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Sarbanes-Oxley and the Evolution of State Takeover Laws: A Study of Opt-in and Opt-out Provisions Over Time

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Abstract:

In this research, we examine the immediate and long-term implications of the Sarbanes-Oxley Act (SOX) on the provisions of state takeover laws. We gather the information from the 1998–2006 IRRC corporate governance database and split it into three time periods: pre–SOX (1998–2000), post–SOX (2002–2004), and long–SOX (2006). We find that while there were some notable changes in the states' addition of opt-in and opt-out options for some of these laws, there were no significant changes in the way these laws were applied between the pre-SOX and post-SOX periods. Additionally, we discover that SOX had no significant further effect on either the laws themselves or their opt-in and opt-out clauses beyond 2004. Our findings suggest that states granted the companies extra latitude regarding some takeover defense clauses shortly after the SOX legislation went into effect.

Keywords: Sarbanes-Oxley, SOX, corporate governance, takeover, state takeover provisions.

JEL Classification: G30, G34, G38.

Introduction

We investigate the short- and long-term implications of the Sarbanes-Oxley Act (SOX) on provisions of state takeover laws. Our data for 1998-2006 comes from the IRRC's corporate governance database. We classified the data into three categories: pre-SOX (1998-2000), post-SOX (2002-2004), and long-SOX (2006). We compare data from the pre-SOX and post-SOX periods to assess the SOX's short-run impact, as well as data from the post-SOX and long-SOX periods to determine the longer-term impact.

The influence of corporate governance and the Sarbanes-Oxley Act on various indicators has been thoroughly examined. The extent to which corporate governance metrics elucidate a corporation's performance, both current and in the future, remains inconclusive (Adjei & Adjei, 2016; Bhagat & Bolton, 2008; da Graça & Masson, 2013). Studies investigating the impact of SOX on corporate profitability, implementation costs, and firm valuation demonstrate benefits as well as adverse outcomes. Studies demonstrating this include those by Ahmed et al. (2010), Vakkur et al. (2008), Asthana et al. (2004), Eldridge & Kealey (2005), Zhang (2007), Duarte et al. (2009), Li et al. (2004), and Jain & Rezaee (2006). Additional evidence is presented by Chang & Choy (2016) and Abdullah and Al-Jafari (2011). Evidence of the detrimental effects of SOX compliance costs is presented in Asthana et al. (2009), Clark (2005), Sneller & Langendijk (2007), and Litvak (2007).

Additional studies, like Cohen et al. (2002) & Cohen et al. (2010), demonstrate the impact of SOX on auditing procedures and controls, while Nourayi et al. (2012) examines the influence of SOX on CEO compensation.

We also find that between the 1998–2000 and 2002–2004 periods, there were significant shifts in the states' implementation of opt-in and opt-out provisions for certain laws; however, the application of these laws remained largely unchanged, as evidenced by a comparison of state law modifications and opt-in/opt-out provisions before and after the Sarbanes-Oxley Act (SOX). It suggests that subsequent to the SOX, states seemed to provide firms with increased flexibility in the application of some regulations. Our analysis, however, indicates that the SOX did not significantly affect the legislation or their opt-in/opt-out provisions after 2004.

The paper focuses on the period 1998-2006 because it allows us to see the SOX's short- and long-term effects on state takeover laws. The pre-SOX period (1998-2000) serves as a comparative point, covering corporate governance trends prior to SOX's implementation. During this time, there was evidence of increasing executive power and weak governance, which resulted in corporate scandals. Deregulation occurred in a variety of domains. This period also saw a rise in M&A activity. The post-SOX (2002-2004) period provides insight into the immediate regulatory response and governance reforms that occurred following SOX's implementation. This period is critical for understanding how firms, regulators, and governance structures reacted to the law's implementation. Because the research focuses on state takeover laws, examining this period allows us to understand how states adjusted their takeover laws in the immediate aftermath of the SOX's passage.

Lastly, the long-SOX (2006) period allows us to determine if the law had long-term consequences or if the regulatory environment normalized following the initial shock. The 2006 timeframe is important for determining whether the changes implemented by SOX have long-term consequences. Many of the immediate compliance difficulties related with SOX had been addressed by this point, and businesses had built more formal frameworks for managing internal controls, audit committees, and disclosure standards. Overall, focusing on these three distinct periods not only clarifies the immediate and long-term implications of SOX, but it also aids in identifying areas where corporate governance reforms may require further refining or where the law has met its objectives.

The remainder of this article is structured as follows: The literature is reviewed in Section 1, the data and methods are explained in Section 2, and the findings and conclusions are covered in Sections 3 and 4, respectively.

1. Literature Review

The discourse or study on the corporate governance index and its possible impact on the valuation or performance of companies has produced mixed findings. Numerous governance indices, such as those developed by Gompers et al. (2003), Brown & Caylor (2006), and Bebchuk et al. (2009), have been analysed in relation to corporate value and/or performance. Only one of the seven corporate governance provisions in Brown and Caylor's (2006) Gov-Score index is mandated by the Sarbanes-Oxley Act. Among the 24 provisions in the Gompers et al. (2003) index, merely six have been included in the E-index of Bebchuk et al. (2009).

What is the significance of corporate governance indexes in elucidating a company's performance? Tests of these indexes typically yield inconclusive results. Bhagat and Bolton (2008) demonstrate that both the Gompers et al.'s index and the E-index may elucidate historical, current, and future operating performances; however, Adjei and Adjei (2016) assert that the Gompers et al. index more effectively accounts for variations in company value compared to the E-index. In their examination of the E-index's impact, da Graça & Masson (2013) find contradictory results while employing several econometric methodologies: positive results with structural estimates and negative results with reduced-form analysis concerning company value.

Further research examines the impact of SOX on business value, implementation expenses, and profitability. Research conducted by Vakkur, McAfee, & Kipperman (2008) and Ahmed et al. (2010) examines the impact of SOX on firm profitability. Ahmed et al. (2010) show a negative association between a company's profitability and the costs incurred in implementing SOX, especially for smaller, more complex, and low-growth firms. Such negative relationships between SOX and profitability have also been documented by Zhang (2007), Asthana et al. (2004), Vakkur et al. (2008), and Eldridge & Kealey (2005). Duarte et al. (2009), Li, Pincus, & Rego (2004), and Jain and Rezaee (2006) provide positive evidence of the relationship between corporate value and performance.

Abdullah & Al-Jafari (2011) find that SOX has minimal influence on company performance, based on their research of the financial data from over one hundred publicly traded companies within the Standard & Poor's 500 Index. Chang & Choy (2016) suggest that the SOX enhances corporate productivity. The authors find that despite increasing costs related to SOX compliance, productivity rates had improved in the post-SOX period. Brocket (2010) finds that informed insider selling tends to decrease following the implementation of SOX. In order words, it affected stock performance and activity.

Well-governed companies are linked to accurate and more favourable recommendations, as well as more optimistic earnings forecasts, according to Bouteska & Mili (2020), who investigate the effects of corporate governance quality on analysts' stock recommendations, forecast efficiency, and target price accuracy. They also find that higher-quality governance has a bearing on financial analysts both before and after the crisis, even though the effect is typically not noticeable during COVID-19.

Zhang (2007) investigates market reactions to major SOX events and concludes that SOX is costly for companies, implying that firms generally incur adverse cumulative abnormal returns. According to Engel et al. (2007), SOX influences corporations' privatization decisions. They find that post-SOX, more firms went private, and smaller and higher inside ownership firms had higher going-private announcement returns. In yet another study, Leuz (2007) suggests that SOX's costs or gains from stock returns and going-private decisions may not be due to SOX. Even if SOX was never passed, it may be due to other market changes and trends after the huge corporate scandals, such as changes in listing criteria on US major stock markets or market pressures to strengthen corporate governance. In a related study, Reddy et al. (2023) examine how SOX affected the likelihood and timing of leveraged buyout (LBO) firms exiting via IPO (reverse-LBO) and whether the private equity (PE) firm's reputation affects it. In general, they find that after SOX, LBO firms were less likely to exit by public offering, and the duration from LBO to IPO was longer for exiting companies. They also find that the reputation of PE firms partially reversed IPO reluctance and decreased the exit time for these companies.

Research conducted by Asthana et al. (2009), Clark (2005), and Sneller & Langendijk (2007) demonstrate the financial implications of adhering to SOX, encompassing audit fees and expenditures for enhancing internal controls. Asthana et al. (2009) observe a significant rise in the average audit fees and premiums levied by prominent audit firms in the years preceding and following the enactment of SOX. Sneller & Langendijk (2007) provide further evidence for this claim, noting substantial increases in the costs associated with the external auditor's verification of the firm's internal control assessment and the review itself. Litvak (2007) further asserts that cross-listed foreign firms subject to SOX endure a significant adverse effect on their stock valuations, especially among low-growth entities, those with stringent disclosure requirements, and firms from high-disclosure nations.

Song & Whang (2019) investigate the revenue persistence of three categories of accounting services: auditing, tax, and consulting, as well as the impact of SOX and the 2008 financial crisis. The study finds that advisory services generate more consistent revenue than both auditing and tax services. They find that SOX helps accounting firms develop a separate clientele for the advisory services. In addition, they find that during the financial crisis, revenue from auditing services becomes less sustainable due to increased competition in the audit market due to the losses of many client firms. Amin et al. (2023) study how SOX and the 2008 crisis affected public accounting and law firm profitability. Following SOX, public accounting firms had a considerable increase in revenue per partner; while during the crisis, the law industry's revenue decreased, whereas the accounting industry's demand remained stable. SOX and the crisis also tend to have different effects on different industries, i.e., large organizations in both industries were more affected by SOX, while major accounting firms were more affected by the crisis.

Cohen, Krishnamoorthy, & Wright's (2002) study investigates the effectiveness of audit committees in overseeing the financial reporting process before the enactment of SOX. The authors assert that audit committees are typically ineffective due to their insufficient authority and financial acumen to compel management to give priority to them in resolving reporting conflicts. Cohen et al. (2010) find that SOX has enhanced corporate governance, the functionality and effectiveness of audit committees, and the reliability of financial reports, notwithstanding the associated compliance costs. In a more recent study, Sy & Tinker (2019) examine bank auditors during financial crises. After the 2008 mortgage crisis, banks needed better risk management, internal audit, and compliance. They find risk management and internal control system assurance concerns that internal audit should have addressed. They suggest that every bank evaluate internal audit effectiveness and increase communication between internal audit, audit committee, and top management to avoid incidents. In a related study, Jizi et al. (2014) examine how corporate governance, i.e., the board of directors, affects CSR disclosure quality of US listed banks' annual reports after the sub-prime mortgage crisis. They find that more independent and larger boards of directors improved shareholders' and other stakeholders' CSR disclosure interests.

Papers such as by Nourayi et al. (2012) and Gayle et al. (2002) investigate the relationship between SOX and CEO compensation. Gayle et al. (2002) find that SOX reduce the conflict of interest between shareholders and CEOs, even though it seems to have no effect on CEO risk attitudes. Nourayi et al. (2012), for example, find that the significant relationship between CEO compensation and corporate governance mechanisms - such as board size, CEO duality, and the ratio of external directors—exists only during the pre-SOX period. In a more recent study, Sanoran (2022) finds that SOX moderates the relationship between executive remuneration and equity capital cost. In general, the author demonstrates that bonuses and shareholdings have negative relationships with equity capital costs. Additionally, SOX decreases the association between equity capital costs and both compensation and stock options for top executives. However, SOX only reduces the equity capital cost-shareholding relationship for the three non-CEO and non-CFO executives. Ashbaugh as al. (2009) argue that independent audits of internal control effectiveness can eventually reduce risks and equity costs, despite being pricey. They find that firms with poor internal control tend to have higher idiosyncratic, systematic, and equity costs; while firms with weak internal control initially have a higher cost of equity, while those with improved oversight experience a decrease.

Recent papers, including by Abatecola et al. (2014), El Hajjar et al. (2023), and Cao et al. (2024) offer other implications of SOX by looking at the role of boards in a company going through a crisis, returns to acquirers post-SOX enaction, and labour investment efficiency. For example, Abatecola et al. (2014) examine the connection between boards and companies facing crises. They suggest that board independence improves firm performance during such crises. The review also highlights the need for further understanding to determine whether removing boards and CEOs is necessary for effective turnaround efforts. El Hajjar et al. (2023) compare US acquirer performance pre- and post-SOX. Generally, SOX significantly increased acquirers' market performance on the announcement day. However, post-SOX market performance for both stock- and cash-acquirers did not increase when analysed separately. They suggest that improved market performance may imply less stock-acquisition mispricing, as well as in moderating the concerns about governance mechanism related to cash acquisition. Cao

et al. (2024), on the other hand, explore the impact of internal control deficiencies on labour investment efficiency. The study investigates the impact of effective internal control on one of the most crucial business decisions: labour investment. They argue that organizations with poor internal controls are more likely to invest in labour inefficiently, resulting in both over- and underinvestment. They find that the implementation of SOX leads to a significant increase in labour investment efficiency.

2. Data, Methodology and Research Hypothesis

The data utilized in this study is sourced from the Investor Responsibility Research Center, Inc. (IRRC). The dataset encompasses the corporate governance policies of around 2,000 U.S. corporations during eight different years from 1990 to 2006. This research examines the Sarbanes-Oxley Act of 2002 (SOX) and its impact on the corporate governance of these companies. The pre-SOX and post-SOX periods are defined as 1998–2000 and 2002–2004, respectively. We also use data from 2006 to investigate the long-term effects of the SOX.

Federal and state regulations are used to govern the corporate governance of firms founded in the US. Each corporation's primary corporate governance legislation is the state law that governs the establishment of the company, which varies from state to state; while the primary federal regulation is the Sarbanes-Oxley Act (SOX). In this study, we focus on the provisions pertaining to the state takeover legislation category as determined by the IRRC's classification. According to this categorization, the following laws are pertinent: recapture of profits, cash out law, company combination law, law pertaining to director's duties, fair pricing law, and control share acquisition law, as further described below:

- Recapture of earnings (SL_RPROFITS) is a clause that allows a firm to recoup unfair profits generated by certain key shareholders during a takeover attempt; thus, it serves as an anti-greenmail strategy. Only a few states have either profit recapture or anti-greenmail provisions in place when it comes to this type of legislation. An opt-out of the recapture of earnings provision suggests that the corporation has the option to exclude this takeover defence provision.
- Business combination laws (SL_BUSCOMP) also serve as an anti-takeover mechanism, prohibiting certain transactions between a large shareholder (or an acquirer) and the company by imposing a halt that lasts two to five years after the shareholder's interest exceeds a threshold, unless the company's board of directors' grants approval. Approximately half of the states have enacted such legislation.
- Cash-out rules (SL_CASHOUT) allow shareholders to sell their interests to "controlling" shareholders at a price based on the highest price of previously purchased shares. This operates similarly to fair-price criteria, which mandate that a bidder pay shareholders the highest price prior to a tender offer, or a "fair" price. As far as we know, only a few states have implemented these laws.
- The directors' duties provision (SL_DUTIES) gives directors the ability to assess how a proposed change in control will affect parties other than shareholders, including suppliers, employees, and local communities. This clause allows the board of directors to reject a takeover offer even if it is favourable to the shareholders. Various states allow directors to decide whether to add such clauses to the company by laws.
- Many states have implemented the fair price requirement (SL_FAIRPRICE), similar to the cash-out provision, as an anti-takeover measure. In the event of a merger or takeover, this condition mandates the bidder to pay all shareholders the highest price paid within a specific time period prior to the tender offer. As a consequence, it raises acquisition costs. However, if the Board of Directors or a supermajority vote of the target shareholders approve the merger, this condition becomes null and void.
- When a shareholder acquires more than a certain percentage of a company's stock (e.g., two-thirds or 75 percent), they may not be able to vote on a merger unless a majority of other disinterested shareholders agree, which is a control share cash out (SL_CSA).

We also look at the measures related to opting in and/or opting out as permitted by the respective state laws for each of the above provisions, such as opting out and in to business combination law, opting out and in to fair price, opting out of recapture of profits, opting out of control share cash out, opting out of directors' duties, and opting out and in to control share acquisition law. The variables take the value "1" if the provision/law exists for a firm and the value "0" if the provision does not exist for a firm.

Table 1 summarizes the statistics on the six provisions designated as takeover state laws for the pre-SOX, post-SOX, and long-SOX periods. In this sense, the mean score (i.e., the proportion of firms having each provision) for each provision remains consistently high over all three periods. The business combination law sets a five-year freeze on takeover bids, unless approved by the board of directors. In comparison to this provision, the mean scores for the other provisions linked to state takeover laws are lower, indicating that only a limited percentage of enterprises use them. This is especially true of the cash out and director's responsibility provisions.

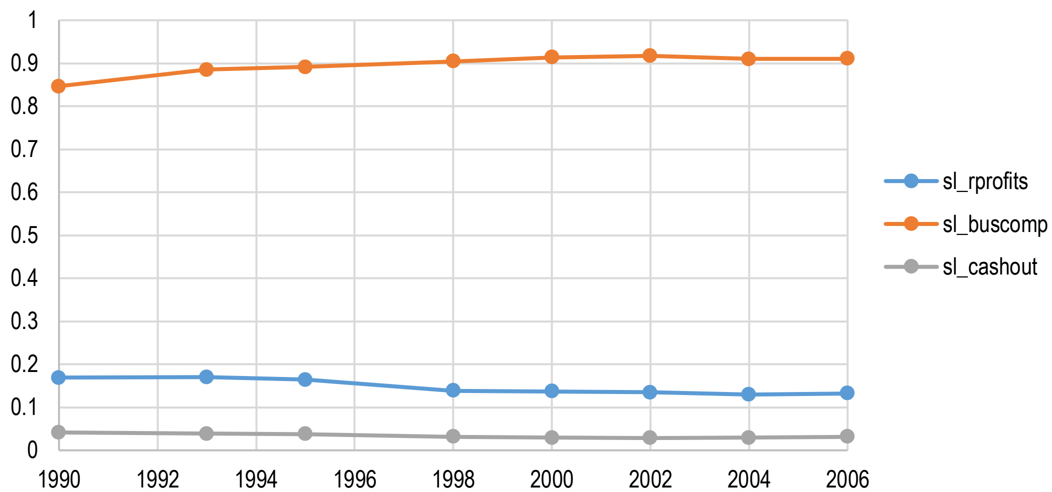
Table 1: Summary statistics for takeover state laws

Period	Variable	N	Mean	Stdev	Min	Max
1998-2000 (pre-SOX)	SL_RPROFITS	3800	0.138	0.345	0	1
	SL_BUSCOMP	3800	0.909	0.288	0	1
	SL_CASHOUT	3800	0.031	0.172	0	1
	SL_DUTIES	3800	0.040	0.197	0	1
	SL_FAIRPRICE	3800	0.311	0.463	0	1
	SL_CSA	3800	0.259	0.438	0	1
2002-2004 (post-SOX)	SL_RPROFITS	3876	0.132	0.339	0	1
	SL_BUSCOMP	3876	0.914	0.281	0	1
	SL_CASHOUT	3876	0.029	0.168	0	1
	SL_DUTIES	3876	0.039	0.194	0	1
	SL_FAIRPRICE	3876	0.299	0.458	0	1
	SL_CSA	3876	0.259	0.438	0	1
2006 (long-SOX)	SL_RPROFITS	1896	0.132	0.339	0	1
	SL_BUSCOMP	1896	0.910	0.286	0	1
	SL_CASHOUT	1896	0.032	0.175	0	1
	SL_DUTIES	1896	0.043	0.202	0	1
	SL_FAIRPRICE	1896	0.321	0.467	0	1
	SL_CSA	1896	0.280	0.449	0	1

Source: Authors' own work

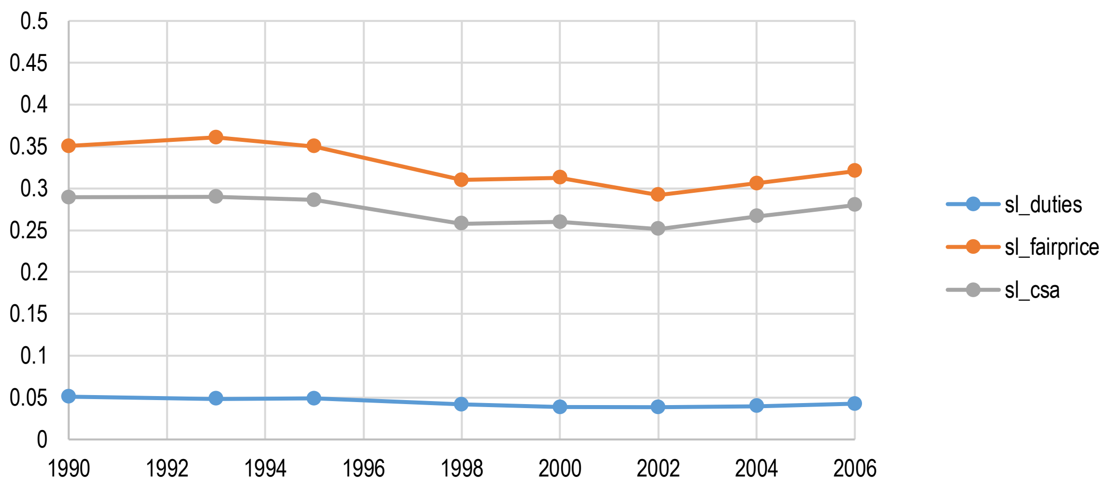
Figures 1 and Figure 2 depict the progression of the mean scores for state takeover legislation provisions from 1990 to 2006. The variables show little variation between 1998 and 2006, with the exception of the fair pricing legislation and control share acquisition law provisions, which move downward between 2002 and 2004 before reversing upward in 2006.

Figure 1: Recapture of profits, business combination law, cash out law



Source: Authors' own work

Figure 2: Director's duties law, fair price law, and control share acquisition law



Source: Authors' own work

For the pre-SOX, post-SOX, and long-SOX periods, Table 2 shows the opt-ins and opt-outs of the provisions under the takeover state legislation. Figures 3–6 show how the mean scores changed over time from 1990 to 2006. Here, OO_BUSCOMP is "opt-out of business combination laws", OI_BC_GA is "opt-in to business combination laws in Georgia", OO_FAIRPRICE is "opt-out of fair price laws", OI_FP_GA is "opt-in to fair price laws in Georgia", OO_RPROFITS is "opt-out of recapture of earnings laws", OO_CASHOUT_PA is "opt-out of cashout laws in Pennsylvania", OO_DUTIES is "opt-out of directors' duties provision", OO_CSA is "opt-out of control share cash out provision", and OI_CSA is "opt-in to control share cash out provision". Relatively speaking, the mean scores (i.e., the proportion of firms subject to these laws) for all opt-ins and opt-outs appear to be relatively low over time, implying that most states do not commonly provide these options to opt-in or opt-out of these provisions.

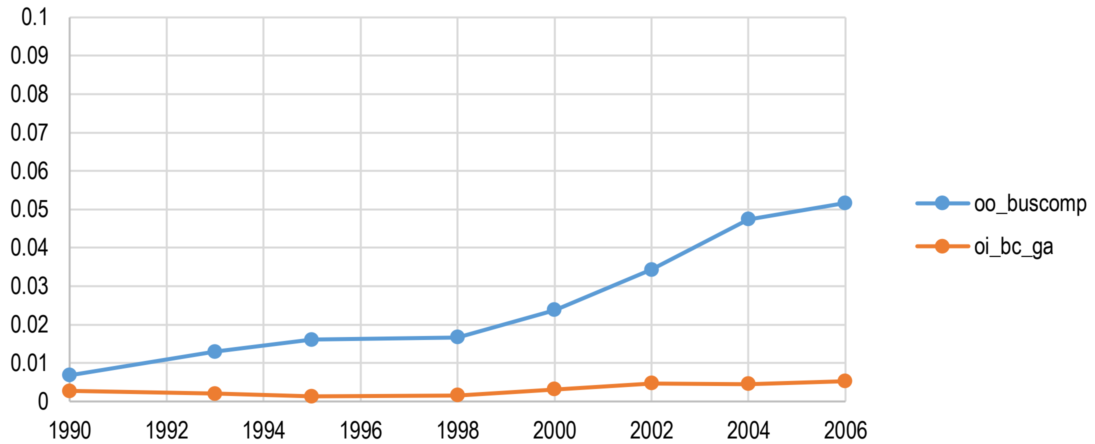
Table 2: Summary statistics for opt-in/opt-out laws

Period	Variable	N	Mean	Stdev	Min	Max
1998-2000 (pre-SOX)	OO_BUSCOMP	3800	0.020	0.141	0	1
	OI_BC_GA	3800	0.002	0.049	0	1
	OO_FAIRPRICE	3800	0.003	0.056	0	1
	OI_FP_GA	3800	0.003	0.051	0	1
	OO_RPROFITS	3800	0.014	0.118	0	1
	OO_CASHOUT_PA	3800	0.003	0.058	0	1
	OO_DUTIES	3800	0.005	0.069	0	1
	OO_CSA	3800	0.036	0.187	0	1
	OI_CSA	3800	0.001	0.023	0	1
2002-2004 (post-SOX)	OO_BUSCOMP	3876	0.041	0.198	0	1
	OI_BC_GA	3876	0.005	0.068	0	1
	OO_FAIRPRICE	3876	0.007	0.085	0	1
	OI_FP_GA	3876	0.004	0.066	0	1
	OO_RPROFITS	3876	0.013	0.112	0	1
	OO_CASHOUT_PA	3876	0.004	0.064	0	1
	OO_DUTIES	3876	0.004	0.062	0	1
	OO_CSA	3876	0.054	0.226	0	1
	OI_CSA	3876	0.002	0.048	0	1
2006 (long-SOX)	OO_BUSCOMP	1896	0.052	0.221	0	1
	OI_BC_GA	1896	0.005	0.072	0	1
	OO_FAIRPRICE	1896	0.008	0.089	0	1
	OI_FP_GA	1896	0.005	0.069	0	1
	OO_RPROFITS	1896	0.010	0.100	0	1
	OO_CASHOUT_PA	1896	0.003	0.056	0	1
	OO_DUTIES	1896	0.004	0.065	0	1
	OO_CSA	1896	0.062	0.241	0	1
	OI_CSA	1896	0.003	0.051	0	1

Source: Authors' own work

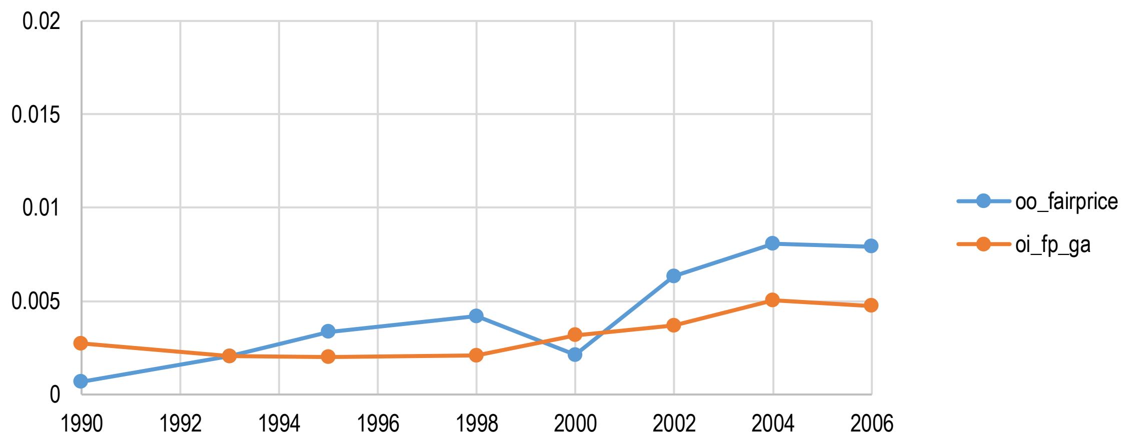
However, Figures 3 to 6 below show some significant movement over the years, most notably for opting out of business combination law, opting out of fair price, opting in to fair price, and opting out of control share acquisition law (increasing), as well as opting out of recapture of profits and opting out of director's duties (decreasing). The following section will discuss the significance of these increasing or decreasing trends.

Figure 4: Opt-out of and opt-in to business combination law



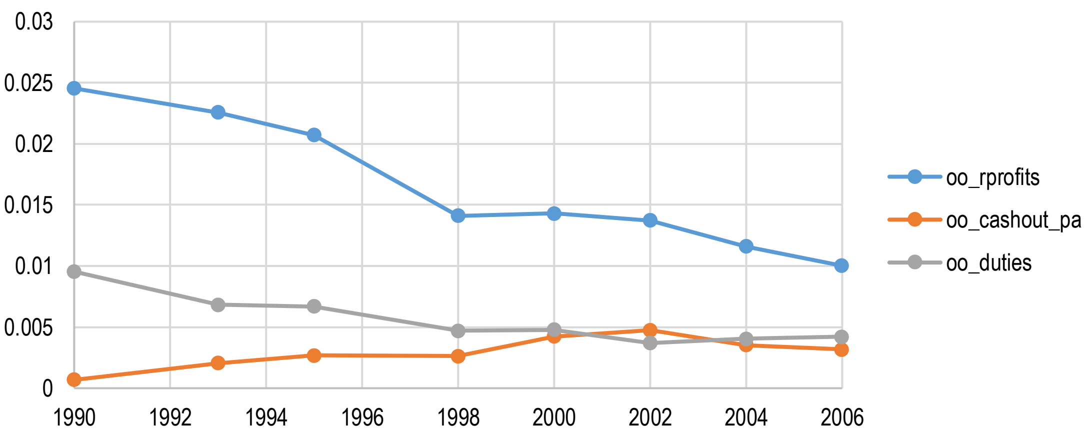
Source: Authors' own work

Figure 5: Opt-out of and opt-in to fair price



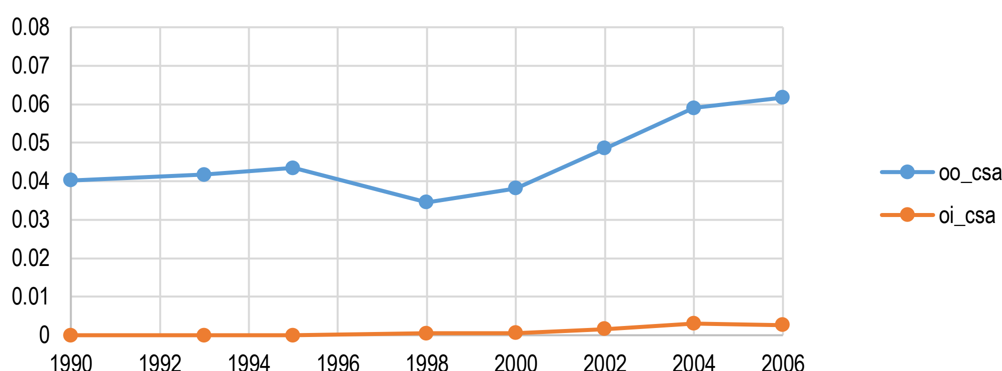
Source: Authors' own work

Figure 6: Opt-out of recapture of profits/control share cash out/director's duties



Source: Authors' own work

Figure 7: Opt-out of and opt-in to control share acquisition law



Source: Authors' own work

To determine whether there has been any change in how enterprises adopt provisions relating to state laws, we evaluate the following hypotheses:

$H_{0,1}$: There was no significant difference in the adoption of each of the state law provisions between pre-SOX and post-SOX periods.

$H_{0,2}$: There was no significant difference in the adoption of each of the opt-in and/or opt-out state law provisions between pre-SOX and post-SOX periods.

We test the aforementioned hypotheses using the two-sided Mann-Whitney test, a typical nonparametric test that compares the difference (if any) between two independent groups at the 5% significant level without specifying the direction of the difference. We report the results of our analyses in the following section.

3. Empirical Findings

This study examines the impact of the Sarbanes-Oxley Act on corporate governance measures in state legislation, both before and after its implementation. We specifically look for short- and long-term differences between three different time periods. To do this, we compare the pre-SOX (1998–2000) and post-SOX (2002–2004) periods to see if there were any short-term effects. We also compare the post-SOX (2002–2004) and long-SOX (2006) periods to see if there were any long-term effects of SOX.

Table 3 depicts the short-run changes in state law provisions from the pre-SOX to post-SOX periods, whereas Table 4 depicts the changes in opt-ins and opt-outs of the same provisions between the two periods. Table 3 shows that there was no substantial difference between the pre-SOX and post-SOX periods in terms of the application of any of these provisions.

Table 3: Short-run impact of the SOX on the state takeover laws

			Mann-Whit.
Variable	Pre-SOX	Post-SOX	p-value
SL_RPROFITS	0.1379	0.1321	0.2286
SL_BUSCOMP	0.9089	0.9136	0.2382
SL_CASHOUT	0.0305	0.0289	0.3370
SL_DUTIES	0.0403	0.0392	0.4072
SL_FAIRPRICE	0.3113	0.2990	0.1211
SL_CSA	0.2587	0.2590	0.4862

Note: ** indicates 5% level of significance Source: Authors' own work

However, Table 4 shows that there were some major changes between the pre-SOX and post-SOX periods in terms of states introducing opt-in and opt-out options to some of these provisions. The mean scores for the following opt-ins and opt-outs were significantly higher after SOX: opt-out of business combination law, opt-in to business combination law in Georgia, opt-out of fair price law, opt-in to control share acquisition laws, and opt-out of control share acquisition laws. The results of this analysis indicate that states appeared to allow corporations more freedom in applying some of these regulations following the SOX.

Table 4: Short-run impact of the SOX on the opt-in/opt-out laws

			Mann-Whit.
Variable	Pre-SOX	Post-SOX	p-value
OO_BUSCOMP	0.0203	0.0410	**<0.0001
OI_BC_GA	0.0024	0.0046	**0.0461
OO_FAIRPRICE	0.0032	0.0072	**0.0067
OI_FP_GA	0.0026	0.0044	0.0972
OO_RPROFITS	0.0142	0.0126	0.2752
OO_CASHOUT_PA	0.0034	0.0041	0.3069
OO_DUTIES	0.0047	0.0039	0.2809
OO_CSA	0.0363	0.0539	**0.0001
OI_CSA	0.0005	0.0023	**0.0188

Note: ** indicates 5% level of significance Source: Authors' own work

Table 5 examines the changes in those state law provisions from post-SOX to long-SOX, while Table 6 examines the changes in opt-ins and opt-outs between the two eras. Unlike the SOX's short-term impact, the results in these two tables reveal that the SOX had no substantial impact beyond 2004 on the laws themselves, as well as on the opt-in and opt-out provisions.

Table 5: Long-run impact of the SOX on the state takeover laws

			Mann-Whit.
Variable	Post-SOX	Long-SOX	p-value
SL_RPROFITS	0.1297	0.1324	0.4011
SL_BUSCOMP	0.9102	0.9103	0.4937
SL_CASHOUT	0.0293	0.0316	0.3330
SL_DUTIES	0.0399	0.0427	0.3271
SL_FAIRPRICE	0.3058	0.3207	0.1583
SL_CSA	0.2664	0.2801	0.1699

Note: ** indicates 5% level of significance Source: Authors' own work

Table 6: Long run impact of the SOX on the opt-in/opt-out laws

			Mann-Whit.
Variable	Post-SOX	Long-SOX	p-value
OO_BUSCOMP	0.0474	0.0517	0.2705
OI_BC_GA	0.0045	0.0053	0.3719
OO_FAIRPRICE	0.0081	0.0079	0.4776
OI_FP_GA	0.0050	0.0047	0.4471
OO_RPROFITS	0.0116	0.0100	0.3170
OO_CASHOUT_PA	0.0035	0.0032	0.4217
OO_DUTIES	0.0040	0.0042	0.4646
OO_CSA	0.0590	0.0617	0.3632
OI_CSA	0.0030	0.0026	0.4098

Note: ** indicates 5% level of significance Source: Authors' own work

Conclusion

In this paper, we look at the influence of SOX on state law provisions from 1998 to 2006. To examine whether the SOX had any short- or long-run influence on these provisions, we identify the pre-SOX period as 1998-2002, the post-SOX period as 2002-2004, and the long-SOX period as 2006, respectively. We acquired the data for this study from the IRRC's corporate governance database between 1998 and 2006.

The application of these laws did not significantly differ between the pre-SOX and post-SOX periods. However, there were significant changes between the pre-SOX and post-SOX periods. These changes included the addition of opt-in and opt-out provisions for various laws, such as the business combination law, the fair price law, the control share acquisition laws, and the opt-out of these laws. After the implementation of the SOX, it appears that states granted firms more flexibility in applying certain regulations. Our analysis of the SOX's long-term impact, however, reveals that, unlike the SOX's short-term impact, there was no significant further impact on the laws themselves or the opt-in and opt-out provisions to these laws beyond 2004.

We expect state takeover laws to continue to evolve in light of the more recent regulatory developments. First, as shareholder activism continues to grow, there could be a trend toward more flexible state laws that allow shareholders more power to influence corporate decisions. This could include reforms that give shareholders a greater voice in takeover decisions or the ability to override certain defences. Second, Environmental, Social, and Governance (ESG) concerns can shape both the motivations for takeovers and the regulations that govern them. State laws may evolve to mandate the incorporation of ESG considerations in takeovers and other significant corporate decisions, thereby holding directors and executives accountable for their company's ESG performance during an acquisition. The rise of ESG-conscious investors could lead to enhanced disclosure requirements in takeover situations, allowing shareholders to make more informed decisions about the social and environmental impacts of a proposed acquisition. Third, a shift toward stakeholder governance could lead to a re-evaluation of state laws governing hostile takeovers. Jurisdictions may introduce laws that require acquirers to consider stakeholder interests (e.g., employee welfare, community impact) before proceeding with an acquisition. Overall, state takeover laws are likely to continue evolving in response to a complex interplay of shareholder activism, ESG concerns, and broader shifts in corporate governance. Regulatory frameworks will likely become more sophisticated, incorporating stakeholder interests, balancing shareholder rights, and addressing sustainability issues.

Credit Authorship Contribution Statement

Both authors have contributed significantly to the completion of this work – including conceptualization, methodology, writing the original draft, data curation, formal analysis, and the revision. Both authors have also reviewed and approved the final version of the paper.

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Conflict of Interest Statement

The authors declare that there is no potential conflict of interest in conducting and completing the research.

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