

Breaking with Shareholder Primacy: VC Investment in PBCs

Jun Chen Filippo Mezzanotti*

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Abstract

This paper studies venture capital (VC) investments in public benefit corporations (PBCs), a novel Delaware corporate form that allows firms to pursue social objectives alongside profit. Using newly assembled data on the universe of Delaware PBCs, we find that PBCs raise VC funding at twice the rate of traditional corporations. This pattern partially reflects pro-social preferences among VCs: investment in PBCs rises when VCs raise impact-oriented funds and falls after state-level anti-ESG policies constrain LP preferences. These results suggest that benefit corporation status can serve as a contracting device that facilitates alignment between mission-driven entrepreneurs and investors with non-pecuniary preferences.

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“The for-profit is now a public benefit corporation, called OpenAI Group PBC, which—unlike a conventional corporation—is required to advance its stated mission and consider the broader interests of all stakeholders... This recapitalization provides OpenAI Group with the structure to raise capital...while maintaining the strongest representation of mission-focused governance in the industry today.” — OpenAI

1 Introduction

Shareholder primacy—the principle that corporate executives should manage firms to maximize shareholder value—has long been the prevailing norm in corporate America. Although its precise legal requirements remain contested (e.g., [Stout, 2012](#); [Rhee, 2017](#)), economists since [Friedman \(1970\)](#) have embraced shareholder primacy as not merely a legal standard but a normatively desirable way to organize corporate activity (e.g., [Sundaram and Inkpen, 2004](#)). Two recent developments, however, have renewed interest in this question. First, a growing movement within the business community advocates greater attention to environmental and societal outcomes,¹ manifested prominently in the rise of ESG investing ([Giglio et al., 2025](#)). Second, economists have renewed their attention to the appropriate objective function for the firm (e.g., [Hart and Zingales, 2017](#); [De Bettignies and Robinson, 2018](#)).

Within this debate, benefit corporations stand out as an important legal innovation. As of 2024, nearly 40 U.S. states, including all major states such as California, New York, Texas, and Florida, had authorized their own benefit corporation form. Although the specific provisions vary, this incorporation form generally grants managers legal discretion to pursue social or environmental objectives alongside profit, thereby relaxing traditional shareholder primacy. A natural question is: Does such relaxation *impede* access to capital? Pursuing non-shareholder interests may come at the expense of shareholders, and allowing multiple mandates may also create ambiguity around managerial objectives and weaken accountability

¹ For example, see the Business Roundtable’s 2019 statement on “An Economy That Serves All Americans”: <https://www.businessroundtable.org/business-roundtable-redefines-the-purpose-of-a-corporation-to-promote-an-economy-that-serves-all-americans>.

([Jensen, 2001](#)), thereby deterring external financing. If it makes fundraising sufficiently difficult, the new corporate form may prove irrelevant: few high-impact firms would adopt it.

We address this question by studying *public benefit corporations* in Delaware, the leading state of incorporation for high-growth and large U.S. firms. Delaware introduced its own version of the benefit corporation—the Public Benefit Corporation (PBC)—in 2013. The PBC framework is the first new corporate form created in the state in more than two decades.² The PBC statute explicitly embeds social objectives into the corporate charter alongside profit maximization. Unlike traditional corporations, whose directors owe fiduciary duties solely to shareholders, public benefit corporations require managers to balance shareholder interests with specified public benefits. These firms remain profit-seeking, but their directors are legally permitted to trade off financial returns against the social or environmental goals designated at incorporation. Delaware does not mandate third-party certification or public disclosure, granting managers broad discretion in balancing financial and non-financial goals, but does require periodic “benefit reports” to shareholders.

The central concern with the PBC form is that relaxing shareholder primacy may hinder external financing. As discussed above, by permitting directors to pursue non-financial goals, the PBC framework weakens the obligation to maximize shareholder value, potentially lowering expected returns and raising the cost of capital. Expanding managerial discretion further complicates monitoring and accountability, heightening agency problems ([Jensen, 1986, 2001](#)). Under this view, rational investors would avoid PBCs.

However, this need not be the case. PBC incorporation can also create value, potentially offsetting these governance costs. Greater managerial discretion may encourage long-term investment by shielding managers from short-term profit pressures ([Graham, Harvey, and](#)

² The previous major change was the passage of the Delaware Limited Liability Company Act in 1992 (e.g., [Mayfield, 2003](#)).

Rajgopal, 2005; Stein, 1989). In addition, a credible commitment to social or environmental goals can strengthen relationships with customers, employees, and suppliers, improving performance and investor appeal (e.g., Edmans, 2011; Edmans, Pu, Zhang, and Li, 2024; Lins, Servaes, and Tamayo, 2017). Beyond these value-creation channels, PBCs may also attract capital from investors who value social impact (Hartzmark and Sussman, 2019) and are willing to accept lower financial returns for credible mission alignment (Barber, Morse, and Yasuda, 2021; Pástor, Stambaugh, and Taylor, 2021; Ilhan, Krueger, Sautner, and Starks, 2023; Iliewa, Kempf, and Spalt, 2025). Under this view, the PBC form serves as a contracting device that facilitates matching between entrepreneurs and investors around shared objectives.

We investigate these tradeoffs through the lens of venture capital (VC) investment in PBCs. Venture capital provides an especially informative setting for studying the relationship between shareholder primacy and access to finance. VCs are sophisticated, forward-looking investors that play a central role in innovation and economic growth (Kortum and Lerner, 2000; Samila and Sorenson, 2011). Because their returns depend on successful exits, they are highly sensitive to any governance feature that could impair firm value or access to follow-on financing. Their willingness to back PBCs thus speaks directly to whether, and under what conditions, the benefit corporation model appeals to sophisticated capital.

We construct a novel dataset that combines comprehensive information on all PBCs registered in Delaware with multiple sources on VC activity. Starting from the universe of Delaware business registrations, we identify every PBC incorporated through the end of 2024 and link these data to venture capital investment records from PitchBook, supplemented by industry classifications from VentureXpert and early-stage fundraising information from Form D filings.

Using this dataset, we first document several stylized facts. As of the end of 2024, more than 6,000 PBCs had been registered in Delaware. Among corporations, PBCs account

for roughly 1% of all firms incorporated in the state between 2013—when this corporate form was first introduced—and 2024. Thus, although PBCs remain relatively uncommon, they already represent a meaningful presence in the corporate landscape. PBC adoption also exhibits a rise-and-fall pattern: through 2020, both the number and the share of newly formed PBCs increased steadily, then declined modestly thereafter. Raw incorporation counts may understate the economic significance of PBCs if adoption is concentrated among high-growth and innovative firms. Indeed, we find that PBC adoption is particularly prevalent among prominent AI startups, including Anthropic and OpenAI. Together, these two startups are valued at more than \$1.8 trillion, and both have reportedly been exploring public listings.³ Anthropic was incorporated as a PBC in 2021, while OpenAI converted to a PBC in 2025.

We next turn to the main question of how PBCs fare in attracting venture capital financing. On net, PBCs are significantly more likely to raise VC funding than otherwise comparable traditional startups. The unconditional probability of raising VC financing within three years of founding stands at 5.6% for a typical Delaware-incorporated startup, but doubles to 11.2% for PBC startups. This difference is robust to excluding startups that converted to PBC status after incorporation, to controlling for incorporation year, industry, and headquarters state, and to excluding investments from dedicated impact investors. PBCs are also disproportionately represented in industries with historically high VC activity. At face value, this evidence appears at odds with the hypothesis that the PBC form systematically impedes access to capital. If anything, the form appears especially prevalent among firms most oriented toward external fundraising, such as VC-backed startups.

Two additional findings sharpen this interpretation. First, exploiting a unique feature of our data on startups' conversions from other entity forms to PBC status, we show that among firms that both convert to PBC status and receive VC funding, nearly 80% of conversions

³ As of June 2026, the two startups were valued at \$965 billion and \$840 billion, respectively. See https://www.wsj.com/tech/ai/anthropic-valuation-openai-80bf2c0a?mod=hp_lead_pos4 and <https://www.wsj.com/tech/openai-raises-110-billion-a2a34d23>

occur after the first VC investment, with a particularly high rate of conversion coinciding with the investment itself. This evidence is inconsistent with the view that some high-quality startups choose to adopt the PBC form and that VCs are simply forced to invest in them. Under that view, VC investment should occur either randomly around the conversion event or, if anything, more often after conversion. Instead, the fact that the vast majority of conversions occur after VC investment suggests that VCs do not view the PBC structure unfavorably, especially given their strong control power and veto rights over major corporate structure changes, including conversion to PBC status (Lerner, 2022; Ewens and Malenko, 2024). Second, VC-backed PBCs receive investments of similar size and perform at least as well—and often better—than comparable non-PBCs on exit outcomes, rejecting the notion that PBC investments are mere “window-dressing.”

Turning to mechanisms, we show that the high VC investment rate in PBCs is more likely driven by the presence of investors with strong pro-social preferences than by any inherent advantage of the PBC form. Two pieces of evidence support this conclusion. First, a fund’s stated pro-social objectives strongly predict its likelihood of investing in PBCs. Second, state anti-ESG policies—which restrict public pension funds from considering non-pecuniary factors in their capital allocation—significantly reduce VC investment in local PBCs and dampen new PBC formation in affected states. These patterns are difficult to reconcile with the view that PBCs are simply a superior legal form: neither the launch of an impact-oriented fund nor the enactment of anti-ESG restrictions should affect investment in PBCs if the legal form were financially superior. Instead, the evidence points to LP and VC demand as a key driver of VC investments in PBCs.⁴

We contribute to several strands of literature. Prior work documents the governance costs of relaxing shareholder primacy (Jensen, 2001, 1986). Recent evidence from Bennett,

⁴ In both settings, shifts in the propensity to invest in PBCs are not associated with any change in investment quality.

[Stulz, and Wang \(2025\)](#) reinforces these concerns by showing that a reduction in shareholder primacy in Nevada led to weaker governance and lower investment among affected public firms. While these findings are important, they do not imply that governments should refrain from offering alternative incorporation models. Hybrid mandates may not suit the typical firm, but allowing firms to self-select into such structures can nonetheless create value. Our results are consistent with this view. The typical company chooses to incorporate as a traditional corporation rather than as a PBC. However, for firms and investors with aligned objectives, the PBC form can serve as a valuable contracting device that facilitates access to capital.

More broadly, our findings underscore that the benefit corporation structure can serve as a bridge between investors motivated by social impact and entrepreneurs pursuing similar goals. Socially driven investing has grown substantially over the past decade ([Goldstein, Kopytov, Shen, and Xiang, 2022](#)), spanning asset classes from index funds ([Baker, Egan, and Sarkar, 2024](#); [Giglio et al., 2025](#)) to private equity and venture capital ([Jeffers, Lyu, and Posenau, 2024](#); [Cole et al., 2023](#); [Lerner, Lithell, and Phillips, 2025](#)). Many investors appear willing to trade off some financial return for non-pecuniary objectives ([Barber et al., 2021](#)). This shift may warrant a rethinking of corporate governance and the role of shareholders ([Denis, 2024](#)), with legal innovation playing a central role in this evolution.

Our paper also contributes to the law and economics literature on the emergence of benefit corporations in the U.S. The most closely related study is [Dorff, Hicks, and Solomon \(2021\)](#), which provides an initial analysis of PBCs among startups. We extend this research substantially by using data that span a longer period, cover a broader set of firms—including non-PBCs that provide a direct benchmark—and capture a wider range of corporate events, such as conversions. More importantly, we provide direct empirical tests of the key mechanisms. Our findings highlight the central role of investor preferences in driving adoption of this legal form and link the post-2020 slowdown in new PBC formations to declining ESG

enthusiasm among investors ([Baker et al., 2024](#); [Gormley, Jha, and Wang, 2026](#)).

This paper is organized as follows. In [Section 2](#), we present the institutional background; [Section 3](#) discusses the potential costs and benefits of benefit corporations in terms of fundraising. After presenting our data in [Section 4](#), we analyze VC investments in PBCs in [Section 5](#). We then explore the possible mechanisms in [Section 6](#). [Section 7](#) discusses the key implications of our findings, followed by the conclusion.

2 Institutional Background

We begin by defining public benefit corporations and discussing their key legal features, with particular emphasis on the Delaware model, before presenting illustrative examples of firms that have adopted the form.

2.1 Public Benefit Corporation

A benefit corporation or public benefit corporation (PBC) is a new corporate form that formally expands directors’ fiduciary duties beyond shareholder value maximization. In a conventional for-profit corporation, directors and officers owe duties solely to shareholders, generally interpreted as maximizing shareholder value. In a PBC, by contrast, directors are legally required to balance shareholders’ financial interests with the interests of other stakeholders and the corporation’s stated public benefit. This broadened mandate provides directors and management with legal protection when pursuing other objectives, such as social or environmental goals, alongside profitability.

While the details vary by jurisdiction, benefit corporation statutes generally require founders to specify one or more public benefit objectives at incorporation. These objectives must have a “material positive impact on society and the environment” (e.g., [Clark, Vranka, et al., 2012](#); [Nows and Thomas, 2019](#))—such as serving low-income communities,

protecting the environment, or improving public health—but the statutory language is typically broad, allowing considerable flexibility. Once formed, a benefit corporation is generally required to file periodic “benefit reports” assessing its performance. In most jurisdictions, conversions between traditional corporations and benefit corporations are permitted following shareholder approval.

Maryland became the first U.S. state to enact benefit corporation legislation in 2010. By 2024, nearly 40 states had authorized the form (Figure 1),⁵ including all major states, such as California, New York, Texas, and Florida. Most consequentially, Delaware, the nation’s leading state for corporate law, introduced its own version, the *public benefit corporation* (*PBC*), in 2013. Under Delaware law, a PBC is a for-profit corporation⁶

intended to produce a public benefit or public benefits and to operate in a responsible and sustainable manner. To that end, a public benefit corporation shall be managed in a manner that balances the stockholders’ pecuniary interests, the best interests of those materially affected by the corporation’s conduct, and the public benefit or public benefits identified in its certificate of incorporation.

To incorporate as a Delaware PBC, a firm must designate its entity type as such and specify at least one public benefit in its certificate of incorporation (e.g., artistic, charitable, cultural, environmental, medical, or technological). It must then provide shareholders with a report at least once every two years. Delaware does not require public disclosure of this report or third-party certification to maintain PBC status. The certificate of incorporation may, however, impose more stringent requirements, such as more frequent reporting or review by an external auditor.

Shareholders may legally challenge the board to enforce the corporation’s public benefit objectives. Delaware law does not, however, specify precisely how management must balance public benefit against shareholders’ financial interests. As a result, practitioners

⁵ <https://www.britannica.com/money/what-is-a-public-benefit-corporation>

⁶ See Delaware Code Ann. Tit. 8 § 362 at: <https://delcode.delaware.gov/title8/c001/sc15/>

generally interpret the PBC structure as granting managers greater flexibility. This feature is important, because it suggests that PBCs are associated with a higher level of managerial discretion. It also implies that there is no guarantee that a PBC will, in practice, be operated differently from a standard incorporation.

In this paper, we focus on the Delaware experience for two reasons. First, Delaware dominates U.S. business registration: more than two-thirds of Fortune 500 companies and 80% of U.S. public firms were incorporated there.⁷ Second, our analysis largely focuses on the prevalence of PBCs among VC-backed companies, which are predominantly incorporated in Delaware. For instance, [Bian, Li, and Nigro \(2025\)](#) document that 77% of VC-backed startups receiving their first VC financing between 1995 and 2020 were incorporated in Delaware.

2.2 Some Examples of PBCs

Since 2013, the PBC form has been adopted across a wide range of industries, with some high-profile examples. Allbirds, which started as a footwear and apparel company known for its emphasis on the use of natural and renewable materials, incorporated as a PBC in 2015, framing the decision as an effort to “codify how we take into account the impact our actions have on all of our stakeholders, including the environment.”⁸ Before going public in 2021, the company raised \$78 million in venture capital across five rounds.

While environmental goals appear to be a common theme among PBCs, the range of public benefits they pursue is diverse.⁹ Coursera converted to a PBC in 2021, articulating its mission as “to reduce barriers to world-class education for all.”¹⁰ Lemonade, a digital peer-to-peer insurance company, incorporated as a PBC with a “Giveback” program that

⁷ <https://corp.delaware.gov/stats/>

⁸ <https://ir.allbirds.com/esg-overview>

⁹ Our registration data do not record firms’ stated public benefit objectives, so a comprehensive breakdown of benefit categories is not possible.

¹⁰ <https://about.coursera.org/>

donates a portion of revenue to social causes.¹¹ Vital Farms, a producer of pasture-raised eggs and butter, identifies ethical animal treatment and supply chain transparency as its public benefit objectives.¹²

The most prominent recent adopters are several artificial intelligence (AI) companies, which have cited the PBC form as a governance structure that internalizes the broader societal impacts of their technologies. OpenAI converted to a PBC in October 2025. Explaining the decision, its CEO Sam Altman noted: “PBCs have become the standard for-profit structure for other AGI labs like Anthropic and X.ai, as well as many purpose driven companies like Patagonia. We think it makes sense for us, too.”¹³

These examples represent only a subset of the many companies that have incorporated as PBCs. At the same time, numerous smaller and more traditional businesses have also adopted the form. For example, Ben’s Fast Food, a medium-sized fast food chain, incorporated as a PBC to formalize its mission of offering healthy and affordable meals.¹⁴ Section 5 presents a systematic analysis of the full sample of PBCs.

3 Conceptual Framework

We develop a conceptual framework outlining the potential costs and benefits of the PBC structure for VC fundraising. We begin with the standard concerns about relaxing shareholder primacy, then present our central hypothesis—that PBC status functions as a matching device between mission-driven entrepreneurs and pro-social investors—before discussing alternative value-creation channels and motivating our focus on the VC setting.

¹¹ <https://www.lemonade.com/blog/time-to-giveback/>

¹² For additional examples, see [Fisch and Solomon \(2021\)](#) and [Dammann \(2024\)](#), which focus on publicly traded PBCs.

¹³ <https://chatgptiseatingtheworld.com/2025/05/05/openai-gives-up-on-its-plan-to-convert-into-for-profit-company/>

¹⁴ <https://bensfastfood.com/mission>

3.1 The Cost of Relaxing Shareholder Primacy

How does relaxing shareholder primacy affect a firm’s ability to raise capital, and when can such relaxation facilitate rather than hinder access to finance? Under shareholder primacy, directors’ fiduciary duties are tied to shareholders’ financial interests, whereas alternative forms such as PBCs explicitly permit directors to consider broader stakeholder and public benefit interests. Understanding the financing implications of these alternative models is critical, especially given growing interest in sustainable and stakeholder-driven business models.

At first glance, the answer seems straightforward: relaxing shareholder primacy should impede fundraising. By weakening the obligation to maximize shareholder value, directors may allocate resources to benefit other stakeholders or public interests at shareholders’ expense. Unless the public benefit designation creates enough value to offset this effect, it mechanically reduces expected financial returns. If investors focus solely on financial performance, this would make the firm less attractive to investors.

The problem may run deeper. Expanding managerial discretion can weaken governance and dilute accountability ([Jensen, 2001](#)): when directors are no longer evaluated solely on financial outcomes, monitoring becomes more complex and agency problems may intensify. These concerns are particularly salient for PBCs because Delaware’s PBC structure is designed to afford management broad discretion in balancing financial and non-financial objectives (Section 2). [Bennett et al. \(2025\)](#) provides empirical support for these concerns, documenting weaker governance and lower investment among Nevada public firms after the state adopted a more permissive legal regime that grants managers greater discretion to pursue objectives beyond shareholder wealth maximization.

These arguments represent the standard view in corporate finance: relaxing shareholder primacy raises the cost of capital by reducing expected returns and weakening governance. We next consider why this prediction may not hold and develop a framework for understand-

ing when PBC status may instead facilitate access to capital.

3.2 PBC as a Matching Device

Instead of impeding access to capital, the PBC form may in fact facilitate it by improving matching between entrepreneurs who pursue social objectives and investors who value them. Under this view, the PBC designation serves as a contracting device that reduces matching frictions, enabling firms to attract capital they would not otherwise access.

Spanning asset classes from index funds (Baker et al., 2024; Giglio et al., 2025) to private equity and venture capital (Jeffers et al., 2024; Cole et al., 2023; Lerner et al., 2025), the rapid growth of impact investing (Figure IA.1) suggests that some investors are willing to accept lower financial returns in exchange for measurable social or environmental outcomes (Barber et al., 2021; Goldstein et al., 2022). The key friction in this market is credibility. An entrepreneur can claim to care about social impact, but absent commitment, such claims amount to cheap talk (Gantchev, Giannetti, and Li, 2024). The PBC form may partially resolve this by embedding social objectives into the corporate charter. Unlike informal mission statements, PBC designation constitutes a legal commitment: directors must balance shareholders' pecuniary interests with specified public benefits, and reversing that status requires shareholder approval, making such a reversal costly. Under traditional shareholder primacy, by contrast, legal constraints may deter managers from pursuing socially beneficial actions even when investors support them (McGowan, 2022). At a minimum, the PBC structure removes the legal friction associated with dual objectives.

This signal is admittedly imperfect—Delaware does not require third-party certification, which limits the strength of the commitment. But the relevant benchmark is not an ideal commitment device; it is the alternative under traditional incorporation. Directors of standard corporations face potential legal exposure when pursuing non-financial objectives, making credible social commitment difficult even for well-intentioned entrepreneurs.

The PBC form relaxes this constraint, offering a level of commitment that, while incomplete, strictly dominates the alternative. Relatedly, [Bettignies, Liu, and Robinson \(2026\)](#) show theoretically that when monitoring of social objectives is weak, investors respond by selecting entrepreneurs with genuine social preferences rather than relying on mandated compliance.

The matching mechanism is especially relevant in the venture capital context. VC investors raise capital from limited partners (LPs), and LP preferences shape the investment strategies of fund managers. When LPs hold pro-social preferences, fund managers face pressure to invest in ventures with credible social missions. The PBC label gives fund managers a concrete signal they can point to when justifying such allocations. The form thus enables a chain of matching: from LPs with pro-social preferences, through fund mandates, to portfolio companies with aligned missions.

This matching hypothesis generates several testable predictions that distinguish it from alternative explanations. First, the propensity to invest in PBCs should vary with investor characteristics—specifically, whether the VC has raised an impact-oriented fund—rather than be uniform across all investors. If PBCs were simply better businesses, all investors would be equally attracted to them regardless of fund type, since traditional VC funds face no legal or institutional constraints on investing in PBCs. Second, exogenous shocks to LP preferences—such as anti-ESG restrictions on public pension funds—should reduce VC investment in PBCs. Third, the time-series pattern of PBC adoption should track investor sentiment toward pro-social causes. We test each prediction in [Section 6](#).

3.3 Alternative Channels: Value Creation through PBC Status

While we emphasize the matching channel, PBC status may also affect fundraising through its impact on firm value. We discuss two such channels. First, greater managerial discretion is not inherently detrimental to firm value. Under strict shareholder primacy, managers may sacrifice long-term value to prioritize short-term earnings, or forgo valuable

investments that deviate from standard practices in order to avoid litigation or activist pressure (Graham et al., 2005; Stein, 1989). Broader fiduciary mandates can free managers to pursue high-value opportunities that require patience and tolerance for short-run underperformance. This mechanism is particularly plausible when shareholders are sophisticated and capable of monitoring firm behavior effectively. In such settings, ex-post oversight by shareholders can limit opportunistic behavior, mitigating the agency risks associated with an expanded mandate.

Second, committing to social or environmental goals can strengthen relationships with key stakeholders. Customers may prefer purpose-aligned businesses; employees may be more motivated and loyal; suppliers may offer favorable terms. PBC incorporation serves as a signal of such commitments, potentially strengthening stakeholder engagement and improving firm performance.

These value-creation channels could make PBCs more attractive to investors by increasing firm value. Importantly, however, they generate predictions that differ from the matching hypothesis. If PBCs improve governance or strengthen stakeholder relationships, adoption should remain stable or increase over time as these advantages become more widely recognized. The stakeholder channel further predicts that PBCs should be disproportionately concentrated in consumer-facing industries, where end consumers are more likely than business clients to reward pro-social commitments (Dorff et al., 2021). Furthermore, this mechanism should make the firm more attractive to investors broadly, rather than only to impact-oriented investors. We test these predictions against the matching hypothesis in Section 6.

3.4 VC as an Informative Laboratory

Several features of the VC industry make it a particularly informative setting for testing the hypotheses discussed above.

Unlike many other ownership forms, VC investments are inherently forward-looking and depend on startups’ ability to raise subsequent rounds of financing. Venture capital is typically staged (Kaplan and Strömberg, 2004; Gompers and Lerner, 2004), with investors providing capital incrementally as firms progress through development milestones. Because the ultimate payoff comes via exit—acquisition or IPO—VCs are especially attentive to any legal or governance feature that could impair future fundraising.

The VC industry’s well-defined LP–GP structure is equally important. LP preferences flow through fund mandates to portfolio selection (Andonov, Kräussl, and Rauh, 2021). Public pension funds account for over 30% of total VC fundraising (González-Uribe, 2020), making state-level policies that constrain these LPs’ preferences a powerful source of variation—one we exploit directly.

Beyond their investment model, VCs play a central role in promoting innovation and economic growth (Kortum and Lerner, 2000; Samila and Sorenson, 2011). Understanding how they evaluate alternative governance structures—such as the PBC form—is therefore crucial for assessing the long-term significance of these models. Even if PBCs represent a small share of total incorporations, their adoption among VC-backed companies may signal broader future relevance. In this respect, the relative prevalence of PBCs in the VC sector may serve as a leading indicator of importance. That said, focusing on the VC sector also has limitations, which we discuss in Section 7.

Before proceeding, it is important to clarify our objective: we do not argue that the PBC structure is superior or optimal for most firms. A large body of theoretical and empirical work has documented the potential governance challenges associated with relaxing shareholder primacy. Our objective is narrower: to show that PBC status can serve as a viable contracting device that facilitates matching between mission-driven entrepreneurs and investors with pro-social preferences, and to identify the conditions under which this matching channel operates.

4 Data

4.1 PBC and Delaware Registration Data

We assemble a dataset of all Delaware-registered PBCs through the end of 2024 from the Delaware Division of Corporations. The dataset records each firm’s entity number, a unique identifier assigned to firms registered in Delaware, along with its legal name, incorporation date, and organizational form, such as PBC corporation or PBC LLC. For a comparison group, we obtain the universe of Delaware-registered firms—regardless of PBC status—through the end of 2024 from OpenCorporates,¹⁵ which includes more than 5 million entities with entity number, firm name, incorporation date, and entity type. We link the two datasets by entity number and focus on incorporated firms, as high-growth firms are typically incorporated (Guzman and Stern, 2020).

Although the Delaware registration data provide comprehensive coverage, they do not contain information on firms’ industries and locations. Most of our analyses focus on startups seeking early-stage financing. For these analyses, we rely on additional firm-level information from Form D filings and commercial VC datasets, as described below. For the broader set of Delaware-registered firms, we generate predicted industry and location using a fine-tuned GPT-4o model via the OpenAI API, which predicts each firm’s two-digit SIC code and headquarters state based on its legal name and incorporation year. The model leverages web searches and naming conventions to generate these predictions. To improve accuracy, we also fine-tune the model on a training sample of 500 VC-backed startups with known industry and state information from VentureXpert. We then validate the resulting model on a separate sample of 9,276 startups from VentureXpert, achieving 72.0% accuracy for two-digit SIC codes and 79.1% accuracy for headquarters state.

¹⁵ OpenCorporates aggregates official company registry records from state governments, covering more than 100 million business entities across all U.S. states.

Two points help address potential data quality concerns about these predicted variables. First, we use them only in tests involving the broader Delaware registration sample, and we flag each such case explicitly. Second, in every instance, we also report parallel results that do not rely on these predictions.

4.2 Entrepreneurial Finance Data

We measure startups' VC financing using PitchBook, a leading commercial data provider with particularly comprehensive coverage in recent years (e.g., [Babina et al., 2025](#)). We link the Delaware business registration data to PitchBook using a fuzzy string-matching algorithm applied to standardized company names.

We also draw on VentureXpert for certain industry-level analyses. VentureXpert is the only major VC database that systematically reports SIC classifications, which we use both to train and validate our LLM-based model, as discussed above, and to construct measures of VC investment intensity at the two-digit and four-digit SIC levels.

To test the predictions linking investor demand and PBC adoption (Section 6), we also use Form D filings. These filings are submitted by startups that seek to raise or have raised private capital, including venture capital, and provide exemptions from securities registration under Regulation D or Section 4(a)(2) of the Securities Act. Our sample covers all machine-readable (XML) filings available from September 15, 2008 onward, which became mandatory after March 16, 2009. The filings (when available) include director information ([Ewens and Malenko, 2024](#)), financing amounts, and key firm characteristics, including legal name, entity type, state of incorporation, headquarters state, and year of incorporation for firms under five years old.

Form D filings offer three key advantages for studying startups' PBC adoption. First, because the filings cover equity financing rounds, they capture a broad set of high-growth startups seeking venture capital. Second, they identify startups that sought but did not

ultimately secure VC funding, thereby covering a broader set of startups than standard VC datasets. Third, they provide precise headquarters state information, which is essential for assigning exposure to state-level anti-ESG policy changes.

We identify the PBC status of Form D startups by matching Form D records to Delaware business registration data using a fuzzy string-matching algorithm applied to standardized company names.

4.3 Some Stylized Facts about PBC

Before turning to the main analyses, we document several stylized facts about PBCs. As of the end of 2024, more than 6,000 PBCs had been registered in Delaware, including 5,588 PBC corporations and 513 PBC LLCs. Corporations therefore account for 92% of all Delaware PBCs and are the focus of our analysis. Among corporations, PBCs represent roughly 1% of all firms incorporated in the state between 2013—when this incorporation form was first introduced—and 2024. New PBC registrations grew steadily until 2020, peaking that year at about 1.3% of all new corporations (roughly 700 firms), then declined slightly. For example, in 2023, approximately 400 new PBCs were registered, or about 1% of all new corporations (Figure 2).

Though PBCs remain relatively uncommon, these figures suggest that they already represent a meaningful corporate presence. Notably, the rise-and-fall pattern in adoption is consistent with time-varying investor demand for pro-social ventures—a pattern we examine in Section 6. Raw counts may also understate the significance of PBCs if they are disproportionately concentrated in economically important sectors. For example, as discussed earlier, several leading AI companies have adopted this corporate form. We will provide additional evidence on this point in the next section by examining VC investment in PBCs.

5 Does PBC Status Impede Access to Capital?

We now empirically examine whether PBC status impedes startups’ access to capital. Using startup-level data, we first investigate whether PBC startups face disadvantages in obtaining VC funding relative to comparable traditional startups, and examine the prevalence of PBCs across industries with different levels of VC investment intensity. We next hold the startup fixed and focus on two corporate events within the same firm—PBC conversion and VC financing—to compare their timing and uncover VCs’ preferences toward PBC status. Finally, we study the performance of VC investments in PBCs.

5.1 PBC Status and VC Financing

We begin by comparing the likelihood of raising VC funding between PBC and non-PBC startups incorporated between 2013 and 2021, allowing a three-year observation window through the end of 2024. On average, 5.6% of Delaware non-PBC startups raised a VC round within three years of founding, whereas 11.2% of PBC startups did so. Thus, PBC startups are twice as likely to secure VC funding. This advantage is especially significant given that startups are financially constrained and VC financing is rare (Puri and Zarutskie, 2012; Gompers, Gornall, Kaplan, and Strebulaev, 2020).¹⁶ Figure 3 further compares funding likelihood by cohort. After starting from a somewhat higher level, the VC funding likelihood of PBCs stabilizes at around 10.5% for the 2016–2021 cohorts, well above the 5.6% average for non-PBCs. These figures provide initial evidence that VCs do not shy away from PBCs; if anything, they appear more attracted to them.

Table 2 confirms this pattern in a regression framework using startup-level observations from 2013 to 2021. To avoid any confounding effect of PBC conversion on VC financing,

¹⁶ Delaware-incorporated startups are already disproportionately likely to receive VC financing (e.g., Catalini, Guzman, and Stern, 2019; Waisman, Wang, and Wuebker, 2009); Catalini et al. (2019) find they are 22 times more likely than non-Delaware startups.

we focus on startups initially incorporated as general corporations or PBCs, excluding conversions, which we study directly in the next section. The main dependent variable is an indicator for raising VC funding within three years of incorporation. Controlling for incorporation year, column 1 shows that PBCs are 2.9 percentage points more likely to secure VC financing—a 52% increase relative to the 5.6% sample mean. Adding industry and headquarters state fixed effects based on the LLM classification, column 2 shows that the estimate remains virtually unchanged. These results imply that, compared to traditional startups with observably similar characteristics, PBC startups are significantly more likely to raise VC funding, directly contradicting the view that PBC status impedes startups’ access to capital.

Does this result merely reflect the growth of impact investors? Column 3 excludes VC financings involving any impact investor and again yields similar results. This suggests that the higher VC funding likelihood of PBCs is not driven solely by the emergence of impact investors—a class of investors formally pursuing social benefits alongside financial performance (Geczy, Jeffers, Musto, and Tucker, 2021). Column 4 extends the outcome window to capture all VC financing from a startup’s founding through 2024 and produces an even larger estimate, suggesting that the gap in VC funding likelihood between PBCs and non-PBCs widens over a longer horizon. Column 5 examines total dollars raised within three years using an inverse hyperbolic sine (IHS) model (Bellemare and Wichman, 2020) and finds that PBCs raise 3% more VC funding on average, confirming that the higher funding propensity is not driven solely by small, or economically immaterial deals.

Together, these results establish that PBCs are significantly more likely to raise VC financing. Given this VC funding advantage, startups seeking VC financing may also respond by adopting the PBC form more frequently. To test this prediction, we estimate the likelihood of PBC adoption across industries with varying historical VC investment intensity. To link startups to industry-level VC investment intensity, we use industry classifications predicted

by our LLM procedure, as discussed in Section 4, and report robustness tests using industry data collected from Orbis.

Table 3 reports the estimates using startup-level observations from 2013–2024, with an indicator for initial PBC incorporation as the dependent variable. The main explanatory variable, *VC Intensity* is the share of startups in a given industry that raised their first VC round during 2010–2012—the three years preceding the introduction of the PBC framework in 2013—out of all such startups across all industries, measured at the two-digit SIC level (columns 1–4) and four-digit SIC level (column 5). Controlling for incorporation year fixed effects, the estimate in column 1 shows that a one-standard-deviation increase in VC intensity (0.296) raises the likelihood of PBC incorporation by 8% relative to the sample mean. This result is robust to including headquarters state fixed effects (column 2), excluding the early 2013–2015 period (column 3), and dropping California-based startups (column 4). Thus, PBCs are more prevalent precisely in industries where VC activity is more intensive. These results also highlight that raw counts of PBCs may understate their importance, because PBCs are disproportionately concentrated in high-growth industries with greater VC investment intensity.

To assess the reliability of our inferred industry classification, we conduct a robustness test using an alternative sample from Orbis, which provides precise industry classifications at the four-digit SIC level. The drawback of this approach is that industry information is available for only a subsample. The estimate in column 5 of Table 3 confirms that PBCs are more prevalent in VC-intensive industries.

Figure 4 examines this relationship year by year using the subsample of startups within each incorporation cohort.¹⁷ The positive relationship persists across nearly all cohorts, with particularly pronounced effects in 2019–2020—precisely the period when PBC adoption

¹⁷ Startups incorporated during the early 2013–2015 period are grouped into a single cohort because of the relatively small number of PBCs.

peaked (Figure 2). Thus, PBC prevalence in VC-intensive industries exhibits a rise-and-fall pattern similar to that of overall PBC adoption, suggesting that some time-varying factors drive PBC adoption.

Collectively, the results in this section document a strong connection between PBCs and venture capital activity, both at the firm level and across industries: PBCs are more likely to raise VC funding and are more prevalent in VC-intensive industries, contradicting the view that PBC status impedes startups' access to external capital. The significantly higher VC funding likelihood of PBCs suggests that PBC status may even facilitate funding.

5.2 PBC Conversion and VC Financing

An alternative explanation for the higher VC funding likelihood of PBCs, however, is that the most promising startups disproportionately choose PBC status, and that VCs invest in them because of quality despite disliking the PBC structure.

Although this supply-side explanation appears unlikely given the relatively small aggregate share of PBCs, we address it directly by exploiting a unique feature of our data: information on startups' conversions to PBC status from other entity types. The data report both the original incorporation date and the date on which a firm became a PBC. We define a PBC conversion as a case in which the latter date is at least 30 days after the former date.¹⁸ Among all PBCs, we identify 943 such conversions, of which 372 (about 40%) also raised VC funding, already underscoring the close connection between VC financing and PBC adoption. Within this sample, we focus on two corporate events within the same startup—VC financing and PBC conversion—and examine their relative timing to uncover VCs' preferences toward the PBC form.

The intuition is straightforward. If VCs are skeptical of the PBC form but are nevertheless

¹⁸ Our data are able to identify some high-profile conversions. For example, Allbirds was founded as a traditional corporation in 2015 and converted to a PBC in 2016, while Kickstarter was founded in 2006 and converted to a PBC in 2015.

“forced” to invest in high-quality startups that independently choose PBC status, VC funding should occur primarily after the conversion, which would already have been completed before VCs became involved. Conversely, if conversions cluster around or after VC investment, this would suggest that VCs do not view the PBC structure unfavorably, because they would otherwise be able to block it given their strong control rights and veto power over major corporate decisions (Lerner, 2022; Ewens and Malenko, 2024).¹⁹

Figure 5 plots the distribution of first VC funding in each quarter relative to the quarter of PBC conversion. Two findings stand out. First, nearly 80% of PBC conversions in our sample occur in the same quarter as, or after, the first VC investment. This pattern directly contradicts the view that certain types of startups, or high-quality startups independently choose the PBC form and that VCs are simply forced to accept it. Instead, it suggests that VCs do not view the PBC structure unfavorably and may even facilitate the transition to that form because they are already involved in the firm at the time of conversion and thus possess substantial control over major corporate decisions, including conversion to PBC status.

Second, conversions spike sharply in the quarter of VC investment: approximately 16.2% of conversions occur within one quarter of the funding event, and nearly 12% in the exact same quarter—roughly twice the rate in any other surrounding quarter. This suggests that PBC conversion and VC financing are closely intertwined and reinforces the earlier observation that VCs do not view the PBC form unfavorably and may even structure the conversion as part of the investment transaction itself.

Table 4 confirms these findings in a regression framework, showing that VC funding in a given quarter strongly predicts PBC conversion in that same quarter. The results are robust to excluding VC investments involving impact investors (column 3), dropping post-conversion

¹⁹ Shareholder approval is also required for PBC conversion, and the required voting threshold has declined over time: from 90% of outstanding shares initially, to two-thirds in 2015, and to a simple majority in 2020. The same thresholds apply symmetrically to conversions in both directions.

observations (column 4), and broadening the outcome window to capture conversions within one quarter of funding (column 5).

Taken together, the analysis in this section ties the timing of two corporate events within the same startup—PBC conversion and VC financing—and thus holds the startup type or quality fixed, showing that VCs do not view the PBC framework unfavorably. The timing instead suggests VCs are often directly involved in the conversion decision, with investors and entrepreneurs jointly adopting PBC status to formalize shared objectives.

5.3 VC Investment Performance in PBCs

A related concern is that VC investments in PBCs are primarily window-dressing—reputation-building exercises in responsible investing rather than genuine capital allocation. Under this view, PBC investments would resemble marketing expenditures more than strategic investments. This hypothesis is already in tension with deal characteristics: the average PBC deal raised \$20.3 million, slightly exceeding the \$18.8 million average for non-PBC deals.

We also test this hypothesis more directly by examining exit outcomes. To be clear, our goal is not to estimate the causal effect of PBC status, but to assess whether VCs' PBC investments are of comparable quality to their traditional investments. Under the window-dressing view, PBC deals should systematically underperform. Following prior literature (e.g., [Ewens, Gorbenko, and Korteweg, 2022](#)), we measure investment performance using startups' successful exits.

Table 5 reports the results at the investor-deal level. Column 1 uses an IPO indicator as the performance measure, controlling for investor, industry (from PitchBook), and investment-year fixed effects. The estimates show that PBC deals are actually more likely to result in an IPO. Thus, the same investors' PBC investments perform at least as well as their non-PBC investments in the same year and industry. The results remain robust

when adding VC round and startup headquarters state fixed effects (column 2), restricting to PBCs with status established at least 30 days before the VC investment (column 3), and excluding impact investors (column 4). Column 5 broadens the performance metric to include both IPOs and acquisitions valued at least twice the total capital invested;²⁰ the estimates remain significant.

These findings indicate that VCs' investments in PBCs perform at least as well as, and possibly better than, comparable investments in non-PBCs. This evidence rules out window-dressing as an explanation.

6 Why Does PBC Status Appeal to VCs?

Section 5 presents evidence that the PBC form does not impede startups' access to capital: PBCs are more likely to receive VC funding, are overrepresented in VC-intensive industries, and often convert to PBC status with VCs directly involved. We now evaluate the competing explanations developed in Section 3 for why the PBC form may be favorable for VC funding.

6.1 PBC Status as a Source of Value Creation

As discussed in Section 3, PBC status could enhance firm value and attract investors by reducing managerial short-termism or strengthening stakeholder relationships. These channels could, in principle, explain the patterns documented in Section 5. To examine this hypothesis, we first consider the time-series patterns presented earlier (Figures 2 and 4): PBC adoption rose steadily over the past decade, peaked around 2019–2020, and has since declined modestly. This rise-and-fall pattern is difficult to reconcile with internal governance-based value creation. For example, if PBCs create value by reducing managerial short-termism,

²⁰ This broader metric is useful since IPOs are rare events.

adoption should remain stable or increase monotonically as these advantages become widely recognized. The pattern is instead more consistent with time-varying stakeholder preferences (e.g., those of customers) or investor preferences for pro-social causes. Either can generate a rise and subsequent decline: demand for pro-social behavior rose through roughly 2020 and has since receded (see e.g., [Baker et al., 2024](#)).

As argued by [Dorff et al. \(2021\)](#), the stakeholder channel—particularly through customer preferences—would predict greater PBC adoption in consumer-facing industries, where end consumers are more likely than business clients to value and reward pro-social commitments. Similarly, if local stakeholder preferences matter, PBC adoption should be more concentrated in states where those preferences are strongest. We examine these predictions by studying the industry and geographic distribution of PBCs among all VC-backed startups.

Table 6, Panel A compares the industry distribution of VC-backed PBCs and non-PBCs. PBCs are more prevalent in “Consumer Products and Services” than non-PBC firms (28% vs. 16.1%). However, this difference appears to reflect a broader tendency for PBCs to cluster in products-and-services sectors rather than a specifically consumer-facing pattern, as they are also more prevalent in “Business Products and Services” (16.4% vs. 10.9%).²¹ The higher shares in these sectors are offset by a lower share of PBCs in information technology. Panel B compares headquarters locations. In contrast to the industry patterns, the geographic distribution of PBCs more closely mirrors the overall distribution of VC activity, with no systematic differences.

Taken together, this evidence does not rule out value-creation channels entirely, but it suggests that they are unlikely to be the primary explanation for the strong VC–PBC connection documented in Section 5. This naturally raises the question of whether investor-side preferences may play an important role.

²¹ Our findings are broadly consistent with [Dorff et al. \(2021\)](#) in terms of the absolute prevalence of PBCs. The key difference is that we benchmark the industry distribution of PBCs against that of all VC-backed non-PBCs, providing a clearer picture of relative concentration.

6.2 Investor Preference

As we hypothesized in Section 3.2, investor-side preferences for pro-social objectives can be an important driver of VC investments. This hypothesis yields two key predictions. First, the propensity to invest in PBCs should vary with investor-side characteristics—in particular, whether a VC has raised an impact-oriented fund. Second, exogenous shocks to LP preferences should affect PBC investment. We test these predictions in turn.

Investor-Level Analysis We test the first prediction using a within-VC-firm analysis relating a VC firm’s likelihood of investing in PBCs to its decision to launch an impact-oriented fund. The intuition is that launching an impact-oriented fund attracts LPs with corresponding preferences and signals a shift in both LP and VC preferences toward pro-social investments. We classify a fund as impact-oriented if its fund description or stated investment preferences explicitly reference *impact investing*. This classification includes both funds raised by dedicated impact investors and traditional VC funds that incorporate impact objectives alongside broader strategies.

Table 7 reports estimates using an investor-year panel, where the dependent variable is an indicator for making any PBC investment in a given year. Controlling for investor and year fixed effects, column 1 shows that investors are 13 percentage points more likely to invest in PBCs after raising an impact-oriented fund. Column 2 restricts PBC investments to those involving startups that were PBCs at inception, excluding conversions. The effect is smaller but remains significant, suggesting that the result is not driven solely by investors converting portfolio companies to PBCs. The results remain robust when excluding investors identified by PitchBook as impact investors (column 3), restricting the sample period to 2016–2024 (column 4), and excluding California-based investors (column 5).

The results in Table 7 show that investors that shift toward pro-social objectives become significantly more likely to invest in PBCs. This pattern directly supports the investor-

preference channel and is difficult to reconcile with the value-creation explanations: if VCs invest in PBCs solely because they are superior financial opportunities, the propensity to do so should not vary with the type of fund a VC raises, since traditional VC funds face no restrictions on investing in PBCs.

State Anti-ESG Policies The investor-level analysis underscores that investor preferences may be a key mechanism driving VC investments in PBCs. However, the decision to launch an impact-oriented fund is inherently endogenous. The ideal test would involve an exogenous shift in investor preferences. While a randomized trial is not feasible, the recent introduction of state-level anti-ESG policies provides a useful setting for capturing such a shift.

Starting with Nevada, more than 20 U.S. states have enacted restrictions in recent years that limit the ability of public investment funds to consider non-pecuniary factors in their capital allocation (Table IA.1). These policies do not explicitly target PBCs, but they should reduce demand for socially conscious investments by public pension funds (see Section A.1 in the Internet Appendix). Because public pension funds are the largest class of LPs, accounting for over 30% of total VC fundraising (e.g., González-Uribe, 2020), such restrictions are likely to materially constrain the appetite of both LPs and VC investors for pro-social startups. If investor preferences drive VC investments in PBCs, these state-level anti-ESG policies should reduce both VC investment in PBCs and, in turn, new PBC formation among startups seeking VC financing.

To estimate the effect of state anti-ESG policies on PBC incorporation, we rely on Form D filings. These filings provide a comprehensive sample of Delaware-incorporated startups that seek VC financing, as well as precise information on their headquarters state and industry. Table 8 reports the estimates at the startup level. Column 1 of Panel A shows that after a state adopts an anti-ESG policy, the likelihood of PBC incorporation in that state falls by

0.9 percentage points. This decline is economically significant relative to the 1.4% sample mean. The effect is robust to adding industry fixed effects (column 2), restricting the sample period to 2016–2024 (column 3), and excluding California-based startups (column 4).

The analysis in Table 8 Panel A indicates that startups seeking VC financing are significantly less likely to incorporate as PBCs following the adoption of anti-ESG measures in their headquarters state.²² Thus, a negative shift in investor preference toward pro-social investments leads to lower PBC incorporation, consistent with the hypothesis that investor preferences are an important driver of VC investments in PBCs.

Because state anti-ESG policies were adopted in a staggered fashion, Panel B reports robustness checks using a stacked regression estimator (e.g., Baker, Larcker, and Wang, 2022; Callaway and Sant’Anna, 2021; Sun and Abraham, 2021). The estimates are nearly identical to those in Panel A, alleviating concerns about bias in staggered-treatment designs.²³ We therefore rely on the baseline estimation design in the subsequent analyses.

We also provide evidence in support of the parallel trend assumption underlying the difference-in-differences design by estimating a dynamic specification in Table 9. Specifically, we replace the main explanatory variable, *Anti-ESG*, with a set of indicators for relative years around policy adoption in treated states.²⁴ Across specifications, all pre-treatment coefficients are statistically insignificant, suggesting that PBC incorporation evolved similarly across treated and control states prior to policy adoption and thereby supporting the parallel trend assumption. By contrast, after treatment, startups in treated states become significantly less likely to incorporate as PBCs, with the decline appearing in the year following the introduction of anti-ESG policies. These findings support our interpretation that

²² We also conduct a similar exercise at the state-quarter level using the broader Delaware registration sample, with headquarters state inferred using our LLM procedure. The results, reported in Table IA.4, are consistent but somewhat less precisely estimated, likely reflecting noise in the headquarters-state variable.

²³ The Callaway–Sant’Anna estimator also yields qualitatively similar results (Table IA.5).

²⁴ We use startups incorporated more than three years before policy adoption as the reference group to improve statistical power.

anti-ESG policies shifted investor preferences and reduced PBC incorporation.²⁵

We next examine the effect of state anti-ESG policies on VC investments in PBCs directly. To account for potential confounding from overall VC investment volume, we measure VC investments in PBCs as the fraction of VC deals in each state-quarter involving PBCs. Table 10 reports the state-quarter-level estimates. Controlling for state and deal-quarter fixed effects, column 1 shows that anti-ESG policy adoption reduces the share of VC investments in PBCs by 0.9 percentage points—roughly a 70% decline relative to the 1.20% sample mean. The effect is robust to restricting PBCs to those initially incorporated ones (column 2), excluding VC deals involving impact investors (column 3), narrowing the sample period to 2016–2024 (column 4), and excluding investments in startups headquartered in California (column 5).²⁶ These findings confirm that the regulatory constraints on LPs’ ability to consider pro-social investments are transmitted to VC fund managers and manifest in lower VC investment in PBCs.

We also examine the dynamic effects of anti-ESG policy adoption on VC investment in PBCs and find that such investment drops sharply in the year following policy adoption, suggesting that VCs respond quickly to shifts in LP preferences and are highly sensitive to regulatory changes (Figure IA.2).

Other Tests: Preferences versus Mandates Before concluding the analysis of the investor preference channel, we report several additional tests that help interpret our findings.

A key premise of the anti-ESG analysis is that these policies primarily affect LP and VC preferences toward pro-social investments by restricting public pension funds’ ability to consider non-pecuniary factors. A potential concern, however, is that state-level regulatory

²⁵ Following Roth (2022), we assess the power of our pre-trend test by calculating the minimum linear violation of parallel trends that our event-study specification can detect with 80% power. The test can detect a pre-trend slope greater than 0.004 in absolute value, which is less than one-half of the absolute value of the estimated treatment effect reported in column 1 of Panel A of Table 8.

²⁶ As a robustness check, we extend the analysis to include broader anti-boycott policies and find consistent results (Table IA.6).

changes may instead reduce the business opportunities and viability of pro-social ventures, rather than shift investor preferences, thus lowering the expected returns to PBC investments in affected states. This concern is less relevant for VC-backed startups, whose product or service markets are typically national or global and therefore are unlikely to be negatively affected by local anti-ESG policy changes.

We further address this concern by exploiting a different ESG-related policy setting—pro-ESG policy changes. If state regulatory environments directly affect venture viability and investors’ financial returns, pro-ESG policies should also increase PBC adoption and related VC investment, just as anti-ESG policies should reduce them. Contrary to this prediction, the results reported in Table IA.7 in the Internet Appendix show that pro-ESG policies do not increase either PBC incorporation or VC investment in PBCs. This asymmetry between anti- and pro-ESG effects is consistent with investor preferences driving VC investment in PBCs, rather than changes in underlying venture quality.²⁷

Another potential concern regarding the interpretation of our findings is whether the results reflect a genuine shift in investor preferences or a more mechanical change in investment mandates. To some extent, investment mandates likely reflect investor preferences, so this distinction is not inconsistent with our interpretation. But the policy implications would differ, and we test this directly.

Several pieces of evidence reject the mandate-based explanation. First, the variation in our investor preference tests in Tables 7–10 does not just arise from funds operating under a formal mandate to invest in pro-social ventures. Anti-ESG policies do not impose any formal restrictions on investing in companies with pro-social objectives; rather, they require that investment decisions be based solely on financial returns. A state pension fund and

²⁷ The effects of pro-ESG policies on the supply of startup financing and investor preference toward pro-social startups are limited, because such measures typically require only additional ESG disclosure or restrict investment in brown industries, rather than broadly targeting the capital allocation decisions of public pension funds (see Section A.3 in the Internet Appendix).

its associated VCs could still invest in a PBC (e.g., OpenAI) as long as the decision is motivated by financial returns rather than social objectives (e.g., developing a safe form of AI). Likewise, our impact-oriented fund classification in Table 7 includes not only formally designated impact funds, but also funds that merely reference impact goals in their fund descriptions. Moreover, in column 3 of Table 7, we exclude funds raised by dedicated impact investors entirely and still find similar effects.

We also directly examine the quality of PBC startups financed by VCs as a second test. If VC investment in PBCs simply reflects a shift in investment mandates—such that managers are required to invest in pro-social businesses regardless of quality—then the quality of PBC startups funded by VCs should decline, because underlying startup quality would become secondary to satisfying a mandate-driven objective. We measure startup quality at the time of VC investment using the cumulative number of eventually granted patents filed by the startup up to the investment year, which is a strong predictor of subsequent business success (Guzman and Stern, 2020).

Analogous to Table 7, Table IA.8 examines the quality of PBC startups backed by VCs around the launch of an impact-oriented fund. If anything, startup quality, measured by patenting, increases rather than decreases, the opposite of what a mandate-based explanation would predict. Table IA.9 examines the quality of PBC investments around anti-ESG policy adoption and finds no significant change.²⁸ Taken together, these results are inconsistent with a mandate explanation. Instead, they support a more nuanced mechanism in which VCs balance social and financial considerations when allocating capital.

In summary, across two settings—impact-oriented fund launches and state anti-ESG policies—we consistently find that shifts in investor preferences for social impact strongly predict VC investment in PBCs, without any deterioration in the quality of startups funded. While these results do not rule out the possibility that value-creation channels may operate

²⁸ Sample sizes are smaller because not all periods contain PBC investments.

at the margin, they indicate that investor preferences for pro-social objectives are the first-order driver of VC activity in PBCs.

7 Discussion

There are three main takeaways from our analysis. First, although PBCs remain relatively uncommon, they already represent a meaningful corporate presence. It is also reasonable to expect that this legal form could become more prominent. Several high-profile companies have adopted it, including leading AI startups with significant economic influence. Given the high prevalence of PBCs in VC-intensive industries, the number of PBCs among public companies may also rise as these firms are more likely to go public. For example, as of June 2026, OpenAI and Anthropic—both PBCs—were reportedly preparing for public listings, with Anthropic having already confidentially filed for an IPO.²⁹

Second, much of the PBC’s appeal stems from the presence of investors with clear preferences for pro-social objectives and a corresponding interest in ventures structured to pursue them. In this setting, the PBC form can be viewed as a legal innovation that facilitates such alignment: the form provides a credible contracting device that allows mission-driven firms to signal their commitment to social objectives and attract investors who value those objectives. The flip side is that PBC prevalence may depend heavily on investor sentiment, which can fluctuate over time.

Third, our findings speak to the role of shareholder primacy in firms’ access to capital markets. The relatively low prevalence of PBCs in the general population suggests that this legal form is unlikely to benefit the typical firm. However, PBCs are overrepresented in industries that attract intensive VC investment—a setting dominated by professional, profit-oriented investors focused on firms with strong growth and exit potential. This evidence suggests that

²⁹ https://www.wsj.com/tech/anthropic-ipo-paperwork-9a48c35e?mod=hp_lead_pos2

relaxing traditional shareholder primacy does not necessarily deter sophisticated investors when the alignment channel described above is operative. The growing number of states offering the benefit corporation framework is consistent with this view.

A further consideration in interpreting our findings concerns the focus on VC-backed startups. VCs engage in intensive post-investment monitoring—a feature especially relevant in the PBC context, as a central concern with relaxing shareholder primacy is the weakening of governance. The viability of PBCs may therefore depend on the presence of investors such as VCs who can provide close oversight and strong monitoring.

We view this as an important caveat, but we emphasize two points. First, as discussed earlier, our objective is not to make broad claims about the overall benefits of the PBC form. Rather, we aim to identify a well-defined setting in which professional investors view PBCs as a viable, and perhaps even preferred, organizational form. This is the minimal condition for arguing that the legal form constitutes a meaningful and potentially valuable addition for firms seeking external capital. Second, because VCs exit through public markets or acquisitions, forward-looking investors must account for demand from the broader investor base. It is therefore notable that none of the VC-backed PBCs that have gone public has converted back to a traditional corporate form before or around their IPOs, suggesting meaningful market acceptance of the PBC structure.

Finally, future research should examine whether PBCs genuinely advance pro-social goals or primarily serve a signaling function. Our results show that signaling is effective at attracting investors, but this does not imply that PBCs operate differently in practice. We provide one piece of evidence on this: Table [IA.10](#) in the Internet Appendix shows that PBCs are significantly more likely to file green patents (columns 1–3), but not more likely to patent overall (columns 4–6). This evidence is consistent with PBCs operating differently in economically meaningful ways, but the broader question of whether and how PBCs deliver on their pro-social commitments remains open ([Hartzmark and Shue, 2026](#)).

8 Conclusion

This paper examines the adoption of the public benefit corporation (PBC) form and its implications for firms' ability to raise external financing. We focus on venture capital—a setting in which access to capital is central to firm growth and highly sensitive to governance structures. Using newly assembled data linking all Delaware PBCs to comprehensive VC investment records, we find that PBC startups are more likely to receive VC funding than comparable traditional corporations and, conditional on receiving funding, achieve comparable or better exit outcomes. Moreover, PBC conversions disproportionately coincide with or follow VC investment, suggesting that investors and entrepreneurs view the form as a useful device for formalizing alignment around shared objectives.

Our results further indicate that the higher VC funding likelihood of PBCs is driven, in part, by investor-side preferences. VCs that raise impact-oriented funds become significantly more likely to invest in PBCs while state anti-ESG policies—which constrain LPs' ability to consider social factors—reduce both new PBC formation and VC investment in PBCs without affecting venture quality. These results suggest that the PBC form functions as a contracting device that facilitates alignment between mission-driven entrepreneurs and investors who value social impact, bridging growing demand for socially conscious investing and the supply of ventures credibly committed to social goals.

More broadly, our findings imply that relaxing shareholder primacy need not deter professional investors when the legal form enables alignment between firms and their capital providers. Nothing in our analysis implies that benefit corporations are superior for the typical firm. Rather, our results identify a setting in which this legal form appears to be valued by sophisticated investors. Understanding the governance challenges that arise when shareholder primacy is relaxed, and whether PBCs genuinely deliver on their pro-social commitments, remain important questions for future research.

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Figure 1: State Adoption of Benefit Corporation Statutes

This figure maps U.S. states according to their adoption of benefit corporation legislation as of 2024. Darker shading indicates states that have proposed or enacted benefit corporation statutes. Other states appear in white.

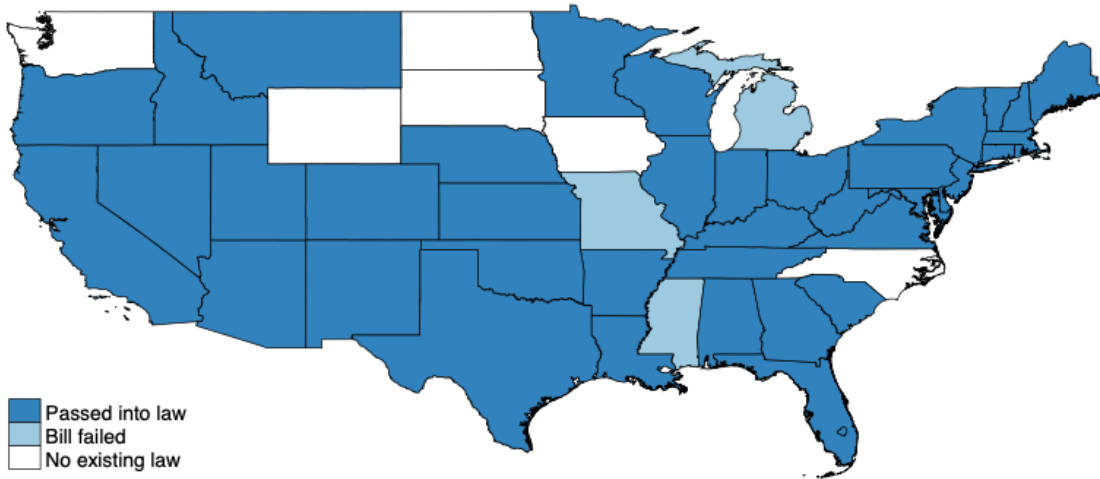


Figure 2: Number and Share of PBCs Incorporated in Delaware

This figure plots the annual number (left axis) and share (right axis) of public benefit corporations (PBCs) incorporated in Delaware from 2013 to 2024, by incorporation year. The dashed line represents the total number of PBCs incorporated each year, while the solid line shows PBCs as a fraction of all newly incorporated firms in the state.

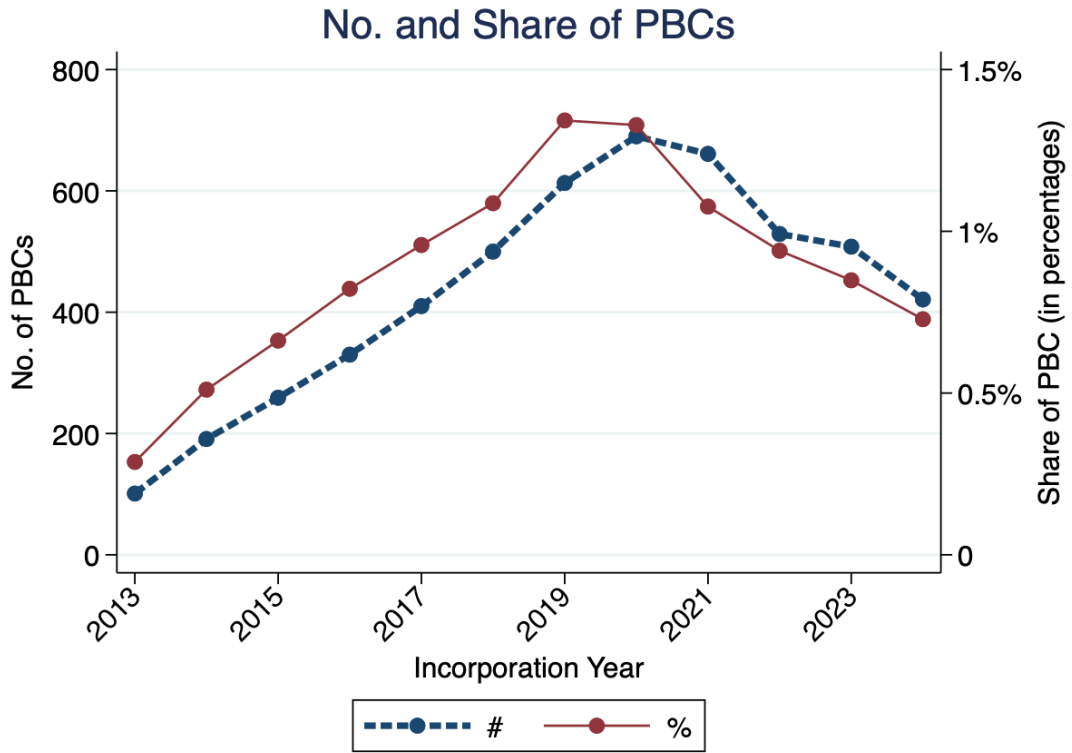


Figure 3: Probability of Raising VC Financing

This figure plots the probability of receiving venture capital (VC) financing within three years of incorporation, reported separately for PBCs and non-PBCs. The sample includes startups incorporated in Delaware between 2013 and 2021.

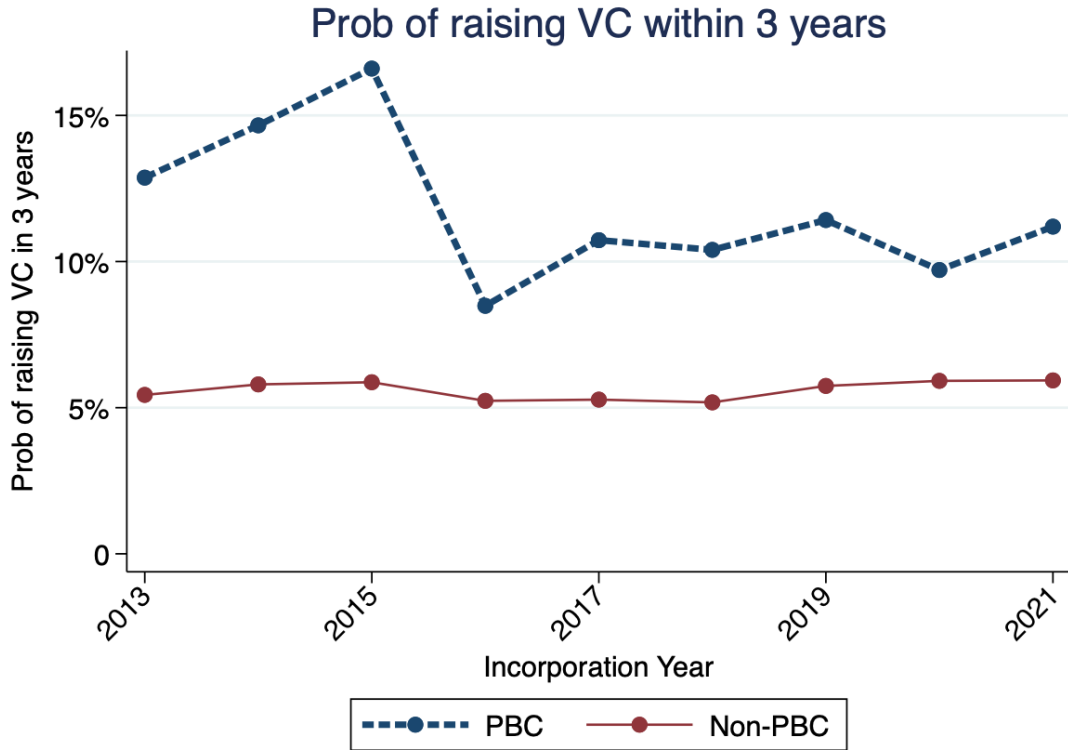


Figure 4: PBC Incorporation by VC Investment Intensity over Time

This figure plots the estimated coefficients from single-difference regressions of PBC incorporation on industry-level VC investment intensity. VC investment intensity is measured as the share of startups in each two-digit SIC industry that raised their first VC round during 2010-2012 (out of all such startups). Each coefficient is estimated using the subsample of startups within the incorporation cohort indicated on the x-axis. The dependent variable is an indicator equal to one if a startup is initially incorporated as a PBC. The vertical red lines represent the 95% confidence interval for the coefficient estimates.

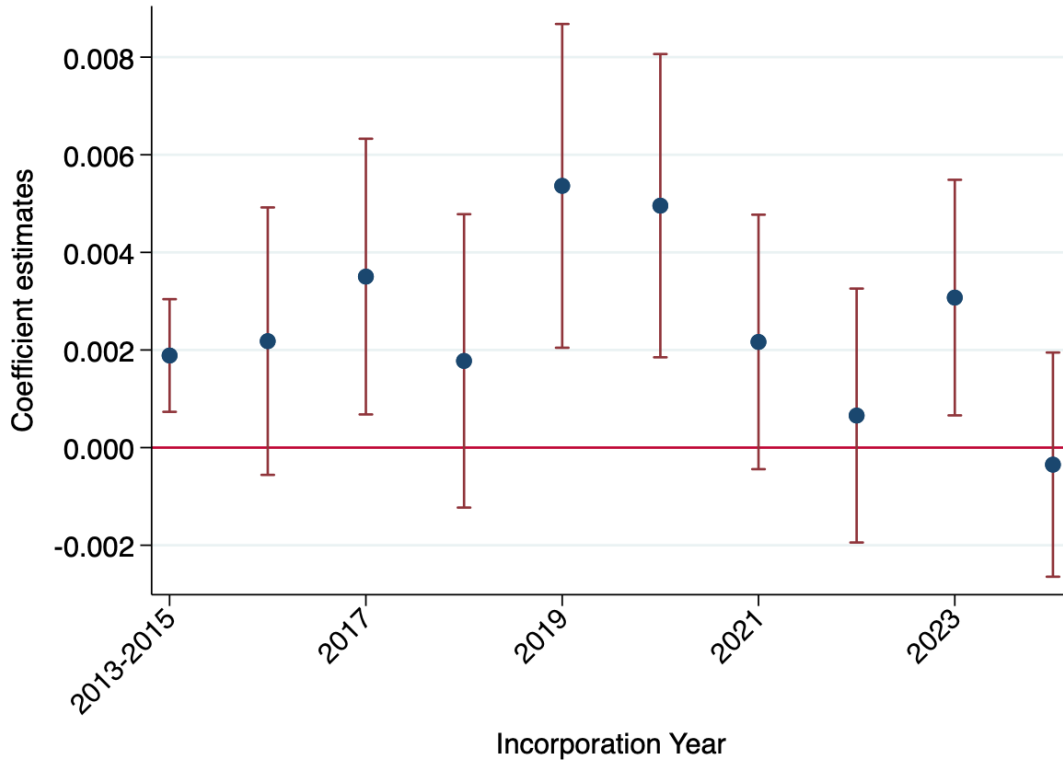


Figure 5: VC Financing around PBC Conversion

This figure plots the fraction of startups that raised their first VC financing in each quarter relative to their conversion to PBC status. The sample includes all Delaware-registered startups that raised VC funding and converted to a PBC between 2013 and 2024.

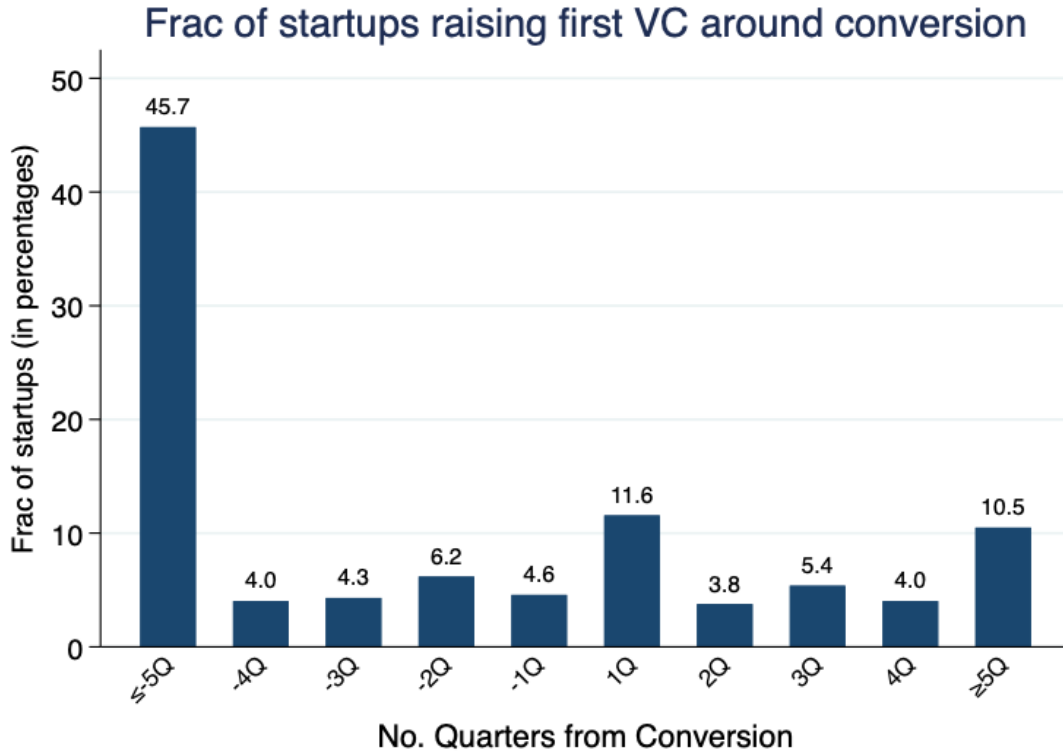


Table 1: Summary Statistics

This table presents summary statistics for the startup sample (Panel A) and the VC deal sample (Panel B), used in the analysis of startups' VC financing and VCs' investment performance, respectively. The startup sample includes all startups incorporated in Delaware from 2013 to 2021. The VC deal sample includes all VC deals made over the same period. *Raised VC* is an indicator equal to one if a startup raised VC funding within three years of incorporation; *Capital* is the total dollar amount of VC funds raised by a startup within three years of incorporation; *PBC* equals one if a startup is initially incorporated as a PBC; *Age at Financing* is the startup's age in years at the time of VC investment; *Deal Size* is the size of the VC investment in millions of dollars; *Ownership Acquired* is the percentage of startup equity acquired by VC investors; *IPO* is an indicator equal to one if the startup eventually goes public.

Panel A: The startup sample

	Mean	Std. Dev.	5-%ile	25-%ile	50-%ile	75-%ile	95-%ile
Raised VC	0.06	0.23	0.00	0.00	0.00	0.00	1.00
Raised VC (ex. impact)	0.06	0.23	0.00	0.00	0.00	0.00	1.00
Raised VC (ever)	0.07	0.25	0.00	0.00	0.00	0.00	1.00
Capital	0.60	13.13	0.00	0.00	0.00	0.00	0.00
PBC	0.01	0.09	0.00	0.00	0.00	0.00	0.00

Panel B: The VC deal sample

	Mean	Std. Dev.	5-%ile	25-%ile	50-%ile	75-%ile	95-%ile
Age at Financing	4.16	4.58	0.00	1.00	3.00	6.00	11.00
Deal Size	18.81	76.79	0.20	1.50	4.48	14.50	70.00
Ownership Acquired	25.92	13.69	6.58	16.45	24.86	33.33	50.00
IPO	0.04	0.19	0.00	0.00	0.00	0.00	0.00

Table 2: PBC Incorporation and VC Financing

This table examines the relationship between a startup’s likelihood of raising VC funding and its initial choice of entity type (PBC versus non-PBC) at the startup level. The sample includes all startups incorporated in Delaware from 2013 to 2021. The dependent variable is an indicator for whether the startup raised VC funding within the following window: within three years of incorporation (columns 1 and 2), within three years of incorporation and from non-impact investors only (column 3), and from incorporation through the end of our VC sample period in 2024 (column 4). In column 5, the dependent variable is the inverse hyperbolic sine (IHS) transformation of total VC capital raised within three years of incorporation. *PBC* equals one if a startup is initially incorporated as a PBC, and zero otherwise. *Inc Year FE*, *Industry FE*, and *State FE* denote fixed effects for incorporation year, two-digit SIC industry, and headquarters state. Heteroskedasticity-robust standard errors are reported in parentheses.

	Raised VC				Capital
	(1)	(2)	(3)	(4)	(5)
	3 yr	3 yr	ex. impact	ever	3 yr
PBC	0.029*** (0.005)	0.027*** (0.005)	0.021*** (0.005)	0.036*** (0.005)	0.027** (0.010)
Observations	399,092	398,698	399,092	399,092	399,092
Adj. R^2	0.000	0.015	0.000	0.000	0.000
Inc Year FE	Y	Y	Y	Y	Y
Industry FE	N	Y	N	N	N
State FE	N	Y	N	N	N

Table 3: VC Investment Intensity and PBC Incorporation

This table examines a startup’s initial choice of entity type (PBC versus non-PBC) as a function of industry-level VC investment intensity at the startup level. The sample period is over 2013–2024 for all columns except column 3 in which it is over 2016–2024. In column 4, startups headquartered in California are excluded from the sample. The dependent variable is an indicator equal to one if a startup is initially incorporated as a PBC. VC investment intensity (*VC Intensity*) is measured as the share of startups in a given SIC industry that raised their first VC round during 2010-2012 (out of all such startups). *VC Intensity* is constructed at the two-digit SIC level in columns 1-4 and at the four-digit SIC level in column 5. *Inc Year FE* and *State FE* denote fixed effects for incorporation year and headquarters state. Heteroskedasticity-robust standard errors are reported in parentheses.

	PBC				
	(1)	(2)	(3)	(4)	(5)
	all	all	16-24	ex. CA	Orbis
VC Intensity	0.002*** (0.000)	0.002*** (0.000)	0.003*** (0.000)	0.004*** (0.001)	0.011* (0.006)
Observations	572,321	572,321	460,898	310,275	47,551
Adj. R^2	0.001	0.002	0.000	0.001	0.002
Inc Year FE	Y	Y	Y	Y	Y
State FE	N	Y	N	N	N

Table 4: VC Financing and PBC Conversion

This table examines the relationship between the timing of a startup’s first VC funding and its conversion to PBC status at the startup-quarter level. The sample includes all startups that received VC funding and also converted to a PBC between 2013 and 2024. The dependent variable is an indicator for whether a startup converts to PBC status in quarter t (columns 1-4), and in the three-quarter window $[t-1, t+1]$ (column 5). In column 3, startups that raised their first VC funding from any impact investor are excluded from the sample. In column 4, observations after a startup’s conversion to PBC status are excluded. *Raised VC* equals one if a startup raises its first VC funding in the current quarter, and zero otherwise. *Startup FE* and *Qtr FE* denote startup and quarter fixed effects. Standard errors in parentheses are clustered by startup.

	Convert to PBC				
	(1)	(2)	(3)	(4)	(5)
	[t, t]	[t, t]	ex. impact	till conversion	[t-1, t+1]
Raised VC	0.081*** (0.020)	0.081*** (0.020)	0.083*** (0.021)	0.098*** (0.025)	0.080*** (0.023)
Log Age		0.004 (0.006)			
Observations	8,076	8,076	7,110	4,603	8,076
Adj. R^2	-0.012	-0.012	-0.012	0.141	0.037
Startup FE	Y	Y	Y	Y	Y
Qtr FE	Y	Y	Y	Y	Y

Table 5: Performance of VCs' PBC Investments

This table examines the performance of VCs' PBC investments at the investor-deal level. The sample period is over 2013–2021. The dependent variables measure portfolio company exit outcomes: whether the startup has gone public (columns 1-4), and whether the startup has gone public or been acquired at a valuation at least twice the total amount of capital raised (column 5). Column 3 focuses on PBCs in which the structure was in place at least 30 days prior to the VC investment. Column 4 excludes impact investors from the sample. The main explanatory variable, *PBC*, equals one if the portfolio company is a PBC, and zero otherwise. *Investor FE*, *Investing Year FE*, *Industry FE*, *VC Round FE*, and *State FE* denote fixed effects for the investor, year of investment, portfolio company industry, VC financing round, and portfolio company headquarters state, respectively. Standard errors in parentheses are clustered by investor.

	IPO				IPO or Acq
	(1)	(2)	(3) ex. converted after	(4) ex. impact	(5)
	all	all			all
PBC	0.034*** (0.006)	0.026*** (0.006)	0.021*** (0.006)	0.036*** (0.006)	0.022*** (0.007)
Log Age		-0.001 (0.001)			
Log Deal Size		0.025*** (0.001)			
Observations	157,568	140,478	157,568	154,982	157,568
Adj. R^2	0.188	0.261	0.187	0.189	0.150
Investor FE	Y	Y	Y	Y	Y
Investing Year FE	Y	Y	Y	Y	Y
Industry FE	Y	Y	Y	Y	Y
VC Round FE	N	Y	N	N	N
State FE	N	Y	N	N	N

Table 6: Distribution of PBCs and Non-PBC Startups

This table reports the distribution of PBC and non-PBC startups across sectors (Panel A) and headquarters states (Panel B) among VC-backed startups founded between 2013 and 2024, as recorded in PitchBook. Panel B includes only states with at least 15 VC-backed PBCs.

Panel A: Distribution by industry

	No. of PBCs	Frac of PBCs	No. of Non-PBCs	Frac of Non-PBCs
Information Technology	236	31.5	21,477	48.6
Consumer Products and Services	210	28.0	7,126	16.1
Business Products and Services	123	16.4	4,822	10.9
Healthcare	109	14.5	8,014	18.1
Financial Services	34	4.5	1,657	3.8
Materials and Resources	21	2.8	592	1.3
Energy	17	2.3	493	1.1

Panel B: Distribution by headquarters state

	No. of PBCs	Frac of PBCs	No. of Non-PBCs	Frac of Non-PBCs
California	286	38.1	15,675	35.5
New York	131	17.5	6,339	14.3
Texas	32	4.3	2,495	5.6
Massachusetts	32	4.3	2,574	5.8
Colorado	32	4.3	1,041	2.4
Virginia	20	2.7	614	1.4
Delaware	20	2.7	1,315	3.0
District of Columbia	19	2.5	261	0.6
Washington	17	2.3	1,292	2.9

Table 7: Impact-oriented Fund Raising and PBC Investment

This table examines whether investors increase PBC investments following the raising of an impact-oriented fund that identifies impact investing as one of its stated objectives, at the investor-year level. The sample period is over 2013–2024 for all columns except column 4 in which it is over 2016–2024. In column 5, investors located in California are excluded from the sample. The dependent variable, *Made PBC Investment*, is an indicator equal to one if an investor makes at least one PBC investment in a given year. In column 2, only startups initially incorporated as PBCs are counted as PBC investments; in column 3, impact investors are excluded from the sample. The main explanatory variable *Raised Impact-Oriented Fund* equals one if the investor has raised a fund that identifies impact investing as one of its objectives (based on fund description and investment preferences reported in PitchBook), and zero otherwise. *Investor FE* and *Investing Year FE* denote fixed effects for the investor and investment year. Standard errors in parentheses are clustered by investor state.

	Made PBC Investment				
	(1) all	(2) ex. converted	(3) ex. impact	(4) 16-24	(5) ex. CA
Raised Impact-Oriented Fund	0.126*** (0.025)	0.074*** (0.013)	0.123*** (0.029)	0.093*** (0.029)	0.126*** (0.034)
Observations	49,638	49,638	48,123	40,891	31,986
Adj. R^2	0.201	0.149	0.193	0.208	0.185
Investor FE	Y	Y	Y	Y	Y
Investing Year FE	Y	Y	Y	Y	Y

Table 8: State Anti-ESG Policy Changes and PBC Incorporation

This table examines the impact of state anti-ESG policy changes on a startup’s initial choice of entity type (PBC versus non-PBC) at the startup level. Panel A reports staggered difference-in-differences estimates, while Panel B reports results from a stacked regression estimator. The sample includes Delaware-incorporated startups that have also filed a Form D. The sample period is over 2013–2024 for all columns except column 3 in which it is over 2016–2024. In column 4, startups headquartered in California are excluded from the sample. The dependent variable is *PBC*, an indicator equal to one if a startup is initially incorporated as a PBC. *Anti-ESG* equals one if the startup is formed in a state that has enacted an anti-ESG measure, and zero otherwise. *State FE*, *Inc Qtr FE* and *Industry FE* denote fixed effects for headquarters state, incorporation quarter, and industry (as defined in Form D filing). Panel B includes the same fixed effects as Panel A, omitted for brevity. Standard errors in parentheses are clustered by startup headquarters state.

Panel A: Baseline

	PBC			
	(1)	(2)	(3)	(4)
	all	all	16-24	ex. CA
Anti-ESG	−0.009** (0.004)	−0.009** (0.004)	−0.008** (0.003)	−0.008** (0.004)
Observations	27,065	27,065	20,198	19,639
Adj. R^2	0.004	0.006	0.003	0.004
State FE	Y	Y	Y	Y
Inc Qtr FE	Y	Y	Y	Y
Industry FE	N	Y	N	N

Panel B: Stacked regression estimator

	PBC			
	(1)	(2)	(3)	(4)
	all	all	16-24	ex. CA
Anti-ESG	−0.009** (0.004)	−0.009** (0.004)	−0.008** (0.004)	−0.008** (0.004)
Observations	186,301	186,301	137,469	126,893
Adj. R^2	0.003	0.005	0.002	0.003

Table 9: Anti-ESG Policies and PBC Incorporation: Dynamic Estimation

This table presents dynamic estimates of the impact of state anti-ESG policy changes on a startup's initial choice of entity type (PBC versus non-PBC) at the startup level, analogous to Table 8. The *Anti-ESG* indicator is replaced with a set of dummy variables *Anti-ESG* \times *Year* *i* indicating the relative year *i* surrounding the enactment quarter of anti-ESG policies in treated states (e.g., Year 1 corresponds to the four quarters following enactment). The interaction term for the period more than three years prior to the policy changes is omitted and serves as the reference group. The dependent variable is *PBC*, an indicator equal to one if a startup is initially incorporated as a PBC. *State FE*, *Inc Qtr FE* and *Industry FE* denote fixed effects for headquarters state, incorporation quarter, and industry (as defined in Form D filing). Standard errors in parentheses are clustered by startup headquarters state.

	PBC			
	(1)	(2)	(3)	(4)
	all	all	16-24	ex. CA
Anti-ESG \times Year -3	-0.010 (0.007)	-0.010 (0.007)	-0.010 (0.008)	-0.008 (0.007)
Anti-ESG \times Year -2	-0.006 (0.007)	-0.006 (0.007)	-0.006 (0.008)	-0.005 (0.008)
Anti-ESG \times Year -1	0.001 (0.007)	0.001 (0.007)	0.002 (0.008)	-0.001 (0.007)
Anti-ESG \times Year 1	-0.011** (0.005)	-0.011** (0.004)	-0.010** (0.005)	-0.011** (0.005)
Anti-ESG \times Year 2	-0.009 (0.006)	-0.010 (0.006)	-0.009 (0.006)	-0.007 (0.007)
Anti-ESG \times Year 3+	-0.014** (0.007)	-0.015** (0.006)	-0.014* (0.008)	-0.018** (0.007)
Observations	27,065	27,065	20,198	19,639
Adj. R^2	0.004	0.006	0.003	0.004
State FE	Y	Y	Y	Y
Inc Qtr FE	Y	Y	Y	Y
Industry FE	N	Y	N	N

Table 10: State Anti-ESG Policy Changes and VCs' PBC Investments

This table presents staggered difference-in-differences analyses examining the impact of state anti-ESG policy changes on VCs' PBC investments at the state-quarter level. Panel A reports staggered difference-in-differences estimates while Panel B reports results from a stacked regression estimator. The sample period is over 2013–2024 for all columns except column 4 in which it is over 2016–2024. The dependent variable is the fraction of VC deals in a state-quarter that are investments in PBCs. Column 2 restricts to PBC investments in startups initially incorporated as PBCs. Column 3 further restricts to PBC investments that do not involve any impact investor. In column 5, California is excluded from the sample. *Anti-ESG* equals one if a state has enacted an anti-ESG measure, and zero otherwise. *State FE* and *Deal Qtr FE* denote fixed effects for state and deal quarter. Panel B includes the same fixed effects as Panel A, omitted for brevity. Standard errors in parentheses are clustered by state.

Panel A: Baseline

	Frac of PBC Investments				
	(1) all	(2) ex. converted	(3) ex. impact	(4) 16-24	(5) ex. CA
Anti-ESG	−0.009*	−0.007***	−0.004*	−0.006**	−0.007**
	(0.005)	(0.003)	(0.002)	(0.003)	(0.003)
Observations	2,385	2,385	2,377	1,793	2,337
Adj. R^2	0.111	0.132	0.121	0.153	0.131
State FE	Y	Y	Y	Y	Y
Deal Qtr FE	Y	Y	Y	Y	Y

Panel B: Stacked regression estimator

	Frac of PBC Investments				
	(1) all	(2) ex. converted	(3) ex. impact	(4) 16-24	(5) ex. CA
Anti-ESG	−0.009*	−0.008***	−0.005*	−0.007**	−0.008***
	(0.005)	(0.003)	(0.002)	(0.003)	(0.003)
Observations	12,276	12,276	12,254	9,220	11,892
Adj. R^2	0.166	0.152	0.159	0.170	0.151

Internet Appendix

A State ESG-Related Policies

Environmental, social, and governance (ESG) investing has become a key focus area for investors in recent years and a growing target of regulatory attention at both the federal and state levels in the United States. At the federal level, for example, the Department of Labor (DOL) adopted a rule in November 2020 titled “Financial Factors in Selecting Plan Investments,” which required plan fiduciaries to base investment decisions and courses of action solely on pecuniary factors.¹

Following the change in administration, however, the DOL quickly reversed course. The Biden administration issued a proposed rule to replace the 2020 framework with a more flexible approach to ESG considerations under ERISA fiduciary duties. In November 2022, the DOL finalized this new rule, explicitly allowing retirement plan fiduciaries to consider climate change and other ESG factors when making investment decisions and exercising shareholder rights, such as proxy voting.

At the state level, ESG investing has also become a highly contested issue, with legislatures across the United States debating the relevance and materiality of ESG factors and adopting divergent regulations. Depending on whether these measures promote or restrict ESG, we classify them into different categories below.

A.1 Anti-ESG Policies

As of the end of 2024, we identify 21 U.S. states that have enacted anti-ESG measures explicitly restricting the consideration of ESG factors in state investment strategies (see Table

¹ <https://www.dol.gov/agencies/ebsa/about-ebsa/our-activities/resource-center/fact-sheets/final-rule-on-prudence-and-loyalty-in-selecting-plan-investments-and-exercising-shareholder-rights>

IA.1). These measures take various forms, including statements issued by state government agencies—such as the offices of attorney general or state treasurer—or legislation passed by state houses or senates.

For instance, Indiana issued an attorney general’s opinion on September 1, 2022, stating that “investing based on ESG considerations is inconsistent with these [the Indiana Public Retirement System’s (INPRS) board’s fiduciary and other statutory] duties.” As an example of state legislation, Idaho enacted Senate Bill 1405 on March 28, 2022, which prohibits public entities, including state investment boards, from considering ESG characteristics in investment decisions in a manner that overrides the prudent investor rule.²

In some cases, states implemented multiple anti-ESG actions. For example, Florida first adopted a revised investment policy on August 23, 2022, requiring the State Board of Administration to evaluate retirement system investments based solely on pecuniary factors.³ The state later enacted House Bill 3, which codified similar provisions. When multiple measures exist in a state, we use the enactment date of the earliest measure in our analysis.

These state-level regulations create significant cross-state variations in the regulatory treatment of ESG considerations in public fund investments. By restricting the use of ESG factors, anti-ESG policies can directly impact how state and local pension funds make investment decisions. Since public pension funds represent the largest class of limited partners (LPs) in venture capital funds, these policies can in turn affect the supply of VC capital for ESG-related investments and VCs’ preferences toward PBC investments. Accordingly, we exploit these state anti-ESG policies as exogenous shocks to LP and VC investors’ preferences toward PBCs and examine their implications for PBC incorporation and VC investment behavior.

² <https://legiscan.com/ID/bill/S1405/2022>

³ https://www.flgov.com/eog/sites/default/files/press/ESG-Resolution-Final_0.pdf

A.2 Anti-boycott Policies

In addition to anti-ESG policies, some states have also enacted anti-boycott measures targeting companies that boycott fossil fuel or other “brown” industries within the state. We identify 14 such states (Table IA.2). These measures typically target companies either by (i) placing specific companies on restricted lists that prohibit public entities from investing in them, or (ii) requiring public entities to obtain written verification that companies do not engage in boycotts of designated industries before entering into contracts with them. Unlike the anti-ESG measures, all anti-boycott measures have been adopted through the legislative process. When a state implements multiple anti-boycott measures, we again use the enactment date of the earliest measure in our analysis.

Because anti-boycott measures primarily focus on firms that boycott certain brown industries, their impact tends to be narrower in scope and concentrated among large financial institutions such as Fidelity, Vanguard and BlackRock.⁴ Given their limited relevance to the venture capital industries, we do not include anti-boycott policies in our main analysis.

A.3 Pro-ESG Policies

In contrast to anti-ESG and anti-boycott policies, some states have also enacted pro-ESG policies. Compared with anti-ESG measures, fewer states have implemented pro-ESG changes, which generally occurred slightly earlier and were concentrated around 2019–2021 (Table IA.3).

Pro-ESG policies also appear more limited in scope and less binding than anti-ESG measures. For example, Colorado passed SB 23-016 in May 2023, which only requires public employee retirement systems to provide an annual report on climate change risk assessments and the anticipated impact on investment strategy. Among the 14 states with any pro-

⁴ For example, see the list published by the Texas Comptroller: <https://comptroller.texas.gov/purchasing/publications/divestment.php>

ESG measures, only three states (Illinois, Maryland, and New Hampshire) passed legislation explicitly requiring state public entities to consider ESG factors in investment decisions. In Texas, only one of the public pensions—the Teacher Retirement System of Texas—adopted a policy incorporating an ESG statement into its broad investment policy statement.⁵

Additionally, seven other states (California, Connecticut, Maine, Massachusetts, Nevada, New York, and Rhode Island, marked with * in Table IA.3) adopted pro-ESG policies that solely restrict public investments in certain industries. For example, California passed SB 185 in April 2015, prohibiting its public pension funds from making new investments in thermal coal companies.

Given the limited direct impact on the venture capital industry, we use pro-ESG policies as placebo tests. Consistent with their limited scope, we find no effect of these policies on PBC incorporation or VCs' PBC investments (Table IA.7).

⁵ <https://www.pionline.com/pension-funds/texas-teachers-adopts-formal-esg-policy/>

B Additional Figures and Tables

Figure IA.1: VC Deals Involving Impact Investors

This figure plots the number (left axis) and share (right axis) of VC deals that include at least one impact investor from 2013 to 2024, by VC financing year. Impact investors are identified at the investor level based on PitchBook classifications.

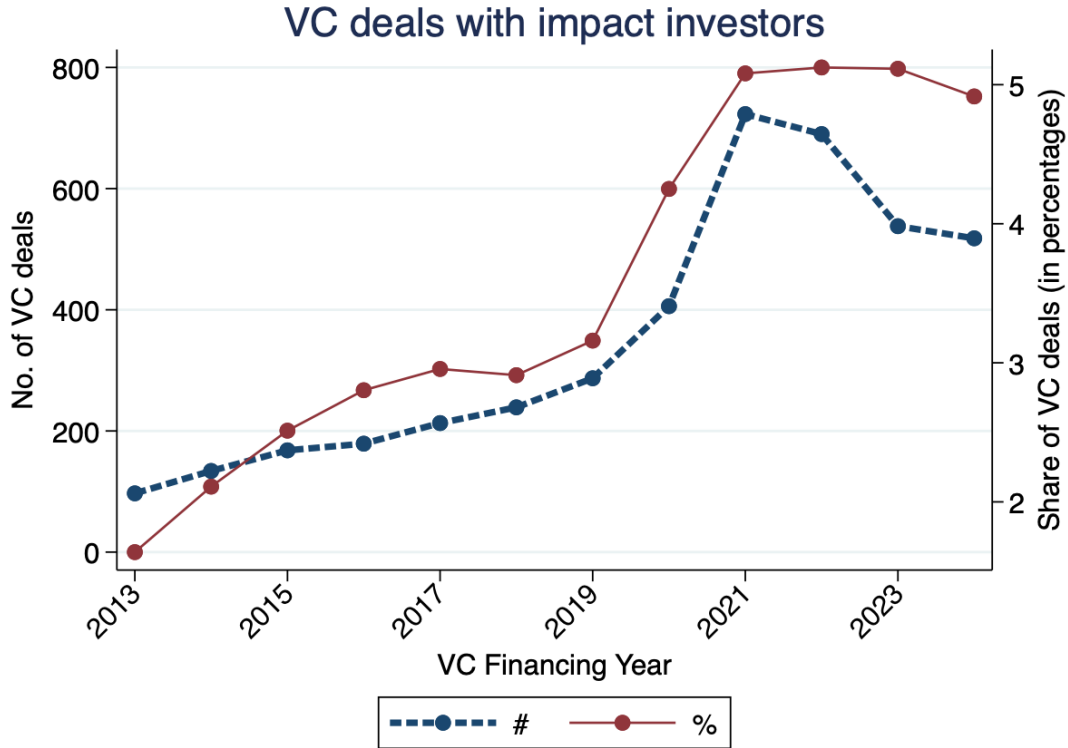


Figure IA.2: Dynamic Effects of Anti-ESG Policies on VCs' PBC Investments

This figure presents the dynamic effects of state anti-ESG policy changes on VCs' PBC investments at the state level, analogous to Table 10. Relative year i is defined with respect to the enactment quarter of anti-ESG policies in treated states (e.g., Year 1 corresponds to the four quarters following enactment). The interaction term for the period more than three years prior to the policy changes is omitted and serves as the reference group. Vertical bars denote 95% confidence intervals, with standard errors clustered by state.

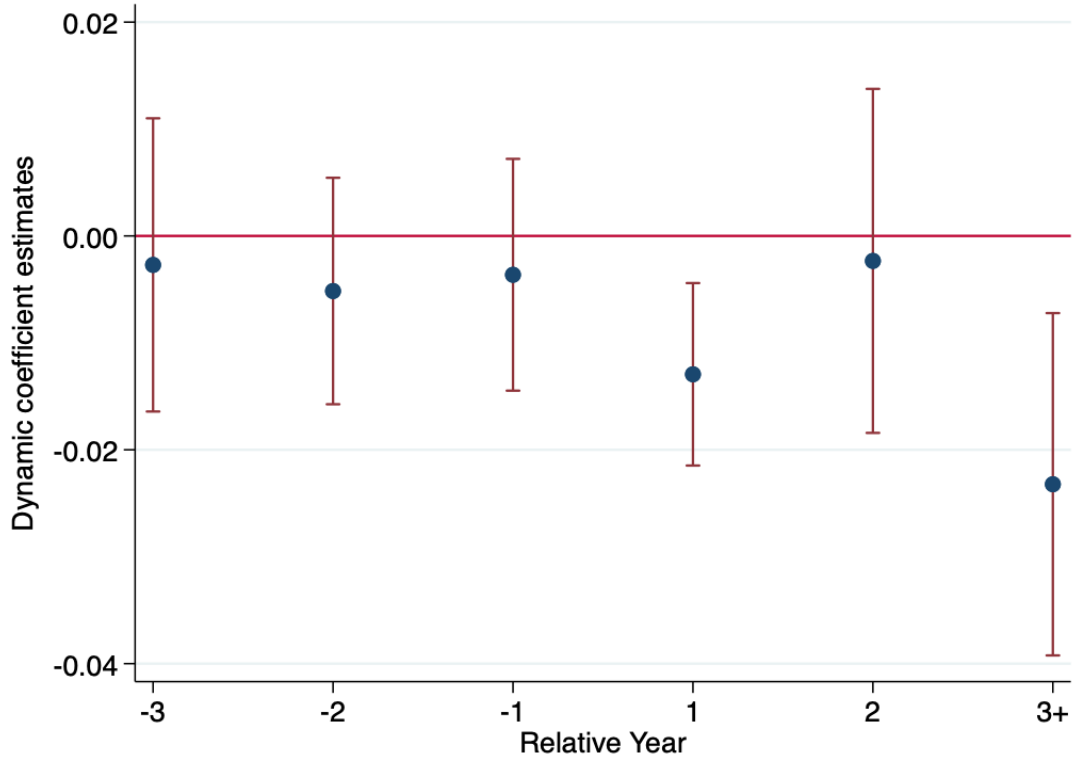


Table IA.1: State-Level Anti-ESG Policies

This table lists the U.S. states that enacted anti-ESG policies as of the end of 2024, along with the corresponding policy measures and their enactment dates. When a state enacted multiple anti-ESG measures, we use the enactment date of the earliest measure. Additional details are provided in Section A of the Internet Appendix.

State	Policy Measure	Enactment Date
<i>AL</i>	Attorney general written testimony	5/10/2023
<i>AR</i>	HB 1253	4/10/2023
<i>AZ</i>	State Treasurer's Office investment policy statement	8/30/2022
<i>FL</i>	State Board of Administration investment policy	8/23/2022
<i>GA</i>	General statement of investment policy	9/15/2022
<i>ID</i>	SB 1405	3/28/2022
<i>IN</i>	Attorney general opinion	9/01/2022
<i>KS</i>	HB 2100	4/25/2023
<i>KY</i>	Attorney general opinion	5/26/2022
<i>LA</i>	HCR 110	6/12/2023
<i>MS</i>	Treasurer letter	11/14/2022
<i>MO</i>	HR 12	5/12/2023
<i>MT</i>	HB 228	4/19/2023
<i>NH</i>	Executive order	4/10/2023
<i>NC</i>	HB 750	6/27/2023
<i>ND</i>	SB 2291	3/23/2021
<i>SC</i>	HB 3690	2/05/2024
<i>TN</i>	SB 955	5/17/2023
<i>UT</i>	SCR 9	3/14/2023
<i>WV</i>	HB 2862	3/10/2023
<i>WY</i>	State Treasurer's statement	5/03/2023

Table IA.2: State-Level Anti-boycott Policies

This table lists the U.S. states that enacted anti-boycott policies as of the end of 2024, along with the corresponding policy measures and their enactment dates. When a state enacted multiple anti-boycott measures, we use the enactment date of the earliest measure. Additional details are provided in Section A of the Internet Appendix.

State	Policy Measure	Enactment Date
<i>AL</i>	SB 261	5/31/2023
<i>AR</i>	HB 1307, HB 1845, SB 62	3/30/2023
<i>ID</i>	HB 191, HB 190	3/23/2023
<i>KY</i>	SB 205	4/8/2022
<i>LA</i>	HCR 70	5/24/2023
<i>MT</i>	HJ 11, HB 356	4/14/2023
<i>NH</i>	HB 1469	6/26/2022
<i>ND</i>	SB 2291	3/24/2021
<i>OK</i>	HB 2034	5/9/2022
<i>TN</i>	SB 2649	5/25/2022
<i>TX</i>	SB 13, SB 19, SB 833	9/1/2021
<i>UT</i>	SB 97, HB 449, HB 281	3/14/2023
<i>WV</i>	SB 262	4/20/2022
<i>WY</i>	HB 0236	4/7/2021

Table IA.3: State-Level Pro-ESG Policies

This table lists the U.S. states that enacted pro-ESG policies as of the end of 2024, along with the corresponding policy measures and their enactment dates. States marked with an asterisk adopted pro-ESG policies that solely restrict public investments in certain industries (e.g., fossil fuels or firearms). Additional details are provided in Section A of the Internet Appendix.

State	Policy Measure	Enactment Date
<i>CO</i>	SB 23-016	05/11/2023
<i>IL</i>	HB 1471, PA 101-473, SB 653, SB 2152, HB 2872	07/12/2019
<i>MD</i>	HB 740, SB 566	04/09/2022
<i>NH</i>	SB 49	07/01/2021
<i>NM</i>	ESG Policy by the State Investment Council	08/2021
<i>OR</i>	Investment council approval	09/09/2020
<i>TX</i>	Teacher retirement system ESG policy	09/16/2021
<i>CA</i> *	SB 185	4/8/2015
<i>CT</i> *	State treasurer investment policy statement	12/3/2019
<i>ME</i> *	HP 65, LD 99	6/10/2021
<i>MA</i> *	PRIM Board proxy voting guidelines	2/17/2022
<i>NV</i> *	Treasurer announcement	6/3/2022
<i>NY</i> *	Teachers' retirement divestment	12/28/2021
<i>RI</i> *	State pension initiative	1/22/2020

Table IA.4: Anti-ESG Policies and PBC Incorporation: State-Level Analysis

This table examines the impact of state anti-ESG policy changes on startups' PBC choice at the headquarters state-incorporation quarter level, complementing the startup-level analysis in Table 8. This analysis uses the broad Delaware business registration sample, with startups' headquarters state information inferred using our LLM procedure. The dependent variables are the fraction of newly incorporated PBCs in a state each quarter in columns 1-3, the inverse hyperbolic sine (IHS) transformation of the number of newly incorporated PBCs in a state each quarter in column 4, and the IHS transformation of the number of newly incorporated non-PBCs in a state each quarter in column 5. *Anti-ESG* equals one if a state has enacted an anti-ESG measure, and zero otherwise. *State FE* and *Inc Qtr FE* denote fixed effects for headquarters state and incorporation quarter. Standard errors in parentheses are clustered by state.

	Frac of PBCs			No. of PBCs	No. of Non-PBCs
	(1)	(2)	(3)	(4)	(5)
	all	16-24	ex. CA	all	all
Anti-ESG	-0.003*	-0.003	-0.003*	-0.092	-0.044
	(0.002)	(0.002)	(0.002)	(0.056)	(0.055)
Observations	2,446	1,834	2,398	2,448	2,448
Adj. R^2	0.092	0.080	0.092	0.733	0.971
State FE	Y	Y	Y	Y	Y
Inc Qtr FE	Y	Y	Y	Y	Y

Table IA.5: Callaway and Sant’Anna Estimator

This table provides a robustness check for Table 8 using the Callaway and Sant’Anna estimator. The sample includes Delaware-incorporated startups that have also filed a Form D. The sample period is over 2013–2024 for all columns except column 3 in which it is over 2016–2024. In column 4, startups headquartered in California are excluded from the sample. The dependent variable is an indicator equal to one if a startup is initially incorporated as a PBC. *Anti-ESG* equals one if a startup is formed in a state that has enacted an anti-ESG measure, and zero otherwise. *State FE*, *Inc Qtr FE* and *Industry FE* denote fixed effects for a startup’s headquarters state, incorporation quarter, and industry (as defined in Form D filing). Standard errors in parentheses are clustered by startup headquarters state.

	PBC			
	(1)	(2)	(3)	(4)
	all	all	16-24	ex. CA
Anti-ESG	−0.017** (0.008)	−0.013 (0.009)	−0.017** (0.008)	−0.017** (0.008)
Observations	27,065	27,065	20,198	19,639
State FE	Y	Y	Y	Y
Inc Qtr FE	Y	Y	Y	Y
Industry FE	N	Y	N	N

Table IA.6: Broad Anti-ESG Policy Changes and PBC Activity

This table replicates Tables 8 and 10 using a broader set of state anti-ESG policy changes that also includes state anti-boycott measures targeting companies that boycott fossil fuel or other designated industries. Panel A examines the effect on startups' PBC incorporation (startup level); Panel B examines the effect on VCs' PBC investments (state level). *Broad Anti-ESG* equals one if a startup's headquarters state has enacted either an anti-ESG or an anti-boycott measure, and zero otherwise. See Tables 8 and 10 for all other variable definitions.

Panel A: PBC incorporation at the startup level

	PBC			
	(1)	(2)	(3)	(4)
	all	all	16-24	ex. CA
Broad Anti-ESG	-0.010*** (0.003)	-0.010*** (0.003)	-0.009*** (0.003)	-0.011*** (0.003)
Observations	27,065	27,065	20,198	19,639
Adj. R^2	0.004	0.006	0.003	0.005
State FE	Y	Y	Y	Y
Inc Qtr FE	Y	Y	Y	Y
Industry FE	N	Y	N	N

Panel B: VCs' PBC investments at the state level

	Frac of PBC Investments				
	(1)	(2)	(3)	(4)	(5)
	all	ex. converted	ex. impact	16-24	ex. CA
Broad Anti-ESG	-0.007* (0.004)	-0.006** (0.003)	-0.005** (0.002)	-0.004 (0.003)	-0.006* (0.003)
Observations	2,385	2,385	2,377	1,793	2,337
Adj. R^2	0.110	0.131	0.123	0.152	0.130
State FE	Y	Y	Y	Y	Y
Deal Qtr FE	Y	Y	Y	Y	Y

Table IA.7: State Pro-ESG Policy Changes and PBC Activity

This table replicates Tables 8 and 10 using state pro-ESG policy changes. Panel A examines the effect on startups' PBC incorporation (startup level); Panel B examines the effect on VCs' PBC investments (state level). *Pro-ESG* equals one if the startup's headquarters state has enacted a pro-ESG measure, and zero otherwise. Table IA.3 lists the states that adopted pro-ESG measures. See Tables 8 and 10 for all other variable definitions.

Panel A: PBC incorporation at the startup level

	PBC			
	(1)	(2)	(3)	(4)
	all	all	16-24	ex. CA
Pro-ESG	0.002 (0.002)	0.003 (0.002)	0.001 (0.003)	0.000 (0.004)
Observations	27,065	27,065	20,198	19,639
Adj. R^2	0.004	0.006	0.003	0.004
State FE	Y	Y	Y	Y
Inc Qtr FE	Y	Y	Y	Y
Industry FE	N	Y	N	N

Panel B: VCs' PBC investments at the state level

	Frac of PBC Investments				
	(1)	(2)	(3)	(4)	(5)
	all	ex. converted	ex. impact	16-24	ex. CA
Pro-ESG	-0.000 (0.003)	-0.000 (0.002)	0.000 (0.002)	-0.001 (0.002)	-0.001 (0.002)
Observations	2,385	2,385	2,377	1,793	2,337
Adj. R^2	0.108	0.128	0.119	0.150	0.127
State FE	Y	Y	Y	Y	Y
Deal Qtr FE	Y	Y	Y	Y	Y

Table IA.8: Impact-Oriented Fund Raising and PBC Investment Quality

This table examines whether investors select higher quality PBC investments following the raising of a fund that identifies impact investing as one of its objectives, at the investor-year level. Investment quality is measured by the cumulative number of patents filed by a startup at the time of investment. The sample period is over 2013–2024 for all columns except column 4 in which it is over 2016–2024. In column 5, investors located in California are excluded from the sample. The dependent variable is the inverse hyperbolic sine (IHS) transformation of the average cumulative number of patents filed by PBC startups in which the investor invested in a given year. Column 2 counts only startups initially incorporated as PBCs; column 3 excludes impact investors. The main explanatory variable, *Raised Impact-Oriented Fund* equals one if the investor has raised a fund that identifies impact investing as one of its objectives (based on fund descriptions and investment preferences reported in PitchBook), and zero otherwise. *Investor FE* and *Investing Year FE* denote fixed effects for the investor and investment year. Standard errors in parentheses are clustered by investor state.

	Avg. No. Patents by PBC				
	(1) all	(2) ex. converted	(3) ex. impact	(4) 16-24	(5) ex. CA
Raised Impact-Oriented Fund	0.234*** (0.071)	0.331*** (0.120)	0.216 (0.132)	0.291*** (0.069)	0.321*** (0.051)
Observations	3,592	1,882	3,337	3,310	1,978
Adj. R^2	0.305	0.381	0.300	0.331	0.279
Investor FE	Y	Y	Y	Y	Y
Investing Year FE	Y	Y	Y	Y	Y

Table IA.9: Anti-ESG Policy Changes and VCs' PBC Investment Quality

This table presents staggered difference-in-differences analyses examining the impact of state anti-ESG policy changes on the quality of VCs' PBC investments at the state-quarter level. Investment quality is measured by the cumulative number of patents filed by a startup at the time of investment. The sample period is over 2013–2024 for all columns except column 4 in which it is over 2016–2024. The dependent variable is the inverse hyperbolic sine transformation of the average cumulative number of patents filed by PBC startups in which VCs invested in a given state-quarter. Column 2 restricts to PBC investments in startups initially incorporated as PBCs. Column 3 further restricts to PBC investments without any impact investor. In column 5, California is excluded from the sample. *Anti-ESG* equals one if a state has enacted an anti-ESG measure, and zero otherwise. *State FE* and *Deal Qtr FE* denote fixed effects for the portfolio company's headquarters state and the deal quarter. Standard errors in parentheses are clustered by state.

	Avg. No. Patents by PBC				
	(1) all	(2) ex. converted	(3) ex. impact	(4) 16-24	(5) ex. CA
Anti-ESG	0.000 (0.110)	0.178 (0.142)	0.175 (0.125)	0.183 (0.140)	0.182 (0.147)
Observations	676	445	405	413	400
Adj. R^2	0.115	0.150	0.163	0.164	0.157
State FE	Y	Y	Y	Y	Y
Deal Qtr FE	Y	Y	Y	Y	Y

Table IA.10: PBC Incorporation and Green Patenting

This table examines the relationship between a startup’s PBC status and its green patenting activity at the startup level. Green patents are identified following the classification guidelines of the Organization for Economic Co-operation and Development (OECD, 2022). The sample includes all startups incorporated in Delaware from 2013 to 2021. In columns 1-2, the dependent variable is an indicator equal to one if a startup filed an eventually granted green patent: within three years of incorporation (column 1), or from its incorporation date through the end of the patent sample period in 2024 (column 2). In column 3, the dependent variable is the inverse hyperbolic sine (IHS) transformation of the number of green patents filed. The dependent variables in columns 4-6 are defined analogously for all patents. *PBC* equals one if a startup is ever a PBC, and zero otherwise. *Inc Year FE* denotes fixed effects for a startup’s incorporation year. Heteroskedasticity-robust standard errors are reported in parentheses.

	Green Patents			All Patents		
	(1) File patent (3 yr)	(2) File patent (ever)	(3) No. patents	(4) File patent (3 yr)	(5) File patent (ever)	(6) No. patents
PBC	0.002** (0.001)	0.002** (0.001)	0.003** (0.001)	0.001 (0.002)	0.003 (0.003)	0.003 (0.005)
Observations	399,609	399,609	399,609	399,609	399,609	399,609
Adj. R^2	0.000	0.001	0.000	0.002	0.005	0.005
Inc Year FE	Y	Y	Y	Y	Y	Y