The Economic Impact of Forming a European Company[*]

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ABSTRACT

Since 2004, companies located in member states of the European Economic Area (EEA) can opt to incorporate in a supranational legal form, the *Societas Europaea* (SE). Most importantly, the *Societas Europaea* offers the possibility to choose between the one-tier and two-tier board structure as well as to limit the extent of worker participation, two items that are not possible in some of the member states under national corporate law. In this paper, we investigate the reaction of investors to these changes in corporate governance structure. We find companies located in member states where the SE offers additional legal arbitrage opportunities benefit most. Moreover, our results show that stock price reaction is positive when the decision to incorporate as an SE involves moving the firm's registered office and that firms are moving to jurisdictions with significantly lower corporate tax rates. Finally, we assess the importance of uncertainty surrounding managers' decision to reincorporate as an SE and find evidence for corporate uncertainty at the registration date but not at the time of the shareholder meeting.

1. INTRODUCTION

Companies around the world adopt corporate governance structures that aim at solving several agency problems (Armour, Hansmann and Kraakman, 2009; Belot, Ginglinger, Slovin and Sushka, 2014; Doidge, Karolyi and Stulz, 2007; Enriques and Volpin, 2007; Shleifer and Vishny, 1997). Since 2004, companies located in the member states of the European Economic Area (EEA)[1] have the option to reincorporate in a new supranational legal form: the European Company (*Societas Europaea* – SE). For these companies, the SE offers new ways to shape their corporate governance structure not possible under national corporate law. The two most important differences are with respect to board structure and board-level worker representation. Both of these options affect firm value if they help mitigate conflicts of interests between management and shareholders (Belot, Ginglinger, Slovin and Sushka, 2014). We examine whether incorporating as an SE affects firm value and which factors drive these changes.

While a recent academic literature has emerged on the SE, many open questions remain, especially with regards to the economic and financial impact of forming an SE. Without formally testing its impact, legal scholars have argued that an important reason for reincorporating into an SE is legal arbitrage (Eidenmüller, Engert and Hornuf, 2009; Enriques, 2004; Reichert, 2008). Companies located in countries with legal rules that are particularly favorable to worker representation may choose to become an SE as a way to restrict board-level worker participation that is otherwise mandatory under national co-determination laws. By requiring negotiations about worker participation, the SE structure offers greater flexibility in shaping board-level worker participation away from the strict national conditions. Consistent with this argument, Eidenmüller, Engert and Hornuf (2009) document that the adoption of SE structure is

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[1] The EEA includes all EU member states as well as Iceland, Liechtenstein and Norway.

predominantly used in countries where board-level worker participation is mandatory such as Germany.

Little is known about how exploiting the SE as a vehicle for legal arbitrage changes firm value. Eidenmüller, Engert and Hornuf (2009) and Lamp (2011) find no evidence that incorporating under European law overall affects firm value. Lamp (2011) evidences, however, that a change in the board structure from the two-tier board (dualism) to the one-tier board (monism) using the SE legal form reduces the firm value by 3.7 percentage points. Nevertheless, this study finds no evidence for other economic effects of reincorporating under the SE regime. This lack of findings in the previous literature on SE formations might be due to a lack of statistical power (MacKinlay, 1997), since both studies use rather small samples. Moreover, because of the limited usage of the SE in some countries, many hypotheses with regard to legal arbitrage activities could not have been tested before. Eleven years after Council Regulation (EC) No 2157/2001 on the Statute for a European Company became effective on 8 October 2004, we resort to a larger sample, with many more case of SE reincorporations from a large range of countries, which allows us to extend the previous literature by investigating additional hypotheses on legal arbitrage activities and their effect on firm value.

To examine the stock price reaction to public information[2] releases on the reincorporation as an SE, we use data from the European Companies Database that is maintained by the European Trade Union Institute (ETUI). Our sample spans from 8 October 2004 until 8 October 2015 and is enriched with hand-collected information on announcement dates from Factiva, Google searches, and the company websites. Based on our final sample of reincorporation of publicly

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[2]   In this study, we use the term *public information* instead of *public announcement* since the information in some cases does not stem from a formal press release or an ad-hoc message of companies themselves but from a broad range of other sources through which information was leaked to the market and reported by the news.

listed firms, we obtain the following results. We find that country-level as well as company-level characteristics affect stock price reaction at the time of the first information about the reincorporation. Companies located in countries that only allow the two-tier board structure under national corporate law experience an abnormal stock return of around 2% at the time the first public information about the reincorporation is released. Similarly, companies located in countries with high board-level worker participation have larger, positive stock price reactions than companies located in countries with traditionally low worker participation requirements. Company-specific reasons for opting for an SE also lead to significant abnormal stock returns. Companies that adopt the SE structure in order to relocate the registered office to another European country (which was generally not possible until the Merger Directive was enacted in 2005) experience a 2-3% abnormal stock price increase at time the first public information about the SE incorporation is released.

Interestingly, we document a second significant stock price reaction of equivalent magnitude at the time the company is formally registered for many of the same factors, consistent with the notion that the first public information about the reincorporation still contains significant legal and corporate uncertainty about the registration of the SE. Our results suggest that this uncertainty is not driven by the fact that the reincorporation needs to be approved by shareholders—we find no evidence of additional stock price reaction at the time of the shareholder meeting—, where shareholders may reject the plan of the management to incorporate as an SE. Instead, it is caused by the uncertainty regarding the registration, which has to be approved by a register court. However, we discuss other reasons for this additional effect on stock prices at time of registration, since stakeholders such as debt holders and opposing minority

shareholders may block the registration in cases where it involves a relocation of the registered office, despite the fact that shareholders have (conditionally) approved decisions.

The study that is closest to ours is the one by Eidenmüller, Engert and Hornuf (2010), that examines whether the market reacts to the announcement of an SE incorporation. Based on a sample that stops in early 2009, they find no significant price reaction for companies that incorporated as an SE. We extend this study in three important ways. First, our sample is significantly larger, since we cover the period until autumn 2015. Second, while Eidenmüller, Engert and Hornuf (2010) test the impact of the stock price reaction on average, they do not examine which factors affect changes in the stock price. As we discuss below, we examine the effect of regulatory differences between the SE Regulation and national corporate laws to help explain price reaction. Third, we investigate whether the price reaction is affected by remaining uncertainty after the first information is released and where this uncertainty comes from.

The second closely related study is the one by Belot, Ginglinger, Slovin and Sushka (2014). They assess the differential economic impact between one-tier and two-tier boards, using data on France where companies are free to contract on board structure. The SE Regulation offers the same choice to companies outside France, even if the respective national corporate law does not offer such a choice. They conclude that company characteristics matter. One-tier boards (the primary structure used in the UK) tend to be used by firms prone to significant information asymmetries, while two-tier boards by firms with higher risks of managerial rent extractions (Belot, Ginglinger, Slovin and Sushka, 2014). These findings are consistent with the view that two-tier boards provide better monitoring capabilities. The findings of Belot, Ginglinger, Slovin and Sushka (2014) suggest that a convergence to a unique board system is unlikely, as each board structure has its own costs and merits. Our results are consistent with this conclusion, since we

find that only a fraction of the reincorporations leads to changes in board structures. Moreover, our analysis documents other corporate governance changes than board structure, including relocation of registered office and changes in board-level worker participation. These factors are important and ignoring them could lead potentially to omitted variable problems.

Earlier studies examine the economic impact of worker participation on productivity measures. FitzRoy and Kraft (2005) as well as Renaud (2007) evidence that worker participation increases corporate productivity, while Gurdon and Rai (1990) and FitzRoy and Kraft (1993) find the opposite to be true. Boneberg (2016) evidences a positive effect of worker participation on productivity but not on firms' profitability. The effect of worker participation on the market value of companies is also mixed. While Benelli, Loderer and Lys (1987) find no significant effect of board-level worker participation, Gorton and Schmid (2004) provide evidence that allocating too many supervisory board seats to employee representatives leads to corporate discounts, suggesting that excessive worker participation may harm shareholders. The SE is particular with regard to worker participation, as it offers an option for managers and employees to negotiate a firm-specific employee involvement regime, which provides a new and potentially valuable corporate governance feature (Eidenmüller, Hornuf and Reps, 2012).

Thus, we contribute to the literature in several ways. First, we extent the previous impact analyses and investigate the drivers of changes in firm value. Existing studies offer suggestive evidence for different drivers, which we formally test in our study based on a larger sample of SE incorporations. Second, we offer an analysis of the impact of corporate and legal uncertainty in that we explore not only the impact at the time the first public information about the reincorporation leaks to the market but also the residual stock market impact at the time of the shareholder meeting and formal registration. Both dates are important, since the first information

about the reincorporation is often made as an ad hoc announcement by management, while shareholders still need to approve the decision to reincorporate. This leaves some uncertainty at the time of the first public information about the reincorporation leaks to the market. Similarly, some uncertainty remains until the formal incorporation, since a strict procedure is required to ultimately achieve the registration; the register court or different stakeholders may block or delay the process. Overall, firms that opt for SE incorporation are more likely to create value for the shareholders than none SE incorporated firms.

The remainder of the paper is structured as follows. Section 2 describes the Regulation on the Statute for a European Company and develops testable hypotheses. Section 3 presents data and summary statistics on the sample used. The main results are presented in Section 4. Finally, Section 5 concludes.

2. REGULATION AND HYPOTHESES

2.1 The Regulation of the SE

Council Regulation (EC) No 2157/2001 on the Statute for a European Company became effective on October 8, 2004. It enables companies incorporated in one of the EEA member states to adopt a supranational company structure that partly substitutes and partly supplements the national one. The SE Regulation was supplemented by the Council Directive 2001/86/EC, which regulates the involvement of employees. Thus, the introduction of the SE has generated a multilayer regulatory situation for corporate law, where companies can now choose between supranational and national law (Eckhardt and Kerber, 2014). An important benefit of the SE is

that it allows companies to operate across different EU member states under a single legal statute that is recognized in all the member states.

There exist five different ways to incorporate as an SE, which generally require a transnational link. The new legal form can be achieved through a merger of two companies from two different member states, where the merged entity can take the structure of an SE. Another way is by creating a European holding company with at least two companies originating from different EU member states. An SE may also be used in connection with the incorporation of a common subsidiary held by at least two companies from different EU member states, in which case the subsidiary would take the form of the SE. Moreover, a company may seek a direct transformation into an SE, provided that it held a subsidiary in another member state for at least two years. Finally, established SEs can form a direct SE subsidiary.

A key condition for incorporating as an SE is that an agreement is found with employees for co-determination (Rose, 2007; Eidenmüller, Hornuf and Reps, 2012). Since the SE offers the possibility to negotiate with employees, it can be an attractive legal form in countries with mandatory board-level worker participation. Companies can then negotiate for a more efficient employee representation than the one that exists under national law. According to Article 2 of the Council Directive 2001/86/EC, "*the employee involvement means any mechanism through which employees may exercise an influence on decisions to be taken within a Company. Such mechanisms entitle employees' representatives to: be informed and consulted, participate in the running of the Company by having (i) the right to elect or appoint some of the members of the Company's supervisory or administrative body, or (ii) the right to recommend and/or oppose the appointment of some or all of the members of the Company's supervisory or administrative body.*" Appendix Table 1 shows the mandatory board-level worker participation rules and the

coverage in terms of the number of employees required to have representation for national companies in each of the EEA member states. It highlights large variation across countries. Appendix Table 1 further shows which countries impose one-tier and two-tier board structures for national companies and which ones allow a choice between dualism and monism. About half of the countries allow both the one-tier and the two-tier board structure, as evidenced by the second column.

The incorporation as an SE may lead to an increase in firm value for at least two different reasons. One is arbitrage opportunities that arise at the country level when the SE structure enables corporate governance structures that are not allowed under national corporate law. For instance, German national corporate law only permits the two-tier board structure, while the SE allows for both. This leads to legal arbitrage opportunities for German companies when adopting the SE. The other source of firm value creation comes from the company level and may result from the actual decisions of the management. In the remainder of this section, we formulate testable hypotheses on these two sources of stock price reaction.

2.2 Country-level Effects

As a first set of determinants, we consider country-level effects as a result of new legal opportunities. Indeed, for companies in many countries, the possibility to choose the supranational legal form enables new corporate governance structures that were not permitted under national corporate law (see Appendix Table 1). We expect an increase in firm value for companies located in these countries.

An important difference comes from the fact that many member states only allow for the one-tier *or* the two-tier board structure under national corporate law, while the SE allows for both board structures. Thus, the SE Regulation generally provides additional flexibility in corporate governance structures in some EU member states. Belot, Ginglinger, Slovin and Sushka (2014) hypothesize and find that the one-tier board offers benefits in terms of mitigating information asymmetry problems, while a two-tier board is more efficient for companies with higher risks of managerial rent extractions, because this type of board limits discretion of management in the company. We test for this competing hypothesis in a new way using the first public information about an SE incorporation as an exogenous shock to the legally available corporate governance regime. More precisely, we analyze the stock price reaction of those firms that previously did not have the opportunity to choose the one-tier or two-tier board structure vis-à-vis firms, where both governance structures where already available under national law. Given that both governance structures might have their merits, we expect the value of firms to increase if this option becomes available to them, which we summarize in Hypothesis 1.

Hypothesis 1 (monism only / dualism only): *Companies located in a country that only allows the one-tier or two-tier board structure under national corporate law will experience a positive abnormal return at the time the first public information about the reincorporation leaks to the market.*

Similarly, we expect the greater flexibility in shaping board-level worker participation to benefit companies that are restricted under national corporate law, since they may now choose what is optimal for them. Before the introduction of the SE, they were constrained on the extent of worker participation, which may have forced many firms to adopt suboptimal solutions.

Hypothesis 2 (board-level worker participation): *Companies located in a country with strong worker participation under national law will experience a positive abnormal return at the time the first public information about the reincorporation leaks to the market.*

2.3 Company-level Effects

Besides benefits due to more legal flexibility in the corporate governance structures as a result of the introduction of the supranational legal form, we expect companies to benefit only if they actually make use of these possibilities. In this study, we consider the three arguably most important corporate decisions that are allowed under the SE Regulation and the impact these corporate governance features have on the newly incorporated SE.

The first company-level effect may come from the decision to relocate the registered office to another member state, something that was not permitted before the SE Regulation became effective. Companies may transfer the registered office for various reasons. Enriques (2004) argues that two motives may be to shop for a more favorable corporate law or tax law regime. Regardless of the ultimate reason, we assume companies to only change their registered office when it is optimal to do so. In the empirical analysis in Section 4, we explore the tax motive in more detail. Generally, we expect a transfer of the registered office to increase performance; otherwise such decision has less value to the firms and thus firms would not undertake that step in the first place.

Hypothesis 3 (transfer of registered office): *Companies transferring their registered office will experience a positive abnormal return at the time the first public information about the reincorporation leaks to the market.*

Two other important changes in corporate governance that can be absorbed when incorporating as an SE are a change in the board structure and the freeze of worker participation. While only few European jurisdictions provide companies with an option to choose between the one-tier and the two-tier board structure, the SE Regulation offers individual companies a choice between the two systems. This additional choice might increase firm value for those companies that now find a better fit regarding their board structure. Given that we are not aware of a single firm in our sample that has changed the board structure from the one-tier to the two-tier board, we only focus on the new legal possibility to change the board structure *vice versa*. This finding is in line with Eidemüller, Engert and Hornuf (2009), who conjecture that companies, which can choose the one-tier board structure, should incur lower direct costs as only a single corporate body is involved. Moreover, the level of board-level worker participation cannot only be negotiated *ex ante* under the legal form of the SE, the pre-existing level of worker participation remains unchanged *ex post*, because the SE is not subject to enhanced worker participation requirements under national law (Reichert, 2008; Eidemüller, Engert and Hornuf, 2009). Hence, companies just below a certain national size threshold for enhanced worker participation may *freeze* the current extent or even the non-existence of worker participation at the board-level.

Again, we expect only companies for whom it is optimal to undertake these transformations to do so. This leads to the following two additional hypotheses.

Hypothesis 4 (from dualism to monism): *Companies changing their board structure from a two-tier to a one-tier board will experience a positive abnormal return at the time the first public information about the reincorporation leaks to the market.*

Hypothesis 5 (freeze of worker participation): *Companies deciding to freeze worker participation will experience a positive abnormal return at the time the first public information about the reincorporation leaks to the market.*

2.4 Corporate and Legal Uncertainty Resolution

A worthwhile follow-up question that we investigate is whether there is a second stock price reaction either at the time of the shareholder meeting or at the time of the formal registration, since the first public information about the reincorporation may still entail uncertainty about whether the firm indeed eventually incorporates as an SE. Moreover, Bratton, McCahery and Vermeulen (2009) argue that the benefits of the SE itself are generally uncertain, since they also involve indirect costs and other legal barriers. This is particularly true for a change of the registered office, which may trigger taxes on hidden reserves and confront management with different legal cultures. Therefore, shareholders may vote against at the shareholder meeting.

Similarly, the SE incorporation may be blocked at the time of formal registration. For example, the almost first German SE incorporation "Zoll Pool Hafen Hamburg SE" was ultimately not registered under the new legal form, following a protest by the register judge who argued that although the SE would presumably not have had any employees, negotiations on the employee involvement regime had to take place (Seibt, 2005). Likewise, after 13 investors of Allianz SE filed a lawsuit challenging the reincorporation and the merger with the Italian RAS Holding S.p.A., the firm had to pay almost 1 million EUR and had to publically explain the legal

differences between the traditional German AG and the SE to the investors.[3] A final example is related to opposing minority shareholders, who may under national law obtain the right to be paid out in the event of a transfer of the registered office. For instance, shareholders of Eurofins Scientific SE, a French company seeking to move to Luxembourg in 2012, approved the transfer of the registered office in connection with the SE transformation provided that the overall volume of payouts remain reasonable and does not generate liquidity problems to the company.[4] If this were to happen, management has the responsibility to reconsider the decision before the SE is formally registered. In some cases, shareholders even set clear limits on the volume of payouts.[5]

If there were no uncertainty left after the first public information about the reincorporation leaks to the market, in efficient markets there should occur no further stock price reaction at the time of the shareholder meeting or formal registration. In contrast, any significant stock price reaction at the time of the shareholder meeting or formal registration would have to be attributed to the resolution of remaining uncertainty. In the analysis below, we therefore perform statistical tests on the three events: first public information, shareholder meeting and incorporation.

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[3]   http://notizen.duslaw.de/das-teuerste-juraskript-aller-zeiten-allianz-erlautert-die-se/ (last accessed: September 6, 2016).

[4]   Formally, the Eurofins Scientific states in its communication to shareholders: "*Le transfert de siège a été approuvé sous condition suspensive que les actionnaires minoritaires ayant voté contre cette résolution lors de l'assemblée générale du 11 janvier 2012 et qui bénéficient à ce titre d'un droit d'opposition, ne demandent pas le rachat de leurs actions dans des proportions telles que cela conduirait le Conseil d'administration à devoir abandonner le projet de transfert du siège social à Luxembourg, compte tenu des liquidités disponibles et de l'impact déraisonnable de ces demandes sur la structure financière du groupe.*" Source: http://www.actusnews.com/documents_communiques/ACTUS-0-26412-eurofins-jan-2012-egm-results_french.pdf (last accessed: September 8, 2016).

[5]   For instance, in the case of Alliance Développement Capital SIIC SE, a French company seeking to move its headquarter to Belgium, this limit is set to EUR 2.5 million: "*L'Assemblée Générale Extraordinaire réunie le 9 janvier 2013, a approuvé à une très large majorité de 99,41 % des votants le projet de transfert du siège social en Belgique sous les conditions suspensives suivantes qui devront être levées par le Conseil d'administration qui pourra y renoncer le cas échéant : (i) que les demandes de rachat d'actions de la Société éventuelles formulées en application des articles L.229-2 alinéa 3 et R.229-6 du Code de Commerce par les actionnaires ayant voté contre le transfert augmentées de toutes conséquences financières résultant du droit d'opposition des créanciers susvisé n'excèdent pas après négociation la somme au total de 2.500.000 euros à payer par la Société.*" Source: http://www.adcsiic.eu/medias/2015/06/11-01-2013-CommuniquC3A9-relatif-C3A0-lapprobation-du-projet-de-transfert-par-lAssemblC3A9e-GC3A9nC3A9rale-Ordinaire-et-Extraordinaire-du-9-janvier-2013.pdf (last accessed: September 8, 2016).

3. DATA AND SUMMARY STATISTICS

To examine our research question, we use the European Companies (SE) Database from the ETUI, which provides the full population of SEs from 2004 until today. The data was extracted on October 15, 2015 and covers the period from 8 October 2004 until 8 October 2015. The database includes not only established SEs, but also announced ones. The companies included in the database are categorized in one of the following five groups: (i) established (i.e., already registered); (ii) announced (i.e., announced in a press release or by other non-official sources, indicating the will or intention to establish an SE); (iii) planned (i.e., the formal process has started, such as the publication of draft terms); (iv) deregistered (i.e., the SE has been established in the past but subsequently deregistered from the national register); and (v) transformed (i.e., an SE company that transforms in an non-SE company). Due to the nature of our research design and the fact that we calculate the Cumulative Abnormal Returns (CARs) around three different event dates, we restrict our analysis to publicly traded firms that are SE candidates. Note that due to the construction of our sample, some of the firms may not yet have had a shareholder meeting on the SE incorporation or may not yet have registered the SE, while others might already have abolished the plan to reincorporate their firm altogether. We thus also include companies for which the date of the first public announcement is available but not necessarily the date of the shareholder meeting or the date of the formal registration.

To be included in the sample, we require that (i) the date of the first public information about the reincorporation can be identified and (ii) stock prices data are available to calculate the CARs for a minimum of 46 days prior to the first public information about the reincorporation. Thus, we manually search for the ISIN code of each company or its predecessors in our database. In order to identify the ISIN code, we searched on various retail brokers and financial data

providers like www.onvista.de and www.finanztreff.de, the company websites, and conducted a Google search. From the ISIN code, we then extract stock prices and accounting data from Thomson Reuters Datastream. After this filtration, we are left with 159 companies, of which 75 are from Germany, 28 from the Czech Republic, 21 from France, 8 from the Netherlands, 6 from Luxemburg, 4 from Hungary and the remaining 10 from other European countries including the UK.

We manually search for each company's first public information about the reincorporation using the Factiva database. Factiva collects information worldwide from nearly 200 countries using a large variety of leading newspapers, magazines, trade press, newswires, press releases, web media, social media, and multimedia. Because some of the companies in our sample are not very large, it is possible that they are not well covered by the database. Hence, we also use a Google search and company websites to identify news releases that might not be covered by the database. We treat an SE incorporation as public information if news on Factiva, DGAP, Google search or the company website mentions the SE incorporation or the clear intention to do so. We further hand collect data on the actual board structure from company websites and annual reports. Data on national corporate and worker participation laws was obtained from Conchon, Kluge and Stollt (2015). All the variables are defined in Appendix Table 2. The data on the date of the shareholder meeting was foremost retrieved from the company websites and annual reports. In some cases, we also had to rely on news reports, writing about the shareholder meeting. For the date of registration, we used the official gazettes in the respective country as our main data source and in rare cases also relied on the sources just mentioned.

We rely on the CAR methodology to assess stock price reaction, using the market model for calculating abnormal returns (Brown and Warner, 1985). This methodology is widely used in

event studies, which is also the empirical framework we use in the current study. Following the literature (Brown and Warner, 1985; Gao, 2011; Masulis and Nahata, 2011), we use the [−3,+3] window for calculating CAR values, but also perform robustness checks with different windows. The parameters of the market model are estimated over a 214 trading day window, ending 16 trading days before the event day. We use the MSCI Europe index as a benchmark market portfolio. The index captures firms with large and medium market capitalization in Europe. We require at least 30 daily stock returns in the estimation period to estimate the parameters used to calculate CARs. We stop our estimation period 16 days before the day of the first public information about the reincorporation. The same procedure is used to calculate CARs for the shareholder meeting and the formal registration. We do so to avoid bias in the parameters estimations due to changes in firm characteristics around the event date. This approach is consistent with previous studies that follow this methodology (Brown and Warner, 1985). We use parametric and non-parametric tests to assess whether the average CAR is statistically different from zero for different windows. We use the non-parametric test as robustness against non-normally distributed data. Fama (1976) argues that the daily returns distribution is more fat-tailed than the normal distribution and the use of non-parametric test overcome such problem.

As a first step to investigate the stock price reactions with regard to the SE formation, we first calculate average CARs around the time the first information leaked to the market. The CARs are estimated over the following sequences: First, we calculate CARs over a short window from (-1,+1) and extend by two days (-day,+day) to (-5,+5) windows. Second, we focus on the stock price reaction prior to the first public information starting 5 days before the event date to day0. Third, we examine the price reactions after the event date starting from day1 after the event date to day5. Finally, we examine stock price reactions over a long window starting at day0 to

day100 or day200 after the event date. Results are provided in Table 1. Our first set of tests shows that the market reacts positively around the SE formation, specifically 10 days (-5,+5) around the event date. Although the reaction is generally positive in a short window such as (-1,+1) or (-2,+2), the results are statistically significant over a long window (-5,+5) only. The second set of results shows that the CARs are on average positive, but only weakly statistically significant at day0. The third set of the results shows that the CARs are on average positive and significant for the window (0,+5). Finally, we find that in the long run the CARs are on average positive and statistically significant after the event date for the first 100 days window but not the 200 days window.

[TABLE 1 About Here]

Together the results show that the market reacts positively to SE formation at the time the first public information about the reincorporation leaks to the market. However, the reactions are mainly statistically significant for the days following the first public information, although no specific day strikes out as driving stock price reaction. This suggests that there is no information leakage or rumors on the SE formation prior to the first formal information about the reincorporation becomes public knowledge, but also that there is strong heterogeneity in the companies in our sample.

Table 2 shows statistics for the days around the shareholder meeting where the formal decision to reincorporate is made. The incorporation as an SE requires that shareholders approve the change in legal form. Given that shareholders might rejects the proposal, some uncertainty

persists so that we might observe a second stock price reaction at the time of the shareholder meeting. We generally find no significant results for this event though. Since there is almost no overlap with the first public information (less than 5 % of the events overlap), this suggests that the market reacts mostly at the time of first public information and that there is little corporate uncertainty left due to the risk of shareholders blocking the plan of the management to reincorporate as an SE. Our multivariate analysis will confirm this view and provide further insights into what drives stock price reactions.

[TABLE 2 About Here]

Table 3 then shows the results around the official incorporation date, which allows examining whether reincorporations suffer from legal or corporate uncertainty. We again use the same set of tests to investigate the price reactions around the incorporation date. We find that the CARs are on average positive and statistically significant 10 days (-5,+5) around the incorporation date consistent with the stock market reaction around the first public information. For the periods prior and after the incorporation date, we find that the market often reacts positively, and mostly statistically significant over the periods following the date of SE incorporation. One possible reason for a second stock price reaction at the incorporation date could be the partial overlap with the first public information about the reincorporation. While these overlaps are extremely rare (only a single case), in some cases public information about the SE incorporation was only announced after the firm had changed its legal form. Since these cases are not completely unusual, we will directly control for this fact in our multivariate analysis. Finally, we find positive and significant CARs over a long window after the SE incorporation.

[TABLE 3 About Here]

Table 4 shows summary statistics of our final sample. Due to missing data for the event date and some of the explanatory variables, our sample for the multivariate analysis on the first public information contains 118 observations. The average CAR for the first public information about the SE incorporation is 0.001 for the [-3,+3] window, with large variation around the mean. Overall, 14.4% of the incorporations involve a merger, which often involved a shell company to fulfill the cross-border requirement of the SE Regulation. German companies represent 51.7% of the sample. In terms of firm-level characteristics, we find that 16.9% of the incorporations involve a change in the registered office. Moreover, 18.6% change their board structure from the two-tier structure to the one-tier structure, and 36.4% potentially freeze worker participation. Note that the bulk of these companies do not appear to be close to the employee threshold level that requires board-level worker participation or enhanced board-level worker participation. Moreover, these factors are not mutually exclusive as an incorporation may be driven by more than one factor.

[TABLE 4 About Here]

To conclude the description of the sample, we provide in Table 5 a correlation matrix of all the variables reported in Table 4. Among other things, it highlights which factors jointly drive the incorporation. For instance, a freeze of worker participation and the change from the two-tier

structure to the one-tier structure often go hand in hand (correlation of 0.316). This correlation is most likely driven by mid-size companies, which could freeze worker participation before growing above certain size thresholds and also have a dominant shareholder, who prefers a one-tier board structure (Eidenmüller, Engert and Hornuf, 2009). Similarly, the correlation between *Extent of Worker Participation* and *Dualism Only Dummy* is 0.806, indicating that at the country-level these factors often move together. In other words, countries that promote worker participation typically also restrict the corporate structure to the two-tier board system. This may explain the significant correlation between the freeze of worker participation and the change to the one-tier structure, which may be joint factors that drive firms to incorporate as an SE.

[TABLE 5 About Here]

4. MAIN RESULTS

Our main objective is to study which factors affect the stock price reaction to the first public information related to the SE incorporation. Further, we aim at investigating whether any follow-up stock price reaction occurs at the time of the shareholder meeting or the formal registration. To this extent, we run OLS regressions on our financial performance measure CAR[-3,+3]. Results are reported in Table 6 for CARs based on the first public information about the incorporation. Our initial results show that country-level regulation affects stock performance. The stock price reaction is positive when the company is located in a country that only allows for a two-tier board structure under national corporate law, such as Germany and Austria. By contrast, we do not find evidence that the new flexibility to choose the one-tier board structure

affects firm value in a statistically significant manner. Furthermore, investors react positively when the company is located in a country with high mandatory board-level worker participation, although this relationship is not significant in Model (6).

At the firm level, a strong factor affecting stock price reaction is a transfer of the registered office, which is also economically significant. Controlling for other factors, the change of the registered office increases cumulative abnormal returns by 2.0-3.3%, depending on the specification considered. As mentioned earlier, different motives may explain the change of the registered office. Below we examine some of these factors in more details. Other reasons for incorporating as an SE such as changing to a one-tier board structure and freeze of worker participation have no meaningful impact on stock prices. One possible reason why the freeze of worker participation is not significant is that most companies in our sample are not close to the employee threshold level that requires board-level worker participation or enhanced board-level worker participation under national co-determination laws. Similarly, firm size (*ln(employees)*) and incorporation as a result of a merger (the dummy *Merger*) also have no impact.

[TABLE 6 About Here]

Next, we investigate whether there is a second stock price reaction either at the time of the shareholder meeting or the formal incorporation, since the first public information may still entail uncertainty whether the firm gets registered eventually. As pointed out earlier, both events may lead to the resolution of remaining uncertainty about the final structure of the SE and whether the transformation actually takes place. Our data enables us to disentangle both factors. To

investigate the effect of uncertainty surrounding the shareholder meeting, we run the same regressions as before but now with CARs centered around the shareholder meeting date. Results provided in Table 7 show that none of the variables are statistically significant in any of the specifications. These findings suggest the absence of corporate uncertainty related to shareholder support.

[TABLE 7 About Here]

To investigate the effect of legal and other corporate uncertainty at the time of formal registration, we use CARs centered around the formal incorporation date and the results are provided in Table 8. We find that the impact of *Extent of Worker Participation* and *Change of Seat* to be even stronger than at the time of the first public information about the reincorporation.

[TABLE 8 About Here]

As mentioned in Section 3, the stock price reactions could be attributed to the confounding effect of both first public information about the reincorporation and the effective incorporation, since in some cases both events occur with a few days differences. To separate the two effects, we show results in Table 9 for the subsample of companies where the two events do not overlap and the incorporation follows the first public information about the reincorporation. This allows to better estimate the impact of uncertainty resolution at the time of effective incorporation. We find that even in that subsample, the coefficients of *Extent of Worker Participation* and *Change*

of Seat are significant and slightly larger than at the time the first public information about the reincorporation was released. In particular, *Change of Seat* is statistically and economically significant in most of the model specifications. Thus, while the market reacts positively for companies transferring their registered office and in countries with strong worker participation, the simple announcement of incorporating as an SE still entail significant uncertainty in these cases.

[TABLE 9 About Here]

The fact that *Change of Seat* is also significant at the time of formal registration is striking and warrants extra analysis. As mentioned in Section 2, the transfer of the registered office to another country may be driven by various arbitrage opportunities, including corporate income taxes.[6] Table 10 shows the origin and destination of seat transfers for the SEs included in our sample and analysis. Many comes from France and the largest fraction relocates to Luxembourg or the United Kingdom. To assess whether tax differentials could be a motive, we also show in Table 10 average corporate income tax rates (OECD, 2016; KPMG, 2015) in the respective jurisdictions of origin and destination. The evidence suggests that corporate taxes in the countries of origin were significantly higher (27.5 %) relative to the destination countries (21.8 %) and the difference of 5.7% is statistically significant at the 5 % level (p=0.013). Likewise, we find the corporate income tax differential as calculated for each individual transfer of the registered office

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[6]   For some firms, like Norwegian Prosafe SE, very specific taxes such as national tonnage tax system for shipping companies might have been essential for transferring the registered office.

separately (i.e., the difference between the tax rate in the country of origin and destination) to be significantly different from zero (p=0.017).

[TABLE 10 About Here]

An alternative possibility that could explain value creation in the course of a transfer of the registered office is improvements due to better corporate control or a better corporate law. After inspecting annual reports and corporate documentations specific to the SE reincorporation and transfer of registered office, some companies argue that the choice to transfer the registered office is due to the locations of the operations, which is not (or no longer) in their current home jurisdiction. Hence, they attempt to relocate their registered office closer to their operational facilities. Thus, some of the transfers may indeed be driven by incentives to optimize the structure of international operations and improving corporate control in a context to international expansion of the company. The data available to us does not allow to test this motive, but future research could shed light on this alternative motive.

5. CONCLUSIONS

This study examines the economic impact of the Council Regulation (EC) No 2157/2001 that allows companies located in one of the EEA member states to adopt the SE as a supranational corporate form. The corporate benefits of the SE largely depend on whether arbitrage opportunities exist relative to the existing national corporate law with regard to board structure and worker participation, or whether management plans to transfer the registered office.

While we document stock price reactions at the time of first public information about the reincorporation, we also document some stock price reactions at the time of the formal incorporation but not at the time of the shareholder meeting where shareholder approve the decision. This suggests the presence of legal and corporate uncertainty at the time managers decide to promote the reincorporation as an SE and that this uncertainty is only resolved when the company formally registers.

Future research might explore the impact on how reincorporating as an SE affects operating activities, locations of subsidiaries and ultimately operating performance. While our investigation has uncovered anecdotal evidence that operating activities might be impacted and affect the decision to relocate the registered office to another jurisdiction, future research might quantify its impact. This may shed light on the long-term impact of SE reincorporations. Finally, the SE Regulation offers one option to existing European firms to change their registered office, while the Merger Directive is another alternative. Future research might investigate which of the two options provides the more efficient alternative for European firms to transfer the registered office.

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Table 1: Average CARs around the First Public Information about the Reincorporation

This table presents average CAR values for different windows around the date of the first public information about the reincorporation, following the calculation presented in Section 3. Values reported are based on the full sample of 118 cases. T-tests and Wilcoxon rank-sum tests are based on whether the CAR values are significantly different from 0.

	Average CAR	t-test		Wilcoxon rank-sum test	
		t-value	p-value	z-value	p-value
-1 to +1	0.0020	0.934	(0.267)	0.878	(0.238)
-2 to +2	0.0013	0.621	(0.322)	0.715	(0.311)
-3 to +3	0.0024	1.092	(0.344)	1.052	(0.311)
-4 to +4	0.0060	1.450	(0.142)	1.499	(0.115)
-5 to +5	0.0045	1.951	(0.041)	1.980	(0.042)
-5 to 0	0.0030	1.308	(0.341)	1.311	(0.324)
-4 to 0	0.0020	0.822	(0.431)	0.898	(0.344)
-3 to 0	0.0025	1.314	(0.351)	1.190	(0.343)
-2 to 0	0.0007	0.367	(0.514)	0.353	(0.419)
-1 to 0	0.0026	1.475	(0.161)	1.395	(0.178)
0	0.0060	1.672	(0.079)	1.653	(0.052)
0 to 1	0.0030	0.863	(0.590)	0.522	(0.410)
0 to 2	0.0054	1.643	(0.102)	0.488	(0.481)
0 to 3	0.0016	0.452	(0.521)	0.611	(0.392)
0 to 4	0.0045	1.152	(0.410)	0.711	(0.385)
0 to 5	0.0091	2.375	(0.030)	2.799	(0.040)
0 to 100	0.0030	1.983	(0.042)	2.104	(0.027)
0 to 200	0.0029	1.631	(0.117)	1.611	(0.110)

Table 2: Average CARs around the Shareholders Meeting

This table presents average CAR values for different windows around the shareholders meeting date, following the calculation presented in Section 3. Values reported are based on the full sample of 101 cases where the date of the shareholder meeting could be identified. T-tests and Wilcoxon rank-sum tests are based on whether the CAR values are significantly different from 0.

	Average CAR	t-test			Wilcoxon rank-sum test	
		t-value	p-value		z-value	p-value
-1 to +1	0.0048	1.140	(0.167)		1.111	(0.230)
-2 to +2	0.0066	1.430	(0.121)		1.351	(0.161)
-3 to +3	0.0038	1.510	(0.121)		1.414	(0.124)
-4 to +4	0.0065	1.590	(0.119)		1.511	(0.128)
-5 to +5	0.0041	1.930	(0.057)		1.760	(0.081)
-5 to 0	0.0051	1.121	(0.232)		1.148	(0.162)
-4 to 0	0.0055	1.290	(0.147)		1.117	(0.231)
-3 to 0	0.0054	1.560	(0.212)		1.417	(0.321)
-2 to 0	0.0065	1.610	(0.126)		1.581	(0.129)
-1 to 0	0.0079	1.010	(0.481)		1.016	(0.322)
0	0.0062	1.660	(0.075)		1.687	(0.094)
0 to 1	0.0052	1.210	(0.311)		1.238	(0.387)
0 to 2	0.0024	1.110	(0.241)		1.211	(0.277)
0 to 3	0.0046	1.310	(0.221)		1.202	(0.206)
0 to 4	0.0049	1.100	(0.319)		1.103	(0.341)
0 to 5	0.0057	1.880	(0.091)		1.771	(0.066)
0 to 100	0.0005	1.173	(0.246)		1.186	(0.135)
0 to 200	0.0009	1.210	(0.236)		1.093	(0.331)

Table 3: Average CARs around the Date of Registration

This table presents average CAR values for different windows around the incorporation date, following the calculation presented in Section 3. Values reported are based on the full sample of 118 cases where the date of incorporation could be identified. T-tests and Wilcoxon rank-sum tests are based on whether the CAR values are significantly different from 0.

| | Average CAR | t-test | | Wilcoxon rank-sum test | |
		t-value	p-value	z-value	p-value
-1 to +1	0.0023	0.820	(0.527)	0.836	(0.284)
-2 to +2	0.0018	0.504	(0.470)	0.535	(0.365)
-3 to +3	0.0022	0.637	(0.320)	0.533	(0.394)
-4 to +4	0.0037	1.126	(0.370)	0.584	(0.358)
-5 to +5	0.0092	2.590	(0.030)	2.660	(0.022)
-5 to 0	0.0057	1.683	(0.070)	1.684	(0.081)
-4 to 0	0.0027	0.818	(0.251)	0.545	(0.151)
-3 to 0	0.0048	1.359	(0.141)	1.403	(0.133)
-2 to 0	0.0039	1.168	(0.290)	1.165	(0.261)
-1 to 0	0.0074	2.177	(0.031)	2.537	(0.031)
0	0.0024	0.690	(0.396)	0.889	(0.329)
0 to 1	0.0080	2.080	(0.038)	2.693	(0.025)
0 to 2	0.0041	1.242	(0.227)	1.160	(0.272)
0 to 3	0.0045	1.515	(0.174)	1.589	(0.183)
0 to 4	0.0091	2.397	(0.037)	2.845	(0.016)
0 to 5	0.0033	0.986	(0.543)	0.770	(0.621)
0 to 100	0.0055	1.954	(0.046)	1.956	(0.048)
0 to 200	0.0031	1.463	(0.161)	1.521	(0.136)

Table 4: Summary Statistics

This table presents summary statistics of main variables. Values reported are based on the full sample of 118 cases.

Variable	# Obs	Mean	Std. Dev.	Min.	Max.
Dependent Variable					
(1) CAR -3 to +3	118	0.001	0.045	-0.092	0.184
Control Variables					
(2) Ln(employees)	118	7.167	2.760	0	12.284
(3) Merger Dummy	118	0.144	0.353	0	1
Country Level Variables					
(4) Dualism Only Dummy	118	0.559	0.499	0	1
(5) Monsim Only Dummy	118	0.059	0.237	0	1
(6) Extent Worker Participation	118	0.365	0.165	0	0.500
(7) Previous incorporations of publicly listed SEs	118	21.322	22.624	0	72
Firm Level Variables					
(8) Change of Seat Dummy	118	0.169	0.377	0	1
(9) Dualism to Monsim Dummy	118	0.186	0.391	0	1
(10) Freeze of Worker Participation Dummy	118	0.364	0.483	0	1

Table 5: Correlation Table

This table shows pairwise correlations between the main variables used in the study. Values reported are based on the full sample of 118 cases. Significance levels: *, **, *** for 10%, 5%, and 1%.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
(1) CAR -3 to +3	1.000								
(2) Ln(employees)	-0.007	1.000							
(3) Merger Dummy	0.102	-0.185**	1.000						
(4) Dualism Only Dummy	0.050	-0.018	-0.122	1.000					
(5) Monism Only Dummy	-0.082	-0.101	0.204**	-0.283***	1.000				
(6) Extent Worker Participation	0.139	-0.021	-0.028	0.806***	-0.269***	1.000			
(7) Previous Incorp. of publicly listed SEs	-0.065	0.031	-0.161	0.646***	-0.220**	0.603***	1.000		
(8) Change of Seat Dummy	0.188**	-0.172	0.072	-0.418***	0.269***	-0.416***	-0.422	1.000	
(9) Dualism to Monsim Dummy	0.027	-0.360***	-0.073	0.425***	-0.120	0.306***	0.376	-0.158	1.000
(10) Freeze of Worker Participation Dummy	0.087	-0.629***	0.141	0.140	-0.190**	0.203**	0.203	-0.014	0.316***

Table 6: Determinants of Stock Price Reaction Following the First Public Information about the SE Reincorporation

This table presents the determinants of stock price reactions. The dependent value is the CAR[-3,+3] around the date of first public announcement. All the variables are defined in Appendix Table 1. Values in brackets are robust standard errors. Significance levels: *, **, *** for 10%, 5%, and 1%.

	(1)	(2)	(3)	(4)	(5)	(6)
Ln(employees)	0.001	0.001	0.001	0.001	0.001	0.001
	(0.001)	(0.001)	(0.002)	(0.002)	(0.002)	(0.002)
Merger	0.004	-0.002	0.005	-0.002	0.001	0.002
	(0.008)	(0.008)	(0.008)	(0.008)	(0.009)	(0.008)
Dualism only	0.027**		0.027**			0.021
	(0.012)		(0.012)			(0.013)
Monism only	-0.021		-0.022			-0.017
	(0.014)		(0.014)			(0.013)
Extent Worker Participation		0.105***		0.109**		0.058
		(0.039)		(0.042)		(0.045)
Previous SE Incorporations	-0.000	-0.001*	-0.000	-0.001*	0.000	-0.001*
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Change of seat	0.031***	0.030***	0.031***	0.030***	0.020*	0.033***
	(0.011)	(0.011)	(0.011)	(0.011)	(0.010)	(0.011)
Dualism to Monism					0.004	
					(0.013)	
Freeze of Worker Participation			-0.001	-0.003		-0.004
			(0.011)	(0.011)		(0.011)
Constant	-0.074**	-0.086**	-0.072**	-0.084**	-0.051	-0.082**
	(0.032)	(0.038)	(0.035)	(0.039)	(0.038)	(0.038)
Year Dummies	Yes	Yes	Yes	Yes	Yes	Yes
Mean VIF	1,96	2.45	2.10	2.64	1.48	2.96
Maximum VIF	3,45	4.45	3,46	4.79	1.81	5.89
Observations	118	118	118	118	118	118
R^2	17.6	15.7	17,6	15.8	10.2	18.8

Table 7: Determinants of Stock Price Reaction Following the Shareholder Meeting on the SE Reincorporation

This table presents the determinants of stock price reactions. The dependent value is the CAR[-3,+3] around the date of shareholder meeting on the SE reincorporation. All the variables are defined in Appendix Table 1. Values in brackets are robust standard errors. Significance levels: *, **, *** for 10%, 5%, and 1%.

	(1)	(2)	(3)	(4)	(5)	(6)
Ln(employees)	-0.000	-0.000	-0.001	-0.001	-0.001	-0.001
	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
Merger	-0.009	-0.010	-0.009	-0.010	-0.009	-0.009
	(0.008)	(0.008)	(0.008)	(0.008)	(0.008)	(0.009)
Dualism only	0.006		0.006			0.007
	(0.007)		(0.007)			(0.006)
Monism only	-0.003		-0.004			-0.004
	(0.008)		(0.008)			(0.010)
Extent Worker Participation		0.013		0.016		0.001
		(0.024)		(0.029)		(0.035)
Previous SE Incorporations	-0.000	0.000	-0.000	-0.000	0.000	-0.000
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Change of seat	0.005	0.003	0.005	0.003	0.002	0.005
	(0.007)	(0.007)	(0.007)	(0.007)	(0.007)	(0.007)
Dualism to Monism					-0.001	
					(0.004)	
Freeze of Worker Participation			-0.002	-0.002		-0.003
			(0.007)	(0.007)		(0.007)
Constant	-0.002	-0.001	-0.000	0.001	0.004	0.000
	(0.011)	(0.012)	(0.009)	(0.010)	(0.012)	(0.012)
Year Dummies	Yes	Yes	Yes	Yes	Yes	Yes
Mean VIF	2.25	2.41	2.31	2.61	1.48	3.24
Maximum VIF	3.92	4.73	3,98	5.34	1.83	6.41
Observations	93	93	93	93	93	93
R^2	20.0	19.1	20.2	19.3	17.7	20.4

Table 8: Determinants of Stock Price Reaction Following the Registration as an SE

This table presents the determinants of stock price reactions. The dependent value is the CAR[-3,+3] around the official date of incorporation as an SE. All the variables are defined in Appendix Table 1. Values in brackets are robust standard errors. Significance levels: *, **, *** for 10%, 5%, and 1%.

	(1)	(2)	(3)	(4)	(5)	(6)
Ln(employees)	0.001	0.001	0.002	0.002	0.000	0.002
	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)
Merger	0.017	0.008	0.016	0.008	0.012	0.011
	(0.014)	(0.013)	(0.015)	(0.014)	(0.014)	(0.015)
Dualism only	0.012		0.011			-0.001
	(0.011)		(0.011)			(0.013)
Monism only	-0.035*		-0.028			-0.018
	(0.020)		(0.021)			(0.021)
Extent Worker Participation		0.134***		0.119**		0.107*
		(0.045)		(0.050)		(0.057)
Previous SE Incorporations	-0.000	-0.001*	0.000	-0.001	0.000	-0.000
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Change of seat	0.036**	0.040***	0.037**	0.040***	0.027*	0.041***
	(0.015)	(0.014)	(0.015)	(0.015)	(0.014)	(0.015)
Dualism to Monism					0.004	
					(0.010)	
Freeze of Worker Participation			0.014	0.011		0.009
			(0.011)	(0.011)		(0.012)
Constant	-0.042	-0.077**	-0.058*	-0.085**	-0.030	-0.079**
	(0.029)	(0.033)	(0.031)	(0.033)	(0.031)	(0.035)
Year Dummies	Yes	Yes	Yes	Yes	Yes	Yes
Mean VIF	1.96	2.45	2.10	2.64	1.48	2.96
Maximum VIF	3.45	4.45	3.46	4.79	1.81	5.89
Observations	118	118	118	118	118	118
R^2	16.3	18.9	17.5	19.6	12.6	20.2

Table 9: Robustness on the Determinants of Stock Price Reaction Following the Registration as an SE
This table presents the determinants of stock price reactions, using a restricted sample that excludes cases where the CAAR window overlaps with the date of first public announcement. The dependent value is the CAR[-3,+3] around the official date of incorporation as an SE. All the variables are defined in Appendix Table 1. Values in brackets are robust standard errors. Significance levels: *, **, *** for 10%, 5%, and 1%.

	(1)	(2)	(3)	(4)	(5)	(6)
Ln(employees)	0.001	0.001	0.002	0.002	0.001	0.002
	(0.003)	(0.003)	(0.003)	(0.003)	(0.003)	(0.003)
Merger	0.019	0.011	0.017	0.011	0.014	0.013
	(0.015)	(0.015)	(0.015)	(0.015)	(0.015)	(0.016)
Dualism only	-0.002		-0.004			-0.016
	(0.019)		(0.018)			(0.020)
Monism only	-0.037		-0.032			-0.023
	(0.024)		(0.025)			(0.025)
Extent Worker Participation		0.119**		0.106*		0.104
		(0.053)		(0.062)		(0.068)
Previous SE Incorporations	0.000	-0.000	0.000	-0.000	0.000	-0.000
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.001)
Change of seat	0.035*	0.040**	0.035*	0.040**	0.029	0.039**
	(0.017)	(0.017)	(0.018)	(0.018)	(0.018)	(0.018)
Dualism to Monism					0.004	
					(0.015)	
Freeze of Worker Participation			0.014	0.009		0.008
			(0.015)	(0.017)		(0.017)
Constant	-0.064*	-0.098**	-0.076*	-0.102**	-0.059	-0.098**
	(0.038)	(0.041)	(0.038)	(0.040)	(0.041)	(0.042)
Year Dummies	Yes	Yes	Yes	Yes	Yes	Yes
Mean VIF	2.30	2.61	2.36	2.87	1.51	3.31
Maximum VIF	3.85	4.43	3.95	5.08	1.76	6.53
Observations	89	89	89	89	89	89
R^2	20.4	21.9	21.3	22.2	17.7	23.3

Table 10: Change of Registered Office and Tax Differentials

Jurisdiction of origin and destination of SEs that changed their registered office. For each column (origin, destination), we report the average corporate income tax rate in the year the registered office was transferred. The last row reports the result of a difference-in-mean test between the two average corporate income tax rates (p-value in brackets).

Origin		Destination	
France	6	Luxembourg	6
Netherlands	4	United Kingdom	4
Luxembourg	3	Austria	2
Norway	2	Cyprus	2
United Kingdom	2	Malta	2
Finland	1	Belgium	1
Germany	1	Czech Republic	1
Hungary	1	Germany	1
Ireland	1	Hungary	1
Poland	1	Ireland	1
		Poland	1
Average corporate income tax rate	27.5 %	Average corporate income tax rate	21.8 %
Difference	5.7 %	(p=0.013)	

Appendix Table 1: Legal Arbitrage Regarding Co-determination and Board Structure
This table presents country-level details with regard to regulation on board structure and board-level participation. The respective values are used to construct the country-level variables in the study. If board-level participation depends on board size, board structure or corporate form, we consider a public limited liability company with 10 board members and a two-tier board structure.

	Only Dualism	Only Monism	Board-Level Participation for private firms	Maximum Extent (% board-level participation)[1]	Coverage (# employees)
Austria	1	0	1	0.33	1
Belgium	0	1	0	0	-
Bulgaria	0	0	0	0	-
Croatia	0	0	1	0.1	1
Cyprus	0	1	0	0	-
Czech Republic	0	0	1	0	50
Denmark	0	0	1	0.33	35
Estonia	1	0	0	0	-
Finland	0	0	1	0.2	150
France	0	0	1	0.1	1000
Germany	1	0	1	0.5	2000
Greece	0	1	0	0	0
Hungary	0	0	1	0.33	200
Iceland	0	1	0	0	-
Ireland	0	1	0	0	0
Italy	0	0	0	0	-
Latvia	1	0	0	0	-
Lichtenstein	0	1	0	0	-
Lithuania	0	0	0	0	-
Luxembourg	0	0	1	0.33	1000
Malta	0	1	0	0	-
Netherlands	0	0	1	0.33	100
Norway	0	1	1	0.33	30
Poland	1	0	0	0	0
Portugal	0	0	0	0	0
Romania	0	0	0	0	-
Slovakia	1	0	1	0.5	50
Slovenia	0	0	1	0.5	50
Spain	0	1	0	0	0
Sweden	0	1	1	0.5	25
United Kingdom	0	1	0	0	-

Source: Aline Conchon, Norbert Kluge and Michael Stollt – ETUI Worker board-level participation in the 31 European Economic Area countries (August 2015 update). For the Czech Republic we consider that there was an obligation for private firms with more than 50 employees to have board-level participation until January 2014.

Appendix Table 2: List and Definitions of Variables

Dependent variable:
    CAR -3 to +3: The cumulative abnormal return for the event window t = -3 to t = 3. Events constitute the first public announcement about the SE reincorporation or alternatively the day of the register entry.

Explanatory Variables - Controls:
    Ln(employees): The natural logarithm of the current number of employees of the firm re-incorporating as an SE. Source: ETUI database, Thomson Reuters and company websites.
    Merger: Dummy variable equal to 1 if the SE was established by means of a merger, and 0 otherwise. Source: ETUI database (2015).

Explanatory Variables – Country Level:
    Dualism only: Dummy variable equal to 1 if the firm converting to an SE had its originally initial registered office in a jurisdiction that allows for the two-tier board structure only, and 0 otherwise. Source: Conchon, Kluge and Stollt (August 2015).
    Extent Worker Participation: Highest level of legally imposed board-level worker participation for private companies in jurisdiction of initial registered office in percent. Source: Conchon, Kluge and Stollt (August 2015).
    Monism only: Dummy variable equal to 1 if the firm converting to an SE had its originally initial registered office in a jurisdiction that allows for the one-tier board structure only, and 0 otherwise. Source: Conchon, Kluge and Stollt (August 2015).
    Previous SE incorporations: Number of publically listed SE incorporated in a given country before the focal SE incorporation.

Explanatory Variables – Firm Level:
    Change of Seat: Dummy variable equal to 1 if the firm converting to an SE transferred its registered office to a different country, and 0 otherwise. Source: ETUI database and company websites.
    Dualism to Monism: Dummy variable equal to 1 if the firm converting to an SE changed its board structure from a two-tier board to a one-tier board, and 0 otherwise. Source: ETUI database and company websites.
    Freeze of Worker Participation: Dummy variable equal to 1 if the firm converting to an SE had less employees than under the highest threshold requiring worker participation at the board-level, and 0 otherwise. Source: Conchon, Kluge and Stollt (August 2015), ETUI database, Thomson Reuters and company websites.