Breaking with Shareholder Primacy: VC Investment in PBCs

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Abstract

This paper studies the intersection between corporate purpose and access to finance by examining venture capital (VC) investment in public benefit corporations (PBCs), a Delaware corporate form that allows firms to pursue social objectives alongside profit and has been adopted by leading AI startups such as OpenAI and Anthropic. Using newly assembled data linking the universe of Delaware PBCs to all Delaware-incorporated firms and comprehensive VC investment records, we find that PBCs are more likely to receive VC funding than comparable traditional corporations (16% vs. 8%). This pattern partly reflects non-pecuniary, pro-social preferences among VCs and their limited partners (LPs). Overall, the evidence indicates that relaxing shareholder primacy does not necessarily deter professional investors and may facilitate financing when social objectives and investor values align.

Keywords: PBC, public benefit corporations, Delaware, venture capital, shareholder primacy

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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

A common interpretation of U.S. corporate law holds that corporate executives are obligated to manage firms in the interest of maximizing shareholder value. While the precise legal requirements remain a topic of ongoing debate within the legal community (e.g., Stout, 2012; Rhee, 2017), the principle of shareholder primacy has long been regarded as the prevailing norm in corporate America. Furthermore, since Friedman (1970), economists have argued that this approach may represent not only a legal standard but also a normatively desirable principle for organizing corporate activity (e.g., Sundaram and Inkpen, 2004).

In recent years, however, this consensus has come under scrutiny from two main directions. First, there has been a growing movement within the business community advocating greater attention to environmental and societal outcomes in corporate decision-making.[1] An important manifestation of this shift has been the rise of ESG investing (Giglio et al., 2025), reflecting a broader recognition that firms operate within, and have an impact on, a diverse set of stakeholders beyond shareholders. Second, there has been renewed attention among economists to the question of the appropriate objective function for the firm (e.g., Hart and Zingales, 2017).

Within this broader debate, a notable legal innovation has been the introduction of benefit corporations. This incorporation form grants managers the legal discretion to pursue multiple objectives, thereby relaxing the traditional shareholder primacy doctrine. For ex-

[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`.

ample, a firm may legally specify an environmental or social mission as part of its corporate purpose, alongside the goal of generating returns for investors. A natural question is how such a legal mandate affects a firm's ability to access capital markets. One key concern is that multiple mandates could create ambiguity around managerial objectives, potentially weakening accountability mechanisms (Jensen, 2001). The resulting lack of clarity may increase the cost of capital. In the extreme, the new incorporation form could prove irrelevant if it makes fundraising sufficiently difficult that few impactful firms choose to adopt it.

To explore these questions, we study the introduction of *public benefit corporations (PBCs)* in Delaware, the leading state of incorporation for high-growth and large U.S. firms. Our analysis yields three main findings. First, although PBCs remain relatively uncommon, they already represent a meaningful presence in the corporate landscape. As of the end of 2024, approximately 6,000 PBCs have been incorporated in Delaware, accounting for about 1% of all firms incorporated in that state since 2013, when this legal form was first introduced. PBCs are also disproportionately represented among high-growth startups and leading AI firms, including OpenAI and Anthropic, underscoring their potential economic relevance. Second, examining venture capital (VC) activity, we find that PBC status does not impede access to capital and, *in some cases*, may even be preferred by certain investors. Third, much of the preference appears driven by investors with strong pro-social motives, who may be willing to accept lower returns to invest in a business with social goals. Taken together, these results suggest that benefit corporations do not necessarily hinder fundraising, and for some firms, may even help align the interests of shareholders and entrepreneurs.

Benefit corporations are a relatively new legal form that allows firms to embed explicit, broadly defined social objectives into their corporate charters alongside the goal of profit maximization. Unlike traditional for-profit corporations, whose directors are bound by fiduciary duties to prioritize shareholder value, benefit corporations require managers to balance financial returns with the pursuit of specified public benefits. In other words, these firms

remain profit-seeking entities, but their directors are legally permitted to trade off some financial gains in favor of the social or environmental goals identified at incorporation. Since Maryland first adopted this framework in 2010, nearly forty U.S. states—including California, New York, Texas, and Florida—have enacted similar statutes, reflecting the growing acceptance of this model within U.S. corporate law.

Delaware introduced its own version of the benefit corporation—the Public Benefit Corporation (PBC)—in 2013,[2] extending the traditional for-profit framework by requiring directors to balance shareholders' pecuniary interests with the pursuit of identified public benefits and the interests of other stakeholders materially affected by the firm's conduct. Delaware does not mandate third-party certification or public disclosure of benefit reports, thereby granting managers broad discretion in balancing financial and non-financial goals. However, it does require companies to provide a periodic "benefit report" to shareholders.

As discussed above, a central concern surrounding the adoption of the PBC form is that relaxing shareholder primacy may hinder a firm's ability to raise external financing. By allowing directors to pursue non-financial goals, the PBC framework weakens the traditional obligation to maximize shareholder value, potentially lowering expected financial returns and increasing the cost of capital. Moreover, by expanding managerial discretion and introducing multiple objectives, it may complicate monitoring and accountability, heightening agency problems (Jensen, 1986, 2001). Under this view, investors may prefer to avoid such firms.

However, this need not be the case. In principle, incorporation as a PBC could enhance firm value, potentially offsetting, or even exceeding, the potential governance costs discussed above. For example, broader managerial discretion may encourage long-term value creation by allowing managers to pursue high-value projects that short-term profit pressures might otherwise deter. Furthermore, by credibly committing to social or environmental goals,

[2] The PBC statute was the first new corporate form created in more than two decades by Delaware, following the Delaware Limited Liability Company Act in 1992 (e.g., Mayfield, 2003).

PBCs may strengthen relationships with key stakeholders, such as customers, employees, and suppliers. Stronger stakeholder ties, in turn, can improve firm performance and investor appeal (e.g., Edmans, 2011; Edmans, Pu, Zhang, and Li, 2024; Lins, Servaes, and Tamayo, 2017). Even if the value of the firm does not increase, PBCs may still attract capital from investors who value social impact (Hartzmark and Sussman, 2019) and are willing to accept lower financial returns in exchange for a more credible mission alignment (Barber, Morse, and Yasuda, 2021).

In this paper, we examine this question by studying the investing behavior of VC investors in public benefit corporations (PBCs). Venture capital offers an especially informative setting for analyzing the relationship between shareholder primacy and access to finance. VCs are sophisticated, forward-looking investors who play a central role in promoting innovation and economic growth (Kortum and Lerner, 2000; Samila and Sorenson, 2011). Because their ability to generate returns depends on successful exits, VCs are highly sensitive to governance structures that may affect firm value or the ability to raise follow-on financing. Accordingly, their investment decisions in PBCs sheds light on whether and when the benefit corporation model appeals to sophisticated investors.

To address this question, we construct a novel dataset that combines comprehensive information on all public benefit corporations (PBCs) registered in Delaware with multiple sources on VC activity. We begin with the universe of Delaware business registrations, and identify all PBCs incorporated through the end of 2024. We then link these data to venture capital investment records from PitchBook, a leading database of private financing events, and supplement them with industry classifications from VentureXpert and early-stage fundraising information from Form D filings.

We examine whether PBCs face disadvantages in attracting venture capital financing. We find that startups incorporated as PBCs are roughly twice as likely as comparable Delaware startups to raise VC funding within three years of founding. These differences remain ro-

bust after controlling for incorporation year, industry, and headquarters state, and persist when excluding investments from impact investors. Moreover, PBCs are disproportionately represented in industries with historically high levels of VC activity.

This evidence of "positive selection" of VC-backed businesses into PBCs suggests that professional investors do not appear to be deterred from investing in companies whose legal form relaxes standard shareholder primacy. Two related findings support this interpretation. First, using data on conversions from regular corporations to PBCs, we find that most conversions involving VCs occur after the first VC investment, with a particularly high rate of conversion coinciding with the investment itself. This evidence appears inconsistent with the view that VCs are merely compelled to invest in firms already incorporated as PBCs. Second, we show that PBCs perform at least as well—and often better—than comparable firms in terms of exit outcomes. This second result rejects the notion that VC investments in PBCs represent "window-dressing" behavior, that is, investments made without a clear objective of generating returns.

Lastly, our findings suggest that high VC investment rates in PBCs are more likely driven by the presence of investors with strong pro-social preferences than by any inherent advantage of the PBC form. Two main pieces of evidence support this view. First, we document a strong link between a fund's stated pro-social objectives and its likelihood of investing in PBCs. Second, the introduction of anti-ESG policies—which limit the ability of state public pension funds to consider social objectives—significantly reduces VC investment in local PBCs and dampens new PBC formation in affected states. These patterns are difficult to reconcile with the view that VCs invest in PBCs because the legal form is in some cases inherently superior. In fact, the policy changes we study—whether fund mandates or anti-ESG restrictions—do not directly limit a VC's ability to invest in PBCs if these were simply better investments. Rather, the evidence points to underlying demand from limited partners

as a key driver of VC investment in PBCs.[3]

Prior literature in finance has highlighted the potential costs of relaxing shareholder primacy (Jensen, 2001, 1986). Recent evidence from Bennett, Stulz, and Wang (2025) supports these concerns, showing that a reduction in shareholder primacy in Nevada led to weaker governance and lower investment among affected 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 interpretation. The typical company prefers to incorporate as a regular corporation, rather than a PBC. However, the PBC designation does not carry a significant stigma among startups seeking venture 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 work is Dorff, Hicks, and Solomon (2021), which provides an initial analysis of PBCs among startups. We extend this research substantially by using data that cover a longer time period, include a broader set of firms

[3] We also find that—in both settings—the change in the propensity to invest in PBCs is not associated with any shift in investment quality.

(including non-PBCs), and capture a wider range of corporate events (e.g., conversions). More importantly, we offer direct empirical tests of key mechanisms. Our findings highlight the central role of investor preferences in driving the adoption of this legal form and link the post-2020 slowdown in new PBC formations to waning ESG enthusiasm among investors (Baker et al., 2024).

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 at play in Section 6. Section 7 discusses the key implications of our findings, followed by the conclusion.

2 Institutional Background

This section begins by defining public benefit corporations and discussing their key legal features, with particular emphasis on the Delaware model. We then present illustrative examples of firms that have adopted the PBC form.

2.1 Public Benefit Corporation

A benefit corporation or public benefit corporation (PBC) is a new corporate form that allows directors, under their fiduciary duties, to consider specific public benefit interests in addition to the traditional profit-seeking duty. In a conventional for-profit corporation, directors and officers owe fiduciary duties to act in the best interests of shareholders, which has generally been interpreted as the maximization of shareholder value. In a public benefit corporation, however, directors are legally required to balance the financial interests of shareholders with the pursuit of the corporation's stated public benefit. This broadened fiduciary obligation provides directors with legal protection when prioritizing other objectives (e.g.,

social or environmental) alongside profitability.

While the details vary across jurisdiction, benefit corporation statutes typically require founders to specify one or more public benefit objectives at the time of incorporation. In general, 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, and improving public health. However, the statutory language is generally broad, allowing considerable flexibility in defining the relevant public benefit. Once formed, a public benefit corporation is typically required to file a "benefit report" periodically assessing its performance in providing such benefits. In most jurisdictions, conversions between traditional corporations and benefit corporations are allowed following shareholder approval.

In 2010, Maryland became the first U.S. state to enact benefit corporation legislation. Since then, the new corporate framework has swept state legislatures in the U.S. As of 2024, nearly 40 states had authorized the benefit corporation form (Figure 1).[4] The list includes all major states, such as California, New York, Texas, and Florida. Importantly, Delaware, the nation's leading state for corporate law, adopted its own version of the benefit corporation, known as *public benefit corporation (PBC)*, in 2013. Under Delaware law, a PBC is a for-profit corporation[5]

> 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 needs to designate its entity type accordingly and specify at least one particular public benefit in its certificate of incorporation (e.g., artis-

[4] `https://www.britannica.com/money/what-is-a-public-benefit-corporation`
[5] See Delaware Code Ann. Tit. 8 § 362 at: `https://delcode.delaware.gov/title8/c001/sc15/`

tic, charitable, cultural, economic, educational, environmental, literary, medical, religious, scientific, or technological). It must then provide a report to stockholders at least once every two years. Although this report can be made public, Delaware law does not mandate public disclosure. Importantly, PBCs in Delaware (as well as in most other states) are not required to be audited or certified by a third party to maintain their status.[6] However, the certificate of incorporation can specify more stringent requirements for management (e.g., more frequent reporting, or external auditors).

Shareholders can legally challenge the board to enforce the corporation's public benefit objectives. However, Delaware law does not define precisely how management must balance the pursuit of public benefit against shareholders' financial interests. As a result, the general interpretation among practitioners is that the PBC structure provides greater flexibility for managers. This feature is important, as it suggests that PBCs are associated with a higher level of managerial discretion. It also implies that there is no guarantee that the company will actually be operated in any way differently than it would be under standard incorporation.

In this paper, we focus on the Delaware experience with PBCs. This choice is motivated by two reasons. First, Delaware's adoption is especially significant given its dominant role in business registration. For example, more than two-thirds of the Fortune 500 companies and 81% of U.S. IPO firms in 2024 were incorporated in Delaware.[7] Second, our analysis largely focuses on the prevalence of PBCs among VC-backed companies, which are mostly 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.

[6] This feature is also common among private contracts. Geczy, Jeffers, Musto, and Tucker (2021) finds that—among impact funds—it is relatively rare to include explicit contractual terms specifing the non-financial goal.

[7] `https://corp.delaware.gov/stats/`

2.2 Some Examples of PBC

Since 2013, the PBC form has been adopted across a wide range of industries, with some high-profile examples. A particular notable case is Allbirds, the footwear and apparel business, which emphasizes the use of natural and renewable materials. The company incorporated as a PBC in 2015, describing 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] The company raised $78 million in venture capital funding across five rounds before going public in 2021.

While environmental sustainability appears to be a common theme among PBCs, the range of public benefits pursued by such companies is diverse.[9] Coursera, which converted into a PBC in 2021, articulated its mission as "to reduce barriers to world-class education for all."[10] Lemonade, a digital peer-to-peer insurance company founded in 2015, incorporated as a PBC with a broad focus on social change, including a "Giveback" program that donates a portion of its revenue to various social causes.[11] Vital Farms, a producer of pasture-raised eggs and butter, identifies ethical animal treatment and supply chain transparency as its specific public benefit objectives.[12]

Recently, several artificial intelligence (AI) companies have adopted the PBC form, citing the goal of establishing governance structures that internalize the broader societal impacts of their technologies during development. For example, OpenAI converted to a PBC in 2025, joining other notable AI startups. Explaining the decision, CEO Sam Altman remarked: "PBCs have become the standard for-profit structure for other artificial general intelligence (AGI) labs like Anthropic and X.ai, as well as many purpose driven companies like Patagonia.

[8] `https://ir.allbirds.com/esg-overview`

[9] A limitation of our data is that we do not observe firms' stated public benefit objectives in the registration records. Therefore, it is not possible to provide a comprehensive breakdown of benefit categories.

[10] `https://about.coursera.org/`

[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.

We think it makes sense for us, too."[13]

These examples represent a subset of the many companies that have incorporated as PBCs in Delaware in recent years. 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] In Section 5, we present a systematic analysis of our PBC sample, focusing on their general characteristics—particularly their relationship with the venture capital industry.

3 Conceptual Framework

In this section, we develop a conceptual framework that outlines the potential advantages and drawbacks of adopting the PBC structure, particularly in the context of VC fundraising.

3.1 Fundraising and PBC

This paper asks a simple but important question: does relaxing shareholder primacy—allowing corporate directors to make decisions for non-financial reasons—necessarily make it harder for firms to raise capital? The concept of shareholder primacy, long central to U.S. corporate governance, ties directors' fiduciary duties to the financial interests of shareholders. By contrast, alternative forms, such as public benefit corporations (PBCs), explicitly permit directors to consider broader stakeholder interests. Understanding the implications of this shift is critical, especially in light of growing interest in sustainable and stakeholder-driven business models.

At first glance, the answer may seem straightforward: relaxing shareholder primacy should make fundraising more difficult. By weakening the obligation to maximize share-

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

[14] https://bensfastfood.com/mission

holder value, directors may allocate firm resources in ways that benefit other stakeholders at shareholders' expense. Therefore, unless the business becomes more valuable overall because of its public benefit designation, such discretion should mechanically reduce expected financial returns to shareholders. To the extent that investors focus solely on financial performance, this change would make a company's stocks less attractive.

However, the issue could be even more profound than this. Expanding managerial discretion may undermine corporate governance by diluting accountability (Jensen, 2001). When directors are no longer evaluated solely on financial outcomes, monitoring becomes more complex and agency problems may worsen. These concerns are particularly salient in the context of PBCs. The legal structure, especially in Delaware, is designed to offer greater flexibility to management in balancing financial and non-financial objectives (Section 2).

Despite these risks, there are also compelling reasons to question whether relaxing shareholder primacy necessarily harms firms' ability to raise funding. Several countervailing mechanisms could, in principle, mitigate or even outweigh the potential costs. These mechanisms challenge the two key assumptions underlying the argument above: (a) that the firm's value does not increase with the new designation; and (b) that shareholders care exclusively about financial returns.

First, greater managerial discretion is not inherently detrimental for firm's value. Under strict shareholder primacy, managers may prioritize short-term earnings at the expense of long-term value creation. For example, they may forgo investments that deviate from standard practices, even if such investments yield long-term gains (Graham, Harvey, and Rajgopal, 2005; Stein, 1989). Specifically, the risk of litigation or activist pressure motivated by shareholder primacy may discourage managers from pursuing valuable investments. By contrast, broader fiduciary mandates may enable 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 be-

havior effectively. In such settings, ex-post oversight by shareholders can limit opportunistic behavior, mitigating the agency risks associated with expanded mandate.

Second, the ability to pursue multiple objectives may enhance relationships with key stakeholders. Customers, employees, and suppliers may respond positively to firms that commit to social or environmental goals. For instance, consumers may be more willing to support businesses whose missions align with their own values. Similarly, employees may be more motivated and loyal when working for organizations perceived as purpose-driven. Incorporating as a PBC can serve as a signal of such commitments, potentially strengthening stakeholder engagement and improving firm performance. That said, the signal is imperfect: in Delaware, PBCs are not required to obtain third-party certification of their public benefit efforts. This opens the possibility that the benefit corporation status may be perceived as largely symbolic or insincere, which could limit its effectiveness in generating stakeholder trust and value.

These two mechanisms suggest that—at least in theory—a PBC designation could make the target firm more attractive to investors by increasing its intrinsic value. However, another reason why firms' fundraising may benefit from registering as a PBC is that adopting a broader mandate may help attract capital from investors with aligned preferences. The rapid growth of impact investing (see Figure IA.1) suggests that some investors are willing to accept lower financial returns in exchange for measurable social or environmental outcomes. While incorporating as a PBC does not guarantee the achievement of such goals, it can enhance the credibility of those commitments. In contrast, under traditional shareholder primacy, legal constraints may deter managers from undertaking socially beneficial actions, even when most investors support them (McGowan, 2022). At a minimum, the PBC structure can reduce the legal friction associated with pursuing dual objectives.

3.2 VC and PBC

The preceding discussion highlights that, at least in theory, relaxing shareholder primacy is not inherently incompatible with successful fundraising. This possibility naturally shifts the focus from theory to empirics: are there contexts in which expanded managerial discretion—such as that afforded by the PBC structure—can support or even enhance access to capital?

Direct evidence on how legal structure affects fundraising is limited.[15] A partial exception is the recent study by Bennett et al. (2025). This paper offers additional evidence by examining a legal change in Nevada that weakened shareholder primacy for firms incorporated in the state. The authors find that the reform was followed by weaker governance outcomes and a decline in firm investment. While this result is important, it does not directly speak to the debate over whether states should offer benefit corporation status as an option. Because firms can freely choose their incorporation form, evidence that relaxing shareholder primacy is ex-post detrimental for the average firm does not necessarily imply that the option should be restricted. Instead, it may be more informative to examine whether there are settings in which the availability of such a form proves valuable, and to identify the motivations that drive firms and their investors to adopt it.

To explore this question, we examine venture capital investment in public benefit corporations. This focus is motivated by several features of the VC industry that make it a particularly informative setting. Unlike many other ownership forms, VC investments are explicitly forward-looking and depend on the startup's 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 for VCs occurs through a successful

[15] There is more work focusing directly on governance, such as Gompers, Ishii, and Metrick (2003); Core, Guay, and Rusticus (2006); Masulis, Wang, and Xie (2007); Bebchuk, Cohen, and Ferrell (2009); Gompers, Ishii, and Metrick (2010).

exit—via acquisition or IPO—ongoing access to external financing is essential. In this context, investors should be especially attentive to any legal or governance feature that could affect fundraising prospects.

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

Our empirical analysis is structured around two central questions. First, we ask whether there is systematic evidence that venture capitalists are reluctant to invest in PBCs. Second, we seek to understand the factors that may explain this pattern. Before proceeding, it is important to clarify our objective. We do not aim to 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. The existence of multiple mandates can complicate oversight, reduce managerial accountability, and in some cases produce outcomes detrimental to shareholders. It is therefore implausible to argue that the PBC model is universally preferable.

Instead, our objective is narrower but still important. We aim to provide evidence that, in at least some cases, investors view the PBC form as a viable or even preferable option. As discussed above, identifying such cases is valuable both for academic research and for policy debates on corporate governance reform. At a minimum, our results can help inform the question of whether benefit corporation status should be viewed as a serious incorporation choice for firms seeking to raise external capital.

4 Data

4.1 PBC and Delaware Registration Data

To study PBCs, we assemble a dataset of all Delaware-registered PBCs through the end of 2024 from the Delaware Division of Corporations. The dataset includes each firm's entity number, name, incorporation date, filing date of becoming a PBC, and organizational form (e.g., PBC corporation or PBC LLC). To construct a comparison group, we also obtain the universe of firms registered in Delaware (DE), regardless of their PBC status, through the end of 2024 from OpenCorporates.[16] Our Delaware registration sample contains more than 5 million firms and provides similar information for each entity, including the unique entity number, firm name, incorporation date, and entity type (e.g., corporation or LLC). We link the two datasets using the unique entity number. We focus on incorporated firms as high-growth firms are typically incorporated (Guzman and Stern, 2020).

Although the Delaware registration data offer comprehensive coverage, they lack information on firms' industries and locations. Because most of our analyses focus on startups that seek early-stage financing, we supplement these data with firm-level information from Form D filings and commercial VC datasets, as discussed below. For analyses using the broader set of Delaware-registered firms, however, no reliable data source exists for these attributes. To address this limitation, we generate predicted industry and location information using the OpenAI API with a fine-tuned ChatGPT-4o model. Specifically, we predict each firm's two-digit SIC code and headquarters state based on its legal name and year of incorporation. The model leverages web searches and naming conventions to generate these predictions. To improve accuracy, we fine-tune the model on a training sample of 500 VC-backed startups with known industry and state information from VentureXpert.[17]

[16] OpenCorporates aggregates official company registry records from state governments and provides coverage of more than 100 million business entities across all U.S. states.

[17] We validate the model on a separate set of 9,276 startups from VentureXpert, finding reasonably reliable

Given potential concerns about the data quality of the predicted industry and location variables, there are a few points worth highlighting. First, this data is not used in all analyses, but only in the subset of tests that involve non-VC-backed companies. In each case, we explicitly indicate when this information is used. Second, whenever these variables are used, we also provide, whenever possible, the corresponding results that do not rely on them.[18]

4.2 Entrepreneurial Finance Data

To measure VC financing of PBCs and other startups, we use data from PitchBook, a leading commercial provider of venture capital information. PitchBook is widely regarded as one of the more comprehensive VC data sources and offers particularly strong 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 the VentureXpert database for certain industry-level analyses. VentureXpert is the only major VC database that systematically reports startups' SIC industry classifications. Because of this feature, we use this data for two purposes. First, we employ VentureXpert SIC data both to train and validate our ChatGPT-based classification model, as discussed above. Second, we rely on VentureXpert to construct measures of VC investment intensity at both the two-digit and four-digit SIC industry levels.

To examine startups' entity choice—specifically, whether to incorporate as a PBC—in response to state-level anti-ESG policy changes, we also use Form D filings. These filings, which provide exemptions from securities registration under Regulation D or Section 4(a)(5) of the Securities Act, are submitted by startups that seek to raise or have raised private

performance: 72.0% accuracy for two-digit SIC codes and 79.1% accuracy for headquarters state.

[18] For example, in many specifications, we use these variables to construct industry or location fixed effects. In such cases, we always report the same results without these fixed effects. As discussed later, for a sub-sample of data, we also use information collected from Orbis.

capital, including venture capital. Our dataset covers all machine-readable (XML) Form D filings, which first became available on September 15, 2008, and became mandatory after March 16, 2009. These filings (when available) include information on directors (Ewens and Malenko, 2024), financing amount, and key demographic characteristics such as legal name, entity type, state of incorporation, headquarters state, and year of incorporation (for firms less than five years old).

There are three key advantages to using Form Ds to study startups' PBC choices. First, because the filings cover equity financing rounds, they capture a representative set of high-growth startups seeking venture capital. Second, Form Ds allow us to identify a broader pool of startups than the standard VC datasets, including those that sought but did not ultimately secure VC funding. Third, the filings provide precise information on startups' headquarters state, which is essential for determining exposure to state-level anti-ESG policy changes (i.e., treatment assignment).

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 present several stylized facts about PBCs. As of the end of 2024, more than 6,000 PBCs had been registered in Delaware.[19] Among corporations, PBCs represent roughly 1% of all firms incorporated in the state between 2013—when this incorporation form was first introduced—and 2024. Until 2020, the number of new PBCs increased steadily (Figure 2), peaking at about 1.3% of all new corporations that year (roughly 700 new PBCs). The number declined slightly thereafter; in 2023—the

[19] Specifically, our data show 5,588 corporations and 513 LLCs, implying that incorporated PBCs account for 92% of all Delaware PBCs.

last full year in our data, due to potential filing lags—approximately 400 new PBCs were registered, corresponding to about 1% of all new corporations.

While PBCs remain relatively uncommon, these figures suggest that they already represent a meaningful presence in the corporate landscape. Furthermore, the raw count of PBCs may understate their significance if they are disproportionately concentrated in economically important sectors. For example, as discussed earlier, several leading AI companies have adopted this incorporation form. The analyses presented in the next section examine this point more systematically by focusing on VC-backed companies.

5 Venture Capital and PBC

In this section, we empirically examine venture capital investment in public benefit corporations.

5.1 The Likelihood of Raising VC

To start, we compare the likelihood of raising VC funding between PBC and non-PBC startups. To allow a three-year observation window (through the end of 2024), we focus on startups incorporated between 2013 and 2021. Results are reported by incorporation cohort in Figure 3. On average, 7.8% of Delaware-incorporated non-PBC startups raised a VC round within three years of founding, compared to 15.6% of PBC startups.[20] Although the likelihood of VC funding among PBCs declined modestly after 2015—likely reflecting growth in the number of new PBC incorporations—the rate stabilized at around 15% for 2016–2021 cohorts, well above the 7.6% average for non-PBCs over the same period. In other words, PBCs were twice as likely to raise VC funding as their non-PBC counterparts.

[20] Prior studies document that startups incorporated in Delaware are significantly more likely to receive venture capital financing (e.g., Catalini, Guzman, and Stern, 2019; Waisman, Wang, and Wuebker, 2009). For example, Catalini et al. (2019) finds that Delaware startups are 22 times more likely to raise VC funding.

In Table 2, we confirm this finding using a regression framework with startup-level observations from 2013 to 2021.[21] The key advantage of this approach is that it allows us to account for potential confounding factors present in the aggregate figure. In columns 1 and 2, the dependent variable is a dummy equal to one if a startup raised VC funding within three years of incorporation. Controlling for incorporation year, column 1 shows that PBCs are 4.8 percentage points more likely to secure VC financing than non-PBCs, corresponding to a 61.5% increase relative to the 7.8% sample mean. The inclusion of industry and headquarters state fixed effects (generated using LLM-based classification procedure) in column 2 leaves the estimate virtually unchanged. Column 3 excludes VC financing involving impact investors and again yields similar results. Column 4 extends the outcome window to include all VC financing from founding through 2024, producing an even larger estimate.

As a final step, we compare the amount of VC funding raised. Using the inverse hyperbolic sine (IHS) transformation of the total dollar amount raised within three years of founding as the dependent variable (Bellemare and Wichman, 2020), the estimate in column 5 of Table 2 shows that, on average, PBCs raised 4% more VC funding than other startups in the sample. Thus, the higher likelihood of raising VC financing also translates into a greater amount of VC capital overall.

Collectively, these results indicate that PBCs are significantly more likely to raise VC financing. As we discuss in more detail later, we interpret this evidence as consistent with "positive" selection into PBC: the types of organizations that are generally more concerned with fundraising (i.e., VC-backed companies) are more likely to incorporate as PBCs.

[21] To avoid confounding effect from PBC conversions, we focus on startups initially incorporated as either general corporations or PBCs. We examine conversions directly in Section 5.3.

5.2 PBC Prevalence by VC Investment Intensity

If PBCs are indeed more likely to raise VC funding, we would expect them to be especially prevalent in industries with traditionally high levels of VC activity. A key challenge in testing this prediction is the need to assign industry classifications for all startups in our sample (not just VC-backed ones), regardless of corporate form (PBC or not). To address this, we use industry classifications predicted by our LLM procedure, as discussed in Section 2, and report robustness tests using industry data collected from Orbis.

Table 3 presents results based on startup-level observations from 2013–2024. The dependent variable is an indicator for whether a startup was initially incorporated as a PBC. The main explanatory variable, *VC Intensity*, is defined as an industry's share of startups that raised their first VC round during 2010–2012 (the three years preceding the introduction of the PBC framework in 2013), measured at the two-digit SIC level (columns 1–4) and the four-digit SIC level (column 5). Controlling for incorporation-year fixed effects, the estimate in column 1 indicates that a one-standard-deviation (0.296) increase in VC intensity at the two-digit SIC level is associated with an 8% increase in the likelihood of PBC incorporation relative to the sample mean. This relationship remains robust when including startup headquarters state fixed effects (column 2), excluding the early PBC adoption period prior to 2016 (column 3), and excluding California-based startups (column 4). Consistent with our hypothesis, PBCs are thus more prevalent in industries with higher VC intensity.

To validate 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 can be identified for only a small sub-sample—less than 10% of the full sample. The estimate in column 5 of Table 3 confirms that PBCs are more prevalent in VC-intensive industries. Specifically, a one-standard-deviation (0.075) increase in VC investment intensity at the four-digit SIC level corresponds to a 9.5% increase in the likelihood of PBC incorporation

relative to the sample mean.

Figure 4 further examines the relationship between PBC prevalence and VC intensity by incorporation year. The positive relationship persists across nearly all cohorts, with particularly pronounced effects in 2019-2020—precisely the period when PBC adoption peaked (Figure 2).

5.3 VC Financing and PBC Conversion

Thus far, we have documented a strong connection between VCs and PBCs: PBCs are significantly more likely to raise VC funding than non-PBCs and are more prevalent in industries with greater VC intensity. These findings suggest that VCs do not avoid the PBC form and may even favor it in some cases. A natural alternative explanation is that the most promising startups—those that attract VCs—are characterized by business models or entrepreneurs willing to incorporate as PBCs, even if doing so makes fundraising more difficult. In this view, VCs invest in PBCs despite disliking the structure, simply because high-quality startups disproportionately adopt it. Although this supply-constraint explanation appears unlikely given the small aggregate share of PBCs, it cannot be entirely dismissed. VC investing targets a narrow subset of high-growth firms (Puri and Zarutskie, 2012), so the low overall market share of PBCs does not rule out the possibility that top-performing startups are disproportionately organized under this form.

To examine this question more directly, we exploit a unique feature of our PBC data: information on startups' conversion to PBCs from other entity types. Specifically, the data report both the original incorporation date and the filing date of PBC conversion. We define a PBC conversion as any case in which the PBC filing date occurs at least 30 days after the incorporation date. Among all PBCs, we identify 943 such conversions, of which 372 (about 40%) belong to startups that are VC-backed, already underscoring the close connection between VC financing and PBC adoption. Within this sample, we examine the timing of VC

investments relative to the conversion event. The motivation for this test is straightforward: if VCs are skeptical of the PBC form but "forced" to invest in these firms, VC funding should occur primarily after the conversion. Conversely, if VCs support or encourage the adoption of the PBC structure, conversions should tend to coincide with or follow VC investment.

Figure 5 investigates this question by plotting the distribution of first VC funding relative to the quarter of PBC conversion. Two findings stand out. First, nearly 80% of PBC conversions occur in the same quarter as, or after, the first VC funding. Because conversions require strong shareholder approval—and given that VCs often hold specific control rights—it is unlikely that entrepreneurs would proceed with such a decision without explicit support from VCs.[22]

Second, there is a sharp spike in conversions during the quarter of the VC investment. Approximately 16.2% of conversions occur within one quarter of the funding event, and nearly 12% take place in the exact same quarter. These rates are substantial, roughly twice as high as those observed in any other individual quarter surrounding the PBC conversion event. The results in Table 4 confirm these findings in a regression framework. In general, raising VC funding in a given quarter strongly predicts PBC conversion in the same quarter. The results remain robust when excluding VC investments involving impact investors (column 3), dropping post-conversion observations (column 4), and broadening the dependent variable to include conversions within one quarter of VC funding (column 5).

This evidence is difficult to reconcile with the view that VCs are simply "forced" to invest in firms already incorporated as PBCs. Instead, the timing of conversion suggests that VCs are often directly involved in the decision to adopt PBC status, and in some cases, the decision may be intertwined with the investment itself, as reflected in the high rate of

[22] The exact voting thresholds for conversions have changed over time. Originally, conversion required the approval of at least 90% of outstanding shares. In 2015, the threshold was reduced to a two-thirds majority, and in 2020, it was further lowered to a simple majority. These thresholds apply symmetrically to both conversions from a traditional corporation to a PBC (studied here) and conversions in the opposite direction.

conversions occurring at the same time as VC funding. Overall, these results support the interpretation that the PBC structure is viewed by VC investors as a valuable incorporation option that can be beneficial *under certain circumstances*.

5.4 PBC Performance in VC

Another natural concern in interpreting these findings is that VC investments in PBCs are primarily about window-dressing—aimed at bolstering the VC firm's reputation for responsible investing, rather than a genuine interest in generating returns. Under this view, PBC investments would resemble marketing expenditures more than strategic capital allocation. While this hypothesis is not implausible ex-ante, it is already inconsistent with key characteristics of PBC deals. For example, PBC deals are generally sizable: the average PBC deal in our data raised about $20.3 million, slightly exceeding the average non-PBC deal ($18.8 million).

Another way to evaluate this hypothesis is by examining the performance of VC investments in PBCs. To be clear, our goal is not to estimate the causal effect of the PBC structure, but rather to assess whether VCs' PBC investments are of comparable quality to their traditional VC investments. The basic idea is that the window-dressing hypothesis would predict that PBCs are consistently lower quality deals. Following prior literature (e.g., Ewens, Gorbenko, and Korteweg, 2022), we measure investment success based on the likelihood of a profitable exit for the portfolio company. Table 5 report the results of this analysis conducted at the investor-deal level.

We begin by measuring performance using a dummy variable indicating whether a portfolio company successfully goes public (IPO), focusing on all PBCs in our sample that received VC investment. Controlling for investor, industry and investment-year fixed effects, column 1 shows that PBC deals are actually more likely to result in an IPO. This suggests that the same investors' PBC investments perform at least as well as their non-PBC investments

made in the same year and industry. The results remain similar when additionally controlling for VC round and startup headquarters-state fixed effects in column 2, and when excluding impact investors from the sample in column 3. A limitation of using IPOs as the performance measure is that the number of PBC IPOs remains small.[23] To address this, in columns 4 and 5, we broaden the performance metric to include both IPOs and acquisitions with a valuation at least twice the total capital invested. We again find positive and significant estimates.

In summary, these findings indicate that VCs' PBC investments perform at least as well as, and perhaps even better than, their traditional investments. This result further rejects the notion that PBC investments should be considered as merely symbolic or "window dressing" exercises for VC firms.

6 Mechanisms

To this point, the evidence indicates that VCs do not systematically avoid PBCs; if anything, they are more likely to invest in them relative to comparable non-PBCs. This pattern suggests that the PBC form may offer features that investors find valuable for investors, at least *in some cases*. In this section, we explore potential mechanisms that could explain this behavior.

Our discussion in Section 3 suggests that potential mechanisms can be broadly categorized into two groups. First, the PBC may be a superior organizational form for some companies that enhances shareholder value despite the potential costs associated with this incorporation regime. Among others, such value creation could arise through improved governance incentives or stronger relationships with key stakeholders. Second, PBCs may appeal to investors who value pro-social causes and are willing to trade off lower financial returns in

[23] There are 9 PBC IPOs out of a total of 906 IPOs in the sample.

exchange for non-pecuniary benefits. In practice, both channels may operate simultaneously at the margin. The goal of this section is to assess which mechanism aligns more closely with the empirical patterns in our data.

6.1 PBC as a Better Organizational Form?

In assessing the first hypothesis, two pieces of evidence are particularly informative. First, consider the time-series patterns presented earlier (Figures 2 and 4): interest in PBCs increased significantly over most of the past decade, peaked around 2019–2020, and then declined slightly thereafter. This pattern appears inconsistent with some forms of value creation attributed to public benefit corporations. For instance, if PBCs create value primarily by improving governance such as reducing managerial short-termism, we would expect adoption to remain stable or continue to increase as these advantages become more widely recognized. The observed rise and subsequent decline suggests that other forces may be at play.

These trends are more consistent with the view that PBCs enhance relationships with key stakeholders or cater to investors with pro-social preferences. Both mechanisms can accommodate the time-varying nature of these patterns, including the peak around 2019–2020. In particular, it is plausible that demand for pro-social behavior increased over time and reached a high point around 2020. This interpretation aligns with Baker et al. (2024), who document that ESG demand among index fund investors rose steadily over time, peaked around 2020, and declined thereafter.

Second, additional insights come from examining the distribution of PBCs across industries and states. This evidence is informative because the hypothesis that PBCs improve relationships with stakeholders (e.g., workers, consumers, suppliers) yields specific predictions about where PBCs should be most prevalent. As argued by Dorff et al. (2021), this mechanism implies greater PBC adoption in consumer-facing industries, where end con-

sumers are more likely than businesses to value pro-social causes. Similarly, states likely differ in the extent to which local workers or suppliers hold pro-social preferences. If stakeholder benefits are an important driver, we should expect that PBC adoption to be more concentrated in states where such preferences are particularly strong.

In the first panel of Table 6, we compare the industry distribution of VC-backed PBCs and non-PBCs. PBCs are more prevalent in "Consumer Products and Services" than non-PBC businesses (28% vs. 16.1%). However, this difference appears to reflect a broader tendency for PBCs to cluster in products- and services-oriented sectors more generally: we also observe a higher share of PBCs in "Business Products and Services" (16.4% vs. 10.9%).[24] These higher concentrations in consumer- and business-oriented sectors are largely offset by a lower share of PBCs in the information technology (IT) sector. In the second panel of Table 6, we compare the headquarters locations of PBC and non-PBC startups. In contrast to the industry patterns, the geographic distribution of PBCs more closely mirrors the overall distribution of VC activity. Differences across the two groups are generally small and do not exhibit any systematic pattern.

This evidence is not necessarily inconsistent with the hypothesis that PBCs may, in some cases, represent a superior organizational form—one that facilitates more balanced governance and stronger relationships with stakeholders. However, the patterns discussed above suggest that these factors are unlikely to be the sole or primary drivers of our main results. In the next section, we therefore turn to investor preferences as an alternative mechanism and provide a set of direct tests to assess their role in explaining our results.

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

6.2 Investor Preference

In Section 3, we argued that PBC status can facilitate fundraising when entrepreneurs target investors who have a preference for the socially minded behavior embedded in the firm's mandate. This mechanism could plausibly account for several of the patterns documented earlier. Prior research shows that some VC investors derive nonpecuniary benefits from investing in businesses with social impact (Barber et al., 2021), and that socially minded investing has grown significantly over the past decade (Goldstein et al., 2022). Furthermore, the time-series patterns documented earlier—see Figures 2 and 4—are consistent with rising pro-social interest among investors over the past decade, peaking around 2019–2020 (Baker et al., 2024).

If investor preferences are an important driver of VC interest in PBCs, we should not expect this mechanism to be uniformly important across all investors. Preferences for socially minded companies may evolve over time, partly in response to external shifts in social and political institutions. In addition, limited partner investors sort into different VC funds, so we should not expect every fund to place the same weight on social objectives. The tests presented in this subsection build directly on these ideas.

Fund Level Evidence If investor preference plays a meaningful role in driving VC investments in PBCs, we should observe that the likelihood of a PBC investment increases after a VC firm raises a fund aimed at generating social impact. The intuition is that a fund's pro-social mandate attracts LPs with such preferences, which in turn influences the investment behavior of the VC managers. Importantly, this prediction does not follow from alternative mechanisms. For instance, if VCs invest in PBCs solely when they are superior financial opportunities, then their propensity to invest in them should not depend on fund type, since traditional VC funds face no legal or institutional constraints on investing in PBCs.

To test this prediction, we conduct a within-VC-firm analysis that relates a VC firm's likelihood of investing in a PBC to its decision to launch a socially oriented fund.[25] We classify a fund as a socially oriented fund 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-oriented objectives within a broader investment strategy.[26]

Table 7 presents estimation results using an investor-year panel. The dependent variable is a dummy variable equal to one if a VC investor makes a 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 a fund with impact investing objectives. Column 2 restricts the analysis to PBC investments involving startups initially organized as PBCs (i.e., excluding conversions). Consistent with our earlier evidence that VCs are actively involved in PBC conversions, the estimated effect is smaller but remains statistically significant, suggesting that investors are also more likely to back initially organized PBCs after shifting their investment preference. Results remain robust when excluding investors identified by PitchBook as impact investors at the investor level (column 3), restricting the sample to 2016-2024 (column 4), and excluding California-based investors (column 5).

Anti-ESG Policies The previous results underscore that investor preferences may be a key mechanism driving VC investments in PBCs. However, the decision to launch a fund with pro-social objectives is inherently endogenous. The ideal test of our hypothesis would involve an exogenous shift in investor preferences toward (or away from) PBCs. While such an experiment is not feasible, the recent introduction of anti-ESG policies provides a natural setting with similar properties.

[25] A common data constraint in this literature is the absence of systematic information identifying which specific VC fund made each investment, which also applies to our setting.

[26] We show below that our results remain robust when excluding investors identified by PitchBook as dedicated impact investors.

Beginning with Nevada, more than 20 U.S. states have enacted restrictions limiting the ability of public investment funds to consider ESG factors in their capital allocation decisions over the past few years (see Table IA.1). Although these policies do not explicitly target PBCs, they should reduce demand for socially conscious investments by public pension funds and other state-sponsored vehicles (see Section A.1 in the Internet Appendix). Given that public pension funds account for over 30% of total VC fundraising (e.g., González-Uribe, 2020), such restrictions are likely to materially influence the overall preferences of local VC investors toward companies with pro-social missions. Therefore, if investor preferences indeed drive VC demand for PBCs, we should observe a decline in PBC investments by VCs and, more broadly, reduced interest in PBC incorporation among startups seeking VC funding.

To begin, Table 8 estimates the impact of state anti-ESG policy changes on startups' decisions to incorporate as PBCs at the startup level. The sample includes Delaware-incorporated startups that either seek or have raised VC financing, as identified through Form D filing. A startup's state is assigned based on its headquarters location as reported in the Form D data. The dependent variable is a dummy equal to one if a startup is initially incorporated as a PBC. Column 1 of Panel A shows that after a state adopts an anti-ESG policy, the likelihood that a startup incorporates as a PBC in that state falls by 0.9 percentage points. This decline is economically significant relative to the sample average of 1.4% PBCs. The effect remains robust when adding industry fixed effects (column 2), restricting the sample period to 2016–2024 (column 3), and excluding California-based startups (column 4).[27]

Overall, 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.[28] Because state anti-ESG policies were implemented in a staggered

[27] Industries are identified using the classification reported in each firm's Form D filing.

[28] We conduct a similar exercise at the headquarters state-incorporation quarter level using the broader Delaware business registration sample, where headquarters state is inferred using ChatGPT. Results,

fashion, Table 8 Panel B provides 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 from staggered treatment designs.[29] Based on these findings, we rely on the baseline estimation design in subsequent analyses.

To examine the dynamic effects of state anti-ESG policies, we estimate a dynamic specification in Table 9. Specifically, we replace the main explanatory variable, *Anti-ESG*, with a set of dummies indicating relative years around the enactment of anti-ESG policies in treated states.[30] Across specifications, all pre-treatment coefficients are statistically insignificant, suggesting that PBC incorporation trends were parallel between treated and control states prior to policy adoption, and thereby supporting the validity of our diff-in-diff design. Post-treatment coefficients show that startups in treated states are significantly less likely to incorporate as PBCs relative to those in control states, with the decline appearing in the year following the introduction and in part persisting in the following years.

Consistent with these findings, we also observe significant changes in actual VC investment behavior in response to these policies. As expected, Table 10 shows a marked decline in VC investments in PBCs. To account for potential confounding from overall VC investment volume, we measure VCs' PBC investment activity using the fraction of VC deals in each state-quarter that involve PBCs. Controlling for startup headquarters state and deal-quarter fixed effects, column 1 shows that the share decreases by 0.9 percentage points after anti-ESG policy changes—roughly a 70% decline relative to the sample mean of 1.20%. The effect remains robust when restricting to initially incorporated PBCs (column 2), excluding

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reported in Table IA.4, are consistent but somewhat less precisely estimated, likely reflecting measurement noise in the headquarters-state variable and the inclusion of low-growth firms not seeking VC financing.

[29] As an additional robustness test, we also implement the Callaway and Sant'Anna estimator; results, shown in Table IA.5, remain statistically significant.

[30] To improve power in estimating our relative effect, we use as the reference group the behavior of startups incorporated more than three years before the introduction of the policy.

VC deals involving impact investors (column 3), narrowing the sample to 2016–2024 (column 4), and excluding investments in startups headquartered in California (column 5).[31] We also examine the dynamic effects of anti-ESG policy adoption on VCs' PBC investments, and find a reduction in PBC investment activity in the year following the policy implementation, suggesting that VCs respond immediately and are highly sensitive to these regulatory changes (Figure IA.2, Panel B).

Other Tests Before concluding the analysis of this mechanism, we report some additional tests that help interpret our findings. A central premise of this analysis is that anti-ESG policies primarily restrict public investors' ability to consider pro-social factors in capital allocation. A potential concern, however, is that these policies might also affect the quality of ventures pursuing pro-social missions. In other words, such shocks could affect the expected returns for investing in PBCs located in the state, conditional on fundraising. While this concern is plausible for the broader population of businesses, it is less likely to be first-order in the context of VC-backed startups. Although geographic proximity plays a role in VC investment decisions (Lerner, 2022), the end markets for VC-funded products and services are typically national or global rather than local.

Further evidence ruling out the lower-financial-return explanation is presented in Table IA.7, which examines the effects of state pro-ESG policies. Similar to the anti-ESG policies discussed above, these policies may signal the viability of pro-social businesses within a state. Therefore, if state-level regulatory environments directly affect business viability and financial returns, we should also expect to observe an impact on VC investing. In contrast to the anti-ESG policies, however, pro-ESG measures appear more limited in their effect on the supply of financing (see discussions in Section A.3 in the Internet Appendix). Consistent with this view, we find no evidence that pro-ESG policies increase PBC incorporation or

[31] As additional robustness checks, we extend the analysis to include broader anti-boycott policies and find consistent results (Table IA.6).

PBC investments by VCs, supporting our interpretation that the decline in PBC activity under anti-ESG regimes reflects shifts in public investors' preferences rather than changes in PBC startup viability.

Another potential concern regarding the interpretation of our findings is whether the results reflect a genuine change in investor preferences or, more mechanically, a change in the mandate to invest in companies with a pro-social orientation. To some extent, since investment mandates likely reflect investors' preferences, this distinction is not inconsistent with our interpretation. Nevertheless, the policy implications would differ across these two explanations.

We reject this mandate-based explanation using several tests. First, we note that this concern is unlikely to play a significant role given the nature of our tests in Tables 7-10. The anti-ESG policies do not impose any formal restrictions on investing in companies with pro-social objectives; rather, they require that investment decisions be made solely on financial returns. Likewise, our definition of pro-social funds in Table 7 includes both funds formally presented as impact funds and those that merely reference impact-investing goals in their fund descriptions. Furthermore, in one specification (Table 7, column 3) we directly exclude funds raised by impact investors from the sample, and continue to find similar effects. Therefore, our variation in these tests does not simply capture funds that operate under a formal mandate to invest in pro-social ventures.

To further assuage this concern, we examine the quality of PBCs receiving VC investments. The intuition behind this test is that if new PBC investments merely reflect a mechanical change in investment mandates (i.e., managers are required to invest in pro-social businesses regardless of quality), we should observe some opposite effects on the quality of the ventures financed, since in such a case, the underlying startup quality becomes secondary to fulfilling a specific investment mandate. To measure startup quality at the time of VC investment, we use the cumulative number of patents filed by the startup, based on the

notion that early patenting is a strong predictor of subsequent business success (Guzman and Stern, 2020).[32]

We examine this issue separately across the two analyses. Table IA.8 considers changes in the quality of PBC investments at the VC firm level around the time a fund with a pro-social orientation is launched. If anything, we find that the quality of ventures—based on our patenting measures—increases rather than decreases, contrary to the investment mandate explanation. Likewise, Table IA.9 evaluates how state-level anti-ESG policies affect the average quality of PBC investments. In this case, we find no significant change in investment quality.[33] Together, these results are inconsistent with the notion that our results simply capture VC mandates to invest in pro-social businesses. Instead, they align with a more nuanced mechanism where VCs balance social and financial considerations when allocating capital.

Although a comprehensive quantification of all underlying channels is beyond the scope of this paper, our evidence highlights investor preferences for pro-social firms as an important driver of VC activity in PBCs. Examining both the introduction of funds with social objectives and the adoption of state-level anti-ESG regulations, we consistently find that shifts in investor preferences for social impact strongly predict VC investments in PBCs. These results are difficult to reconcile with the view that PBCs are simply better businesses, but they align naturally with models in which investor sentiment and non-pecuniary preferences play a central role.

[32] For each PBC investment, we count the cumulative number of eventually granted patents filed by the startup from its founding year up to the VC investment year.

[33] Because the analysis focuses on the quality of PBC investments, the sample size is smaller than in previous tests, as not all periods contain PBC investments.

7 Discussion

There are three main takeaways from our analysis. First, benefit corporations remain a relatively small phenomenon. This suggests that—for the average firm—the potential costs associated with this legal structure likely outweigh its benefits. Given the documented trends in PBC adoption, it is not clear that this will change soon: after an initial growth phase, the share of PBCs has plateaued and appears to have slightly declined in recent years. Nevertheless, this does not imply that PBCs are unimportant or unworthy of attention from academics and policymakers.[34] As discussed earlier, several prominent companies have chosen to adopt the PBC form, including notable examples in the AI sector. Moreover, given the relatively high prevalence of PBCs among VC-backed startups, it is plausible that the number of PBCs among public companies will grow over time.[35]

Second, our findings speak to the role of shareholder primacy in firms' ability to raise capital. PBCs are overrepresented in industries with intensive VC involvement—a class of investors that is professional, profit-oriented, and focused on firms with strong growth and fundraising potential. This evidence suggests that relaxing traditional shareholder primacy principles does not necessarily hinder a firm's ability to attract capital from sophisticated investors. This finding is consistent with the growth in the number of states offering this incorporation option in United States.

However, it is important to emphasize that nothing in our analysis implies that benefit corporations are superior to standard corporations. If anything, our earlier evidence on the relatively small size of this phenomenon suggests the opposite: for most firms, the costs of this legal form likely outweigh its benefits. Moreover, our study does not attempt to

[34] More broadly, many economic institutions affect only a small subset of firms but still play a strategically important role in the economy. For example, patenting is a relatively limited phenomenon across the firm population (Mezzanotti and Simcoe, 2025), yet this legal institution plays a well-recognized role in supporting long-run economic growth.

[35] For example, both OpenAI and Anthropic could go public in 2026, see `https://www.wsj.com/tech/ai/openai-ipo-anthropic-race-69f06a42?mod=hp_lead_pos1`

quantify the specific costs and benefits of this organizational form. In particular, future research should more directly examine the governance challenges that may emerge when shareholder primacy is relaxed. Given the recency of this legal innovation and the absence of a clear policy experiment, such questions remain beyond the scope of this paper.

Third, our findings suggest that some of the appeal of benefit corporations can be explained by the presence of investors with clear preferences for pro-social causes, and a corresponding interest in ventures structured to credibly pursue those goals. In this context, the creation of benefit corporations can be viewed as a legal innovation that facilitates better matching between pro-social investors and entrepreneurs. A potential drawback of this mechanism, however, is that it implies the prevalence of benefit corporations may depend heavily on investor sentiment and preferences, which are likely to vary significantly over time.

A further consideration in interpreting our findings is that the main analyses in this paper focus on the VC industry, which has several unique features. Most notably, VC investors engage in intensive post-investment monitoring. This feature is particularly relevant in the context of PBCs, as one of the primary concerns with relaxing shareholder primacy involves weakened governance and reduced managerial accountability. Consequently, the success of firms operating as PBCs may depend on the presence of investors such as VCs who are able to provide close oversight and actively monitor managerial decisions.

We view this as an important caveat, but we also emphasize two points. First, as discussed earlier, our objective is not to make broad claims about the overall benefits of the PBC form. Instead, we seek to identify a well-defined asset class in which investors view PBCs as a viable—or even preferred—incorporation option. Demonstrating such cases represents the minimal condition for arguing that offering this legal form constitutes a meaningful and potentially valuable addition for firms seeking to raise external capital.

Second, VCs ultimately invest with the goal of exiting through public markets or acquisitions—settings in which other investors generally do not engage in the same degree of

monitoring. As a result, forward-looking VCs must consider not only the prospects for subsequent funding, but also anticipated demand from the broader investor base. In this context, it is noteworthy that none of the VC-backed PBCs that have gone public have converted back to a traditional corporate form before or around their IPOs, suggesting a degree of market acceptance of the PBC structure.

Lastly, future research should examine whether PBCs genuinely enhance firms' ability to achieve pro-social goals. A natural concern is that some firms may adopt this incorporation form primarily to signal social commitment, without corresponding changes in actual behavior. Our results indicate that such signaling may be effective in attracting investors, but this does not necessarily imply that these firms operate differently in practice. To shed light on this issue, we test whether PBCs are more likely to engage in environmental innovation, a commonly cited focus among PBCs. As shown in Table IA.10 in the Internet Appendix, PBCs are significantly more likely to file green patents (columns 1–3), and this pattern is not explained by higher overall patenting activity (columns 4–6). This evidence is consistent with the view that PBCs may differ in economically meaningful ways from traditional firms. However, the original question of how PBCs can facilitate the achievement of pro-social goals remains open.

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 (VC) investors—a setting where access to capital is central to firm growth and highly sensitive to governance structures.

Using newly assembled data linking all Delaware PBCs to comprehensive records of VC activity, we test whether investors treat these firms differently from traditional corpora-

tions. We find little evidence that PBC status limits access to VC funding. If anything, PBC startups are more likely to receive VC investment and, conditional on funding, achieve comparable exit outcomes. Moreover, many PBC conversions occur alongside or after VC investment, indicating direct investor endorsement. Finally, our findings underscore the importance of investor preferences for pro-social goals in shaping PBC adoption.

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Figure 1: State Adoption of Benefit Corporation Statutes

This figure maps U.S. states by adoption of benefit corporation legislation. Darker shading indicates adoption; states without statutes appear white.

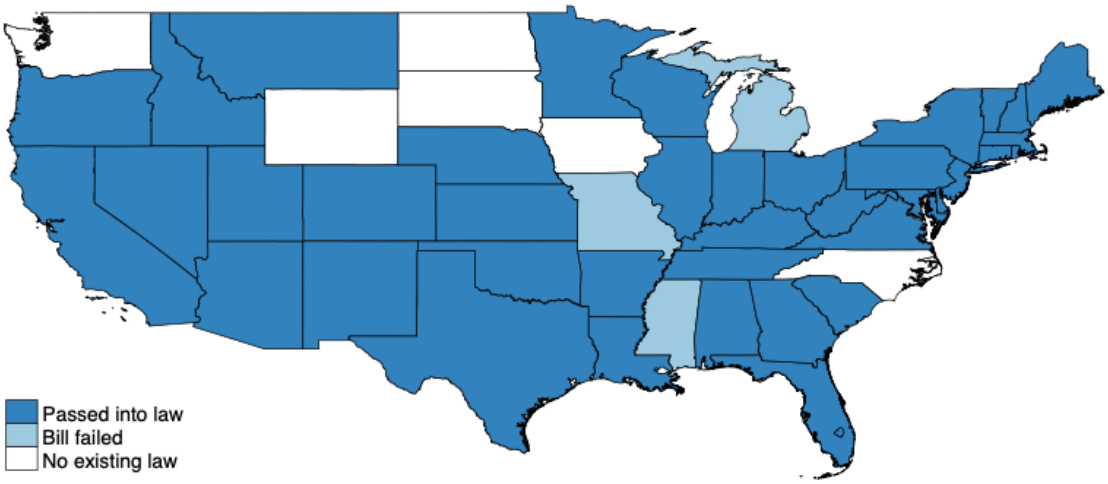


Figure 2: Number and Fraction of PBCs over Time

This figure plots the annual number and share of public benefit corporations (PBCs) incorporated in Delaware between 2013 and 2024. The dashed line represents the total number of PBCs incorporated each year, while the solid line shows the fraction of PBCs among all newly incorporated firms in the state.

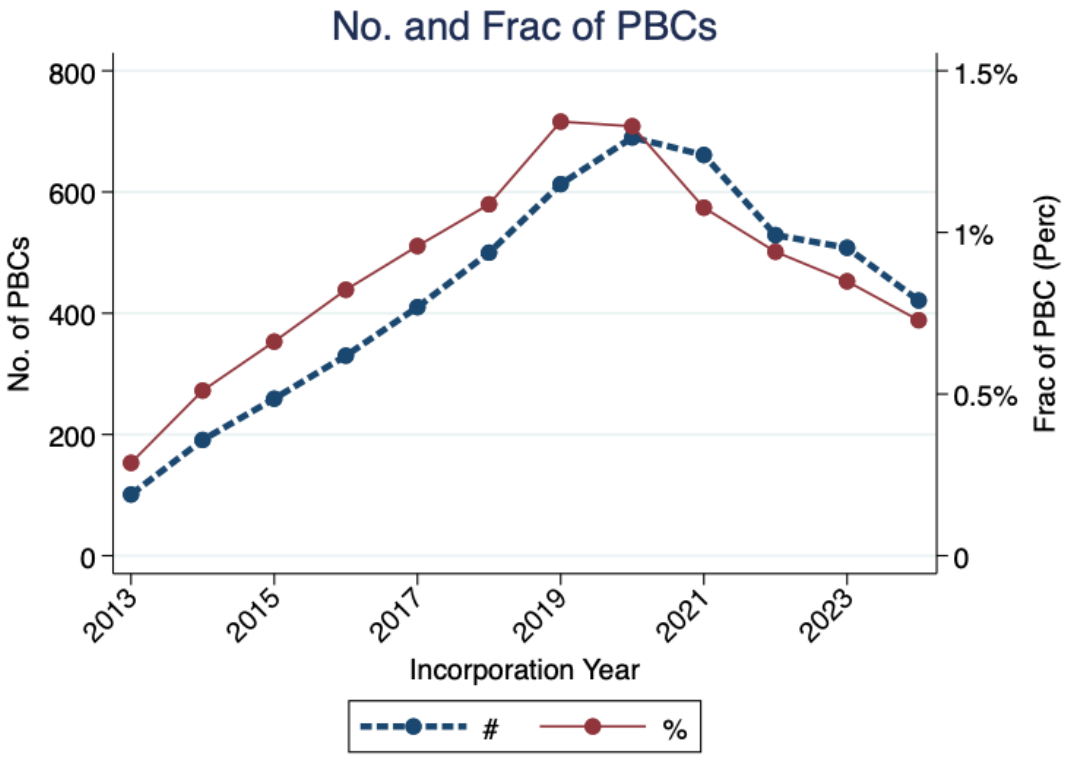


Figure 3: Probability of Raising VC

This figure plots the probability that startups are funded by VCs within three years of incorporation, separately for PBCs and non-PBCs. The sample includes startups incorporated between 2013 and 2021.

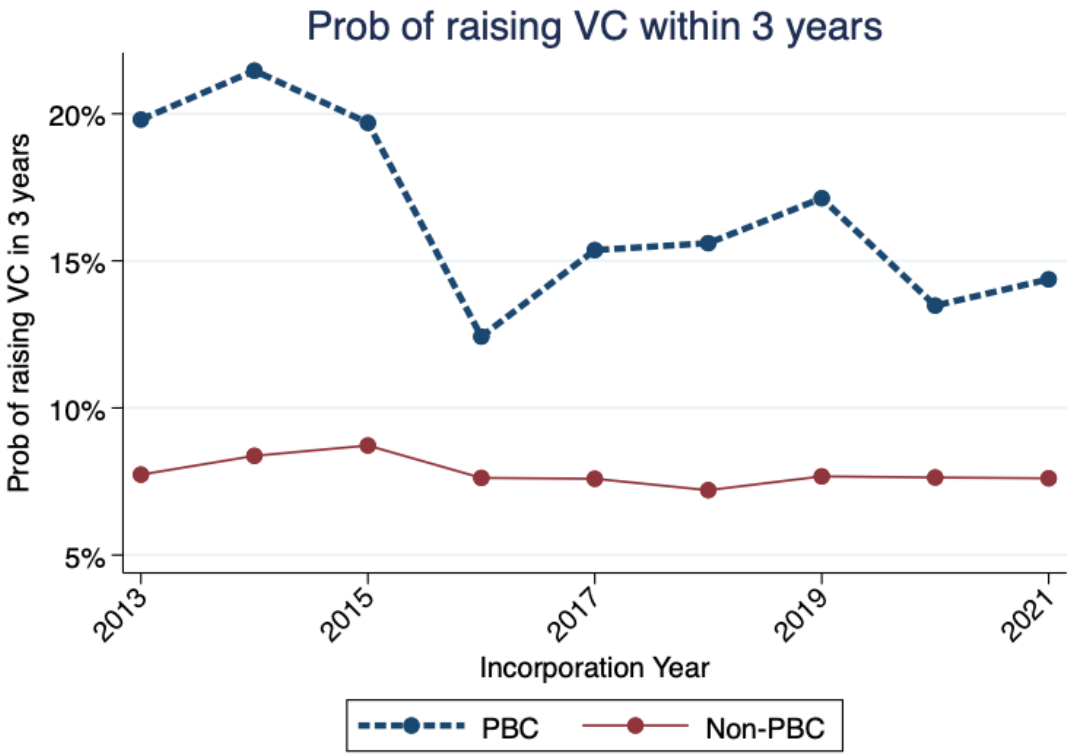


Figure 4: PBC Incorporation by VC investment Intensity over Time

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 each two-digit SIC industry's share of startups that raised their first VC round during 2010-2012 (i.e., the three-year period before the adoption of the PBC framework in 2013). 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 sample includes all Delaware-incorporated startups. The vertical red lines represent the 95% confidence interval for the coefficient estimates.

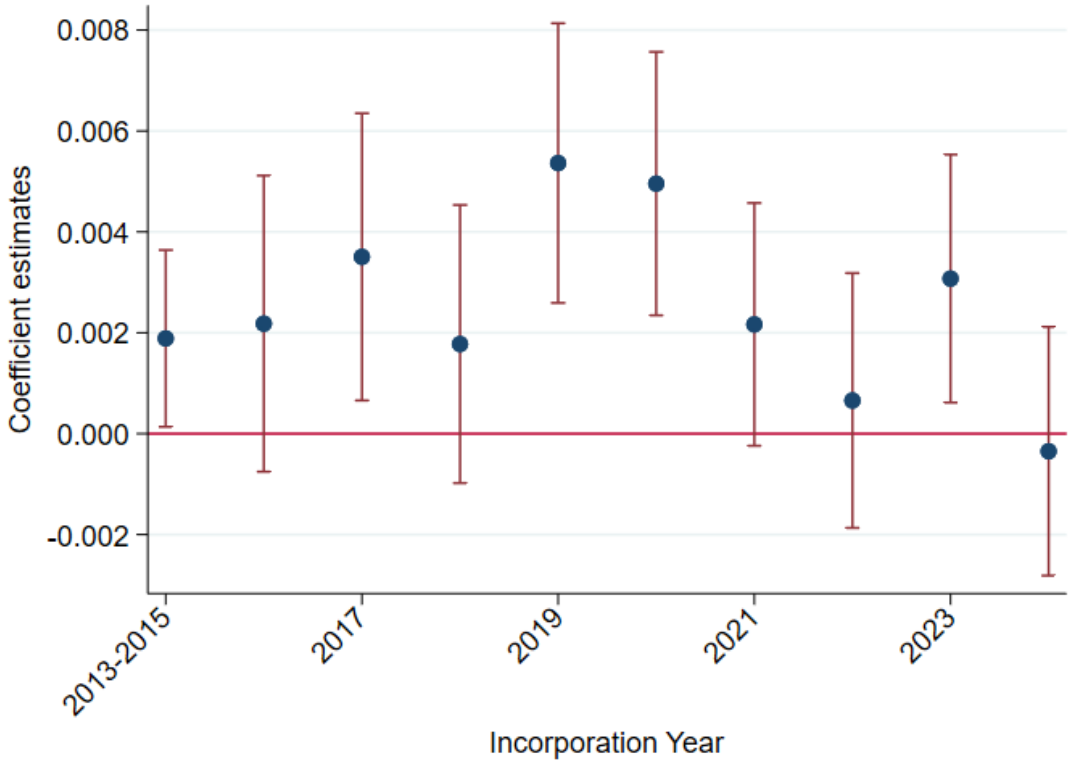


Figure 5: VC Financing around PBC Conversion

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 from 2013 to 2024.

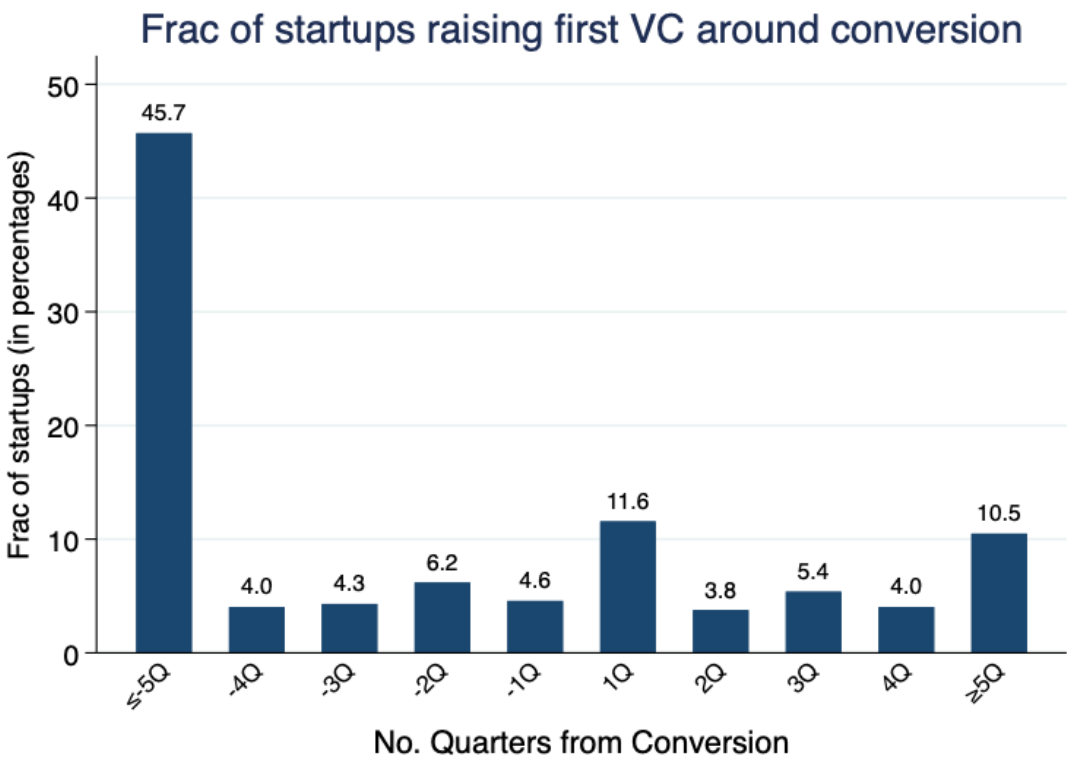


Table 1: Summary Statistics

This table presents summary statistics for the startup sample (Panel A), used in the analysis of startups' VC financing, and for the VC investment sample (Panel B), used in the analysis of VCs' investment performance. The startup sample includes all startups incorporated in Delaware from 2013 to 2021. The VC investment sample includes all VC deals made over the same period. *Raised VC* is a dummy equal to one if a startup raised VC funding within 3 years of incorporation; *Capital* is the total dollar amount of VC funds raised by a startup within 3 years of incorporation; *PBC* equals one if a startup is initially incorporated as a PBC; *Age* is the startup's age, measured in years at the time of VC investment; *Deal Size* is the size of the VC investment, measured in millions of dollars; *Ownership Acquired* is the percentage of startup equity acquired by VC investors; *IPO* is a dummy 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	0.08	0.27	0.00	0.00	0.00	0.00	1.00
Raised VC (ex. impact)	0.08	0.27	0.00	0.00	0.00	0.00	1.00
Raised VC (ever)	0.09	0.29	0.00	0.00	0.00	0.00	1.00
Capital	0.96	30.05	0.00	0.00	0.00	0.00	0.34
PBC	0.01	0.09	0.00	0.00	0.00	0.00	0.00

Panel B: The VC investment 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 presents analyses examining the relationship between a startup's likelihood of raising VC funding and its initial choice of entity type (i.e., as a PBC or not) at the startup level. The sample includes all startups incorporated in Delaware from 2013 to 2021. The dependent variable in the first 4 columns is a dummy variable indicating whether the startup raised VC funding within the following window: within 3 years of incorporation (columns 1 and 2), within 3 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 the total dollar amount of VC capital raised within 3 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, 2-digit SIC industry, and headquarters state. Standard errors in parentheses are clustered by incorporation year.

	Raised VC				Capital
	(1)	(2)	(3)	(4)	(5)
	3 yr	3 yr	ex. impact	ever	3 yr
PBC	0.048***	0.045***	0.044***	0.055***	0.026**
	(0.008)	(0.008)	(0.009)	(0.010)	(0.009)
Observations	399,092	398,698	399,092	399,092	399,092
Adj. R^2	0.000	0.020	0.000	0.001	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: PBC Incorporation by VC Investment Intensity

This table presents analyses examining a startup's initial choice of entity type (i.e., as a PBC or not) by 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 a dummy variable indicating whether a startup is initially incorporated as a PBC, i.e., *PBC*. VC investment intensity (*VC Intenstiy*) is measured as the share of startups in a given SIC industry that raised their first VC round during 2010-2012 (i.e., a three-year period before the adoption of the PBC framework in 2013). *VC Intenstiy* is constructed at the 2-digit SIC level in columns 1-4 and at the 4-digit SIC level in column 5. *Inc Year FE* and *State FE* denote fixed effects for incorporation year and headquarters state. Standard errors in parentheses are clustered by incorporation year.

	PBC				
	(1)	(2)	(3)	(4)	(5)
	all	all	16-24	ex. CA	Orbis
VC Intensity	0.002***	0.002***	0.003***	0.004***	0.011**
	(0.001)	(0.000)	(0.001)	(0.001)	(0.004)
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: Convert to a PBC

This table presents analyses examining the relationship between the timing of a startup' first VC funding and its conversion to PBC 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 a dummy variable indicating whether a startup converts to a PBC 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 are excluded. The main explanatory variable *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***	0.081***	0.083***	0.098***	0.080***
	(0.020)	(0.020)	(0.021)	(0.025)	(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 presents analyses examining the performance of VCs' PBC investments at the investor-deal level. The sample period is over 2013–2021. The dependent variables measure exit of portfolio companies: whether the startup has gone public (columns 1-3), and whether the startup has gone public or been acquired at a valuation at least twice the total amount of capital raised (columns 4-5). Impact investors are excluded from the sample in columns 3 and 5. 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, the year of the investment, the portfolio company's industry, the VC financing round, and the portfolio company's headquarters state. Standard errors in parentheses are clustered by investor.

	IPO			IPO or Acq	
	(1)	(2)	(3)	(4)	(5)
	all	all	ex. impact	all	ex. impact
PBC	0.034***	0.026***	0.036***	0.022***	0.023***
	(0.006)	(0.006)	(0.006)	(0.007)	(0.007)
Log Age		−0.001			
		(0.001)			
Log Deal Size		0.025***			
		(0.001)			
Observations	157,568	140,478	154,982	157,568	154,982
Adj. R^2	0.188	0.261	0.189	0.150	0.151
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: PBC Distribution

Using VC-backed startups founded between 2013 and 2024 from PitchBook, this table reports the distribution of PBC and non-PBC startups across sectors (Panel A) and headquarters states (Panel B). To conserve space, Panel B includes only states with at least 15 VC-backed PBCs.

Panel A: PBC distribution by industry

	No. of PBC	Frac of PBC	No. of Non-PBC	Frac of Non-PBC
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: PBC distribution by headquarters state

	No. of PBC	Frac of PBC	No. of Non-PBC	Frac of Non-PBC
CA	286	38.1	15,675	35.5
NY	131	17.5	6,339	14.3
TX	32	4.3	2,495	5.6
MA	32	4.3	2,574	5.8
CO	32	4.3	1,041	2.4
VA	20	2.7	614	1.4
DE	20	2.7	1,315	3.0
DC	19	2.5	261	0.6
WA	17	2.3	1,292	2.9

Table 7: Investor Preference and PBC Investment

This table presents analyses examining investors' PBC investments following raising a fund that includes 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 a dummy variable indicating whether an investor makes at least one PBC investment in a given year. In column 2, only startups that were initially incorporated as PBCs are counted as PBC investments, and in column 3, impact investors are excluded from the sample. The main explanatory variable *Raised Fund for Impact* 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 the 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 Fund for Impact	0.126***	0.074***	0.123***	0.093***	0.126***
	(0.025)	(0.013)	(0.029)	(0.029)	(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 presents analyses examining the impact of state anti-ESG policy changes on a startup's initial choice of entity type (i.e., as a PBC or not) at the startup level. Panel A reports staggered diff-in-diff 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*, a dummy variable indicating whether a startup is initially incorporated as a PBC. The main explanatory variable, *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). 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**	−0.009**	−0.008**	−0.008**
	(0.004)	(0.004)	(0.003)	(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**	−0.009**	−0.008**	−0.008**
	(0.004)	(0.004)	(0.004)	(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

Similar to the specifications in Table 8, this table presents dynamic estimates of the impact of state anti-ESG policy changes on a startup's initial choice of entity type (i.e., as a PBC or not) at the startup level. The main explanatory variable, *Anti-ESG*, is replaced with a set of dummy variables *Anti-ESG* × *Year i* indicating the relative year i surrounding the enactment of anti-ESG policy changes in treated states (for example, Year 1 corresponds to the four quarters following the enactment quarter). The interaction for years more than 3 periods prior to the policy changes is omitted and serves as the reference group. The dependent variable is *PBC*, a dummy equals 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 × Year -3	−0.010	−0.010	−0.010	−0.008
	(0.007)	(0.007)	(0.008)	(0.007)
Anti-ESG × Year -2	−0.006	−0.006	−0.006	−0.005
	(0.007)	(0.007)	(0.008)	(0.008)
Anti-ESG × Year -1	0.001	0.001	0.002	−0.001
	(0.007)	(0.007)	(0.008)	(0.007)
Anti-ESG × Year 1	−0.011**	−0.011**	−0.010**	−0.011**
	(0.005)	(0.004)	(0.005)	(0.005)
Anti-ESG × Year 2	−0.009	−0.010	−0.009	−0.007
	(0.006)	(0.006)	(0.006)	(0.007)
Anti-ESG × Year 3+	−0.014**	−0.015**	−0.014*	−0.018**
	(0.007)	(0.006)	(0.008)	(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 diff-in-diff analyses examining the impact of state anti-ESG policy changes on VCs' PBC investments at the state-quarter level. Panel A reports staggered diff-in-diff regression results while Panel B presents estimations 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 that were initially incorporated as PBCs. Column 3 further restricts to PBC investments that do not involve any impact investor. In column 4, the state of California is excluded from the sample. The main explanatory variable, *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. 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
State FE	Y	Y	Y	Y	Y
Deal Qtr FE	Y	Y	Y	Y	Y

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 level 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 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

[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

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 towards PBC investments. Accordingly, we exploit these state anti-ESG policies as exogenous shocks to VC investors' preferences toward PBCs and examine their implications for PBC incorporation and VC investment behavior.

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

[2] https://legiscan.com/ID/bill/S1405/2022
[3] https://www.flgov.com/eog/sites/default/files/press/ESG-Resolution-Final_0.pdf

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 tend 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, 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-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

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

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 2025, 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 with Impact Investors

This figure plots the number and share of VC deals that include at least one impact investor by VC financing year from 2013 to 2024. Impact investors are identified at the investor level using PitchBook classifications.

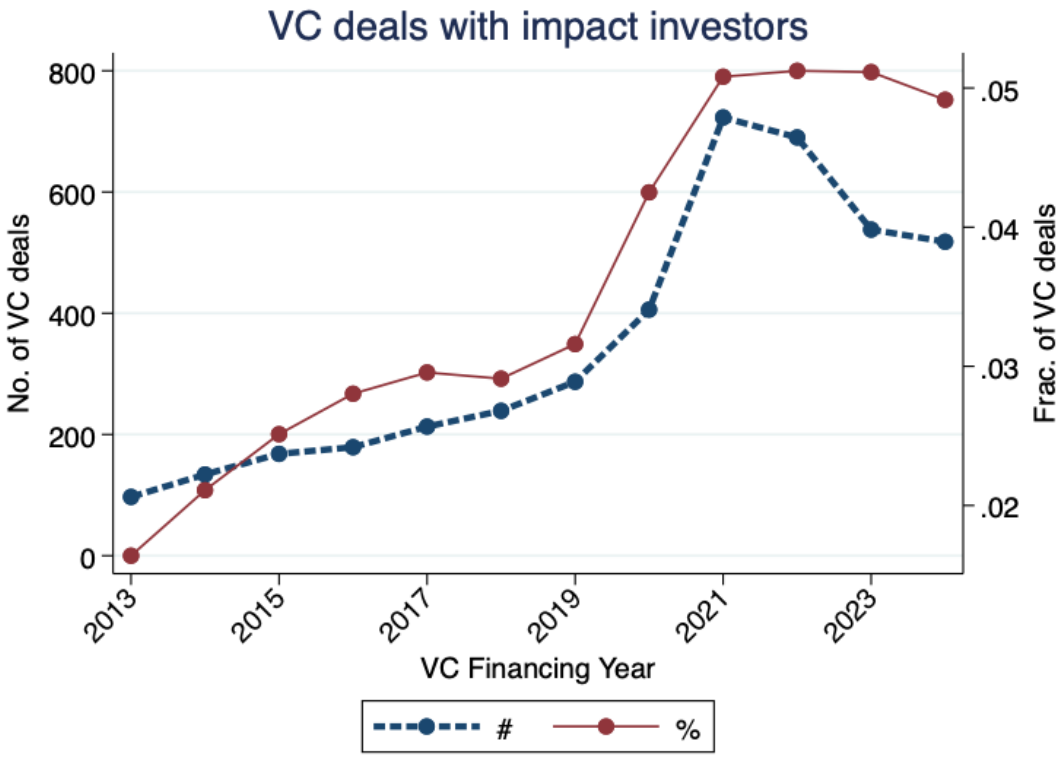
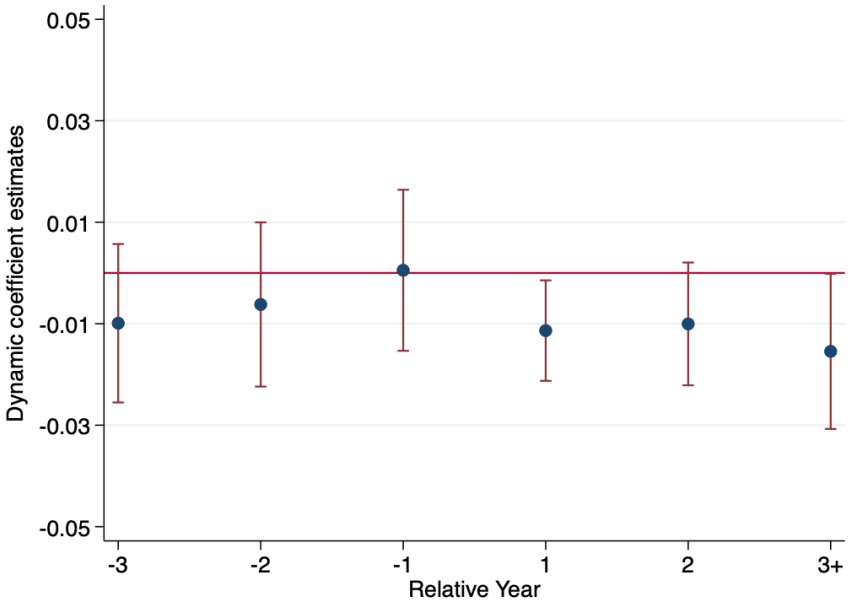


Figure IA.2: Dynamic Effects of State anti-ESG Policy Changes

This figure presents the dynamic effects of state anti-ESG policy changes. Panel A reports estimates at the startup level, analogous to Tables 8 and 9, while Panel B reports estimates at the state level, analogous to Table 10.

Panel A: Dynamic effects on PBC incorporation



Panel B: Dynamic effects on VCs' PBC investments

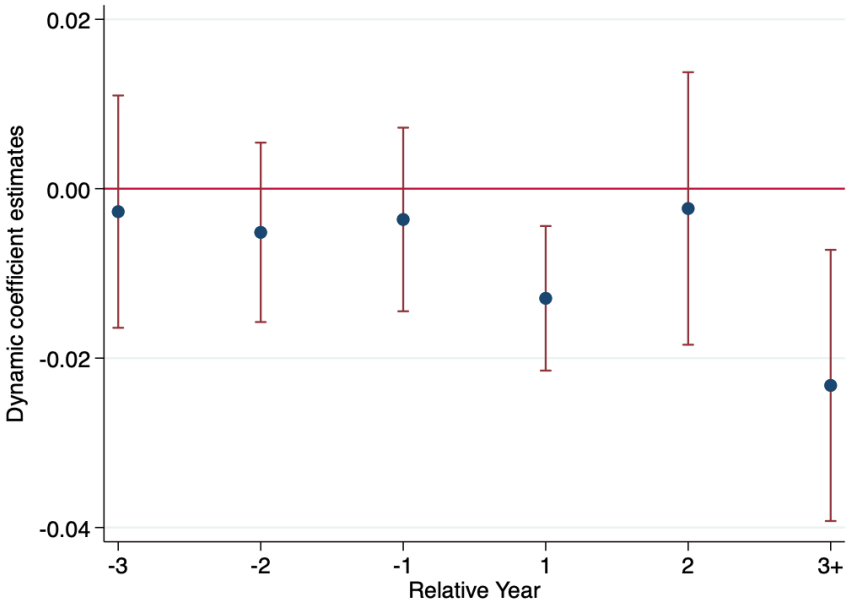


Table IA.1: State-level Anti-ESG Policies

This table lists the U.S. states that enacted anti-ESG policies, along with the corresponding measures and their enactment dates. Additional details are provided in Section A of the Internet Appendix.

State	Measure	Enactment Date
AL	Attorney general written testimony	5/10/2023
AR	HB 1253	4/10/2023
AZ	State Treasurer's Office investment policy statement	8/30/2022
FL	State Board of Administration investment policy	8/23/2022
GA	General statement of investment policy	9/15/2022
ID	SB 1405	3/28/2022
IN	Attorney general opinion	9/01/2022
KS	HB 2100	4/25/2023
KY	Attorney general opinion	5/26/2022
LA	HCR 110	6/12/2023
MS	Treasurer letter	11/14/2022
MO	HR 12	5/12/2023
MT	HB 228	4/19/2023
NH	Executive order	4/10/2023
NC	HB 750	6/27/2023
ND	SB 2291	3/23/2021
SC	HB 3690	2/05/2024
TN	SB 955	5/17/2023
UT	SCR 9	3/14/2023
WV	HB 2862	3/10/2023
WY	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, along with the corresponding measures and their enactment dates. Additional details are provided in Section A of the Internet Appendix.

State	Measure	Enactment Date
AL	SB 261	5/31/2023
AR	HB 1307, HB 1845, SB 62	3/30/2023
ID	HB 191, HB 190	3/23/2023
KY	SB 205	4/8/2022
LA	HCR 70	5/24/2023
MT	HJ 11, HB 356	4/14/2023
NH	HB 1469	6/26/2022
ND	SB 2291	3/24/2021
OK	HB 2034	5/9/2022
TN	SB 2649	5/25/2022
TX	SB 13, SB 19, SB 833	9/1/2021
UT	SB 97, HB 449, HB 281	3/14/2023
WV	SB 262	4/20/2022
WY	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, along with the corresponding measures and their enactment dates. States that adopted pro-ESG policies solely restricting public investments in certain industries are denoted with an asterisk. Additional details are provided in Section A of the Internet Appendix.

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

Table IA.4: Anti-ESG Policies and PBC Incorporation at the state level

This table presents analyses examining the impact of state anti-ESG policy changes on startup's PBC choice. Different from Table 8, this table uses the broad DE business registration sample with startups' headquarters state information inferred from ChatGPT, and conducts the analysis at the headquarters state-incorporation quarter level. The dependent variables are the fraction of PBCs incorporated in a state each quarter in columns 1-3, the inverse hyperbolic sine transformation of the number of newly incorporated PBCs in a state each quarter in column 4, and the inverse hyperbolic sine transformation of the number of newly incorporated non-PBCs in a state each quarter in column 5. The main explanatory variable *Anti-ESG* is set to 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 PBC			No. PBCs	No. 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 DE-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 a dummy variable indicating whether a startup is initially incorporated as a PBC, i.e., *PBC*. The main explanatory variable *Anti-ESG* is set to 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**	−0.013	−0.017**	−0.017**
	(0.008)	(0.009)	(0.008)	(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

Similar to Tables 8 and 10, this table presents analyses examining the impact of a broad set of state anti-ESG policy changes on startups' PBC choice (Panel A) and VCs' PBC investments (Panel B). Specifically, we extend the set of state anti-ESG policy changes used in our main analyses by including state policies targeting companies that engage in economic boycott against fossil fuel other other designated firms (i.e., *Anti-boycott*). The main explanatory variable, *Broad Anti-ESG*, is set to one if a startup's headquarters state has enacted an anti-ESG or an anti-boycott measure, and zero otherwise. See other variable definitions in Tables 8 and 10.

Panel A: PBC incorporation at the startup level

	PBC			
	(1)	(2)	(3)	(4)
	all	all	16-24	ex. CA
Broad Anti-ESG	−0.010***	−0.010***	−0.009***	−0.011***
	(0.003)	(0.003)	(0.003)	(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*	−0.006**	−0.005**	−0.004	−0.006*
	(0.004)	(0.003)	(0.002)	(0.003)	(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

Similar to Tables 8 and 10, this table presents analyses examining the impact of state pro-ESG policy changes on startups' PBC choice (Panel A) and VCs' PBC investments (Panel B). We include two types of pro-ESG policy changes: those promoting consideration of ESG factors in state investment strategies, and those prohibiting public investments in certain industries such as fossil fuel or firearm manufacturing. The main explanatory variable, *Pro-ESG*, is set to one if the startup's headquarters state has enacted a pro-ESG measure, and zero otherwise. See other variable definitions in Tables 8 and 10.

Panel A: PBC incorporation at the startup level

	PBC			
	(1)	(2)	(3)	(4)
	all	all	16-24	ex. CA
Pro-ESG	0.002	0.003	0.001	0.000
	(0.002)	(0.002)	(0.003)	(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	−0.000	0.000	−0.001	−0.001
	(0.003)	(0.002)	(0.002)	(0.002)	(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: Investor Preference and PBC Investment Quality

This table presents analyses examining investors' PBC investment quality following the raising of a fund that includes 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 transformation of the average cumulative number of patents filed by each PBC startup among all PBCs in which an investor invested in a given year. Only startups initially incorporated as PBCs are counted in column 2, and impact investors are excluded in column 3. The main explanatory variable, *Raised Fund for Impact*, is set to one if the investor has raised a fund that includes impact investing as one of its objectives (as identified by fund description and investment preference from PitchBook), and zero otherwise. *Investor FE* and *Investing Year FE* denote fixed effects for the investor and the 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 Fund for Impact	0.234***	0.331***	0.216	0.291***	0.321***
	(0.071)	(0.120)	(0.132)	(0.069)	(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 diff-in-diff analyses examining the impact of state anti-ESG policy changes on VCs' PBC investment quality 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 each PBC startup among all PBCs in which VCs invested in a given state-quarter. Column 2 restricts to PBC investments in startups that were initially incorporated as PBCs. Column 3 further restricts to PBC investments without any impact investor. In column 5, the state of California is excluded from the sample. The main explanatory variable, *Anti-ESG*, is set to one if a state has enacted an anti-ESG measure, and zero otherwise. *State FE* and *Deal Qtr FE* denote fixed effects for the invested startups' 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	0.178	0.175	0.183	0.182
	(0.110)	(0.142)	(0.125)	(0.140)	(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 and Green Patents

This table presents analyses examining a startup's green patenting by its PBC status at the startup level. Green patents are identified following the guidelines the Organization for Economic Co-operation and Development (OECD, 2022). The sample includes all startups incorporated in DE from 2013 to 2021. The dependent variable in the first two columns is a dummy variable indicating whether a startup filed an eventually granted green patent within the following window: within 3 years of incorporation (column 1), and from its incorporation date through the end of our patent sample period in 2024 (column 2). The dependent variable in column 3 is the inverse hyperbolic sine transformation of the number of green patents. The dependent variables in columns 4-6 are defined analogously for all patents. *PBC* is set to one if a startup is ever a PBC, and zero otherwise. *Inc Year FE* denote fixed effects for a startup's incorporation year. Standard errors in parentheses are clustered by incorporation year.

	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**	0.002**	0.003**	0.001	0.003	0.003
	(0.001)	(0.001)	(0.001)	(0.004)	(0.003)	(0.007)
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