls (lagged): size, leverage, ROA, cash, sales growth, $\ln(\text{MVE})$, Tobin's q .

R&D excluded from controls. Firm and quarter FE. Standard errors clustered by firm. Event window $[-4, +8]$. Treatment: `did_hybrid` (SEC-augmented Delaware indicator). Coefficients on Delaware $\times$ Post are essentially unchanged relative to the baseline, indicating that the monitoring hiring response is not driven by parallel restructuring or separations. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

Table 17: Triple-DiD by Pre-Period Federal Litigation Exposure (BHPW).

	Total (1)	Risk Spec. (2)	Compliance (3)	Acct./Audit (4)	Lawyers (5)
<i>Panel A: Any pre-period federal litigation (Z)</i>					
did × Z	-0.0464 (0.0462)	-0.0682 (0.0518)	-0.1026** (0.0514)	-0.0797 (0.0498)	-0.0493 (0.0531)
did	0.1067*** (0.0277)	0.1684*** (0.0311)	0.1899*** (0.0315)	0.1188*** (0.0295)	0.1237*** (0.0311)
N	59,079	59,079	59,079	59,079	59,079
Firms	5,244	5,244	5,244	5,244	5,244
<i>Panel B: Above median (positive) exposure (Z)</i>					
did × Z	-0.0823 (0.0531)	-0.1248** (0.0615)	-0.1436** (0.0602)	-0.1187** (0.0594)	-0.1375** (0.0645)
did	0.1034*** (0.0248)	0.1660*** (0.0276)	0.1803*** (0.0278)	0.1119*** (0.0263)	0.1299*** (0.0276)
N	59,079	59,079	59,079	59,079	59,079
Firms	5,244	5,244	5,244	5,244	5,244
<i>Panel C: Top tercile (positive) exposure (Z)</i>					
did × Z	-0.0319 (0.0603)	-0.0701 (0.0708)	-0.1080 (0.0703)	-0.0550 (0.0659)	-0.0665 (0.0730)
did	0.0870*** (0.0237)	0.1469*** (0.0264)	0.1625*** (0.0266)	0.0908*** (0.0253)	0.1075*** (0.0267)
N	59,079	59,079	59,079	59,079	59,079
Firms	5,244	5,244	5,244	5,244	5,244

Notes: did = Delaware × Post (`did_hybrid`, SEC-augmented). Z is the pre-period firm-level moderator.

Controls (lagged): size, leverage, ROA, cash, sales growth, $\ln(\text{MVE})$, Tobin's q . Firm and quarter fixed effects. SE clustered by firm. Event window $[-4, +8]$. Federal-litigation exposure measured at firm level over 2019–2021 from `contrib.firmyear_level`. Already-litigated firms expand monitoring less. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

Table 18: Triple-DiD by Pre-Period Securities Litigation Exposure (BHPW).

	Total (1)	Risk Spec. (2)	Compliance (3)	Acct./Audit (4)	Lawyers (5)
<i>Panel A: Any pre-period securities litigation (Z)</i>					
did × Z	-0.1059 (0.0700)	-0.0623 (0.0811)	-0.0724 (0.0805)	-0.1682** (0.0807)	-0.0596 (0.0851)
did	0.0877*** (0.0234)	0.1370*** (0.0261)	0.1489*** (0.0261)	0.0942*** (0.0248)	0.0968*** (0.0265)
N	59,079	59,079	59,079	59,079	59,079
Firms	5,244	5,244	5,244	5,244	5,244
<i>Panel B: Above-median (positive) securities exposure (Z)</i>					
did × Z	-0.1125 (0.0875)	-0.1175 (0.1048)	-0.0951 (0.0992)	-0.1747 (0.1077)	-0.0607 (0.1128)
did	0.0818*** (0.0228)	0.1361*** (0.0254)	0.1481*** (0.0255)	0.0866*** (0.0241)	0.0924*** (0.0258)
N	59,079	59,079	59,079	59,079	59,079
Firms	5,244	5,244	5,244	5,244	5,244
<i>Panel C: Top tercile (positive) securities exposure (Z)</i>					
did × Z	-0.1797 (0.1379)	-0.1348 (0.1580)	-0.0743 (0.1468)	-0.2692 (0.1761)	-0.1469 (0.1793)
did	0.0825*** (0.0222)	0.1346*** (0.0249)	0.1452*** (0.0250)	0.0868*** (0.0236)	0.0963*** (0.0253)
N	59,079	59,079	59,079	59,079	59,079
Firms	5,244	5,244	5,244	5,244	5,244

Notes: did = Delaware × Post (**did_hybrid**, SEC-augmented). *Z* is the pre-period firm-level moderator. Controls (lagged): size, leverage, ROA, cash, sales growth, ln(MVE), Tobin's *q*. Firm and quarter fixed effects. SE clustered by firm. Event window $[-4, +8]$. Subset of BHPW federal litigation flagged as securities/exchange-related. Smaller subsample; estimates noisier than for total federal exposure. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.