

Contract Completeness of Company Bylaws and Entrepreneurial Success

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Motivation

- **Theory:** Financial contracts matter for entrepreneurial success
 - Indirect evidence: VCs use complex contracts (Kaplan & Strömberg 2003)
 - **Complex contracts** may exceed needs or skills of most entrepreneurs
 - Risk of errors and exploitation (Landier & Thesmar 2009)
 - In some countries, SME default legal forms restrict bylaws
 - **Little evidence** on:
 - (1) **Financial contracting** at startup stage beyond VC-backed firms
 - (2) **Causal impact** of contract flexibility
- ⇒ **This paper:** Evidence on (1) and (2)

This Paper

(1) Collect & analyze bylaws of near-universe of startups in France, 2004–2012

- Bylaws = contract between shareholders (founders & external investors)
 - Define ownership, control, and cash-flow rights
- ⇒ First large-scale evidence on startup contracting

(2) Impact of contract flexibility on firm performance

- Exploit reform lowering cost of tailoring contracts
- ⇒ Firms raise more equity, invest more, grow faster

Road Map

1. New facts from startups' bylaws
2. Impact on entrepreneurial success

Data

- Download [bylaws](#) from government API
 - All new firms in France, 2004–2012
 - 600,000 firms
 - ~3 documents per firm (incl. updates)

Example

ARTICLE 1 - Forme

La Société est une Société par actions simplifiée régie par les dispositions légales applicables et par les présents statuts.

Elle fonctionne indifféremment sous la même forme avec un ou plusieurs associés.

Elle ne peut faire appel public à l'épargne sous sa forme actuelle de Société par actions simplifiée.

Elle peut émettre toutes valeurs mobilières définies à l'article L 211-2 du Code monétaire et financier, donnant accès au capital ou à l'attribution de titres de créances, dans les conditions prévues par la loi et les présents statuts.

ARTICLE 2 - Dénomination sociale

La dénomination sociale est :

MAS DE GRILLE

Sur tous les actes et documents émanant de la Société, la dénomination sociale doit être précédée ou suivie immédiatement des mots «Société par actions simplifiée» ou des initiales «S.A.S.» et de l'énonciation du capital social.

ARTICLE 3 - Siège social

Le siège social est fixé :

Zone Industrielle les Trouyaux 34560 POUSSAN

Il peut être transféré en France métropolitaine par décision du Président qui est habilité à modifier les statuts en conséquence ; et partout ailleurs par décision des associés.

ARTICLE 4 - Objet

La Société a pour objet directement ou indirectement, tant en France qu'à l'étranger :

L'acquisition, la création, la gestion et l'exploitation sous quelle forme que ce soit de tous fonds de commerce d'hôtellerie, de restauration, de débits de boissons, préparations de plats à emporter.

Example – Mas de Grille

Article 1: Legal form

*"The Company is a **SAS** governed by the applicable legal provisions and by these bylaws.*

It operates indifferently in the same form with one or more shareholders.

It may not issue shares to the public in its current form as an SAS.

***It may issue any securities** as defined in Article L 211-2 of the French Monetary and Financial Code, **giving access to capital or the allocation of debt securities**, under the conditions provided for by law and these bylaws."*

Article 4: Purpose

*"The purpose of the Company is the acquisition, creation, management and operation, in any form whatsoever, of all **hotel, restaurant, beverage and takeaway businesses**."*


The Originals City, Le Mas De Grille, Montpellier Sud



458 reviews

#3 of 9 hotels in Saint-Jean-de-Vedas

📍 93 Rue Theophraste Renaudot, 34430 Saint-Jean-de-Vedas France

 [Write a review](#)



Example – Mas de Grille

Multiple share classes

“The share capital is set at 40,000 euros, divided into:

- 3,000 Class A shares with a par value of 10 euros allotted to SARL AUBRAC HOTEL*
- 1,000 Class B shares with a par value of 10 euros allotted to Mr Christian Dalle”*

Example - Mas de Grille

Differential cash flow rights

“(...) Class A shares are entitled to a cumulative preferential dividend limited to 100,000 euros. Once the cumulative preferential dividend has been paid, Class A shares and Class B shares will be entitled to the same dividend. (...)”

Example – Mas de Grille

Cash-out

- Approval:

“Class A shares are freely transferable.”

“Class B shares may only be transferred to third parties with the approval of Class A shareholders.”

- Preemptive rights:

“Each shareholder has a preemptive right to the Class B shares to be sold.”

- Tag-along rights:

“If one of the shareholders intends to sell all or part of its shares to a third party, thereby reducing its ownership share to less than 5% (...), the selling shareholder must allow the other shareholders, if they so wish, to sell their shares under the same conditions and in the same proportions.”

Natural Language Processing

- Rich but **unstructured** data
- Extract provisions using NLP (rule-based + human checks, LLMs for simple info)
- May under-estimate frequency of provisions
 - False negatives hard to spot
 - Shareholders' agreements not required to be disclosed
- Unlikely to over-estimate
 - False positives easier to spot

Tailored Provisions

“Tailored bylaws” = deviations from default provisions

27% of new firms tailor bylaws (not limited to VC-backed)

1. Most common: Ownership rights

- Control shareholder entry/exit: mitigate conflicts of interest, dilution, departure of founders, frictions in cash-out

2. Control rights & governance

- Tailor monitoring and delegation inside the firm

3. Tailored cash-flow rights less common

- Non-linear cash-flow allocation

Sample:	All firms	Non-VC-backed
Tailored bylaws (%)	27.36	27.06
Tailored ownership rights	26.80	26.52
Priority in share issuance	20.76	20.51
Unrestricted share transfers	0.45	0.43
Priority in share transfer	4.98	4.84
Non-compete	3.24	3.22
Shareholder exclusion	5.83	5.70
Class-specific ownership rights	0.12	0.11
Lock-up period	0.78	0.75
Tag-along	0.79	0.75
Drag-along	0.15	0.14
Tailored control rights	5.68	5.47
Governance body	1.16	1.08
CEO can appoint executive officers	3.92	3.79
Ad nutum CEO termination	1.43	1.38
Suspension of voting rights	1.68	1.62
Class-specific control rights	0.12	0.11
Tailored cash-flow rights	0.27	0.23
Preferred dividend rights	0.07	0.07
Stock options	0.12	0.09
Preferred liquidation rights	0.14	0.12
Preferred cash-out rights	0.01	0.01
VC backed	1.73	0.00
Observations	660,799	649,371

Tailored Bylaws

- Efficient use of flexibility vs. mistakes and exploitation?

⇒ Correlate tailoring with:

- Need for complex contracts (frictions)
- Ability to use them (entrepreneur sophistication)

Correlational Evidence

- Likelihood of tailoring rises with proxies for **need**: asymmetric info, shareholder heterogeneity, firm complexity

[illegible]

Correlational Evidence

- Likelihood of tailoring rises with proxies for sophistication

	Tailored bylaws				
	(1)	(2)	(3)	(4)	(5)
<i>Education</i>					
College	.047*** (.0057)				.038*** (.006)
Elite college		.075*** (.012)			.047*** (.012)
Growth oriented			.04*** (.0055)		.037*** (.0055)
Serial entrepreneur				.029*** (.0059)	.025*** (.0059)
<i>Fixed Effects</i>					
Year of creation	✓	✓	✓	✓	✓
Observations	25,615	25,615	25,615	25,615	25,615

Road Map

1. New facts from startups' bylaws
2. Impact on entrepreneurial success

Ideal Experiment

- Q: Does contract flexibility foster entrepreneurial success?
- Ideal: Compare firms that can tailor vs. those that cannot
- Our setting: Reform lowering cost of legal form allowing tailored bylaws

“Restricted” vs. “Flexible” Bylaws

French startups choose between two legal forms:

1. SARL (“restricted”): only limited deviations from default bylaws allowed
 - Single share class; fixed transfer rules; no board or intermediate governance bodies; limits on lock-up periods
2. SAS (“flexible”): provisions can be freely tailored
 - No such restrictions

“If you’re not looking to grow your business, the legal constraints of the SARL can be a source of comfort, and its operation is simpler, if not more tailor-made.”

(www.captaincontrat.com)

The Reform

2008 *Economy Modernization Act* reduced costs of the flexible form, aligning it with the restricted form

1. Minimum equity requirement

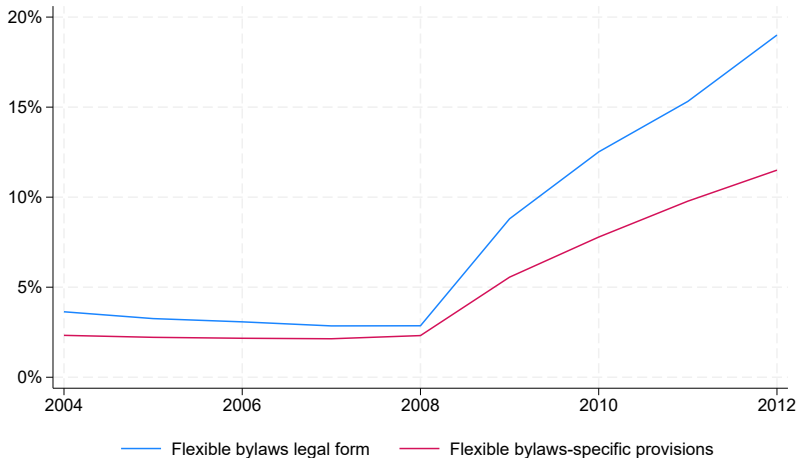
- Pre-2008: €37,000 for flexible vs. €1 for restricted
- Post-2008: €1 for both
- Binding: 4 years later, 90% of flexible firms start with equity < €37,000

2. Lower taxes on capital gains for flexible firms

3. Relaxed audit rules for flexible firms

Adoption of Flexible Bylaws

- Share of new firms choosing flexible form ↑
- Share of new firms using provisions unique to flexible form ↑



Data

- Annual financial statements (from corporate tax filings)

Identification

- Bylaws flexibility more valuable for equity-dependent firms
- Exposure = industry equity dependence (mean equity-to-asset ratio, 5-digit sector, pre-reform)
- Diff-in-diff: pre vs. post, high vs. low exposure

Top/bottom sector exposure

Threats to Identification

1. Inframarginal firms

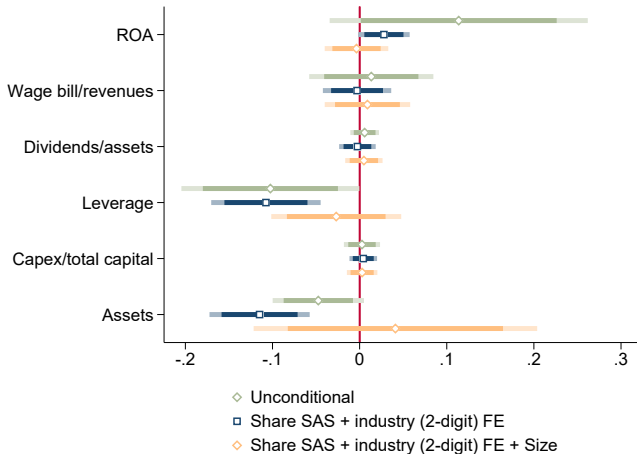
- **Threat:** Reform lowers costs for firms that would have chosen flexible form anyway, possibly affecting performance
- **Solution:** Control for pre-reform share of flexible firms \times year FE

2. Correlated shocks

- **Threat:** Exposure may correlate with post-reform sector shocks
- **Solution 1:** Include 2-digit sector \times year FE (e.g. 20 = Chemical Industries); identify off 5-digit variation (e.g. 20.11.1 = Industrial Gases)
- **Solution 2:** Placebo test using incumbents (do not respond to reform)

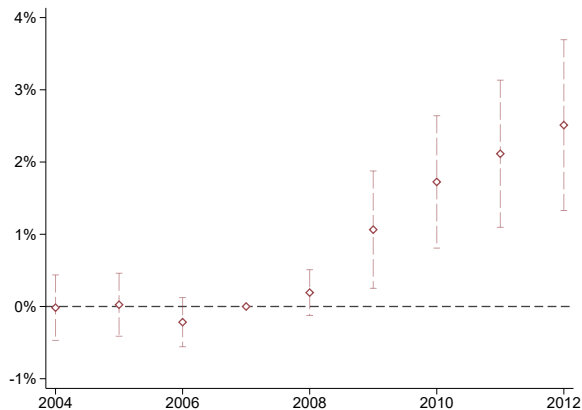
Balance Covariates

Exposure uncorrelated with pre-reform industry characteristics, except size
⇒ Control for industry bins of average firm size \times year FE



Flexible Form Adoption

- LHS = 1 if flexible bylaws legal form
- Coefficients on Exposure \times Year dummies:



Flexible Form Adoption

- 1 SD increase in exposure \Rightarrow 2.2 pp increase in flexible form adoption

	=1 if flexible bylaws legal form			
	(1)	(2)	(3)	(4)
Exposure \times Post	0.018*** (0.0046)	0.018*** (0.0042)	0.016*** (0.0041)	0.022*** (0.0056)
<i>Fixed Effects</i>				
Industry	✓	✓	✓	✓
Industry (2-digit) \times Year	✓	✓	✓	✓
County \times Year	—	—	✓	✓
<i>Controls</i>				
Pre-reform flexible share \times Year	—	✓	✓	✓
Average entry size \times Year	—	—	—	✓
Observations	712,432	712,432	712,432	712,432

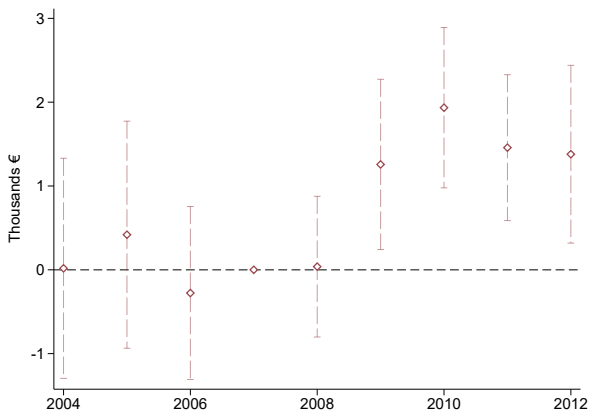
Tailored Bylaws

- 1 SD increase in exposure \Rightarrow 1.4 pp increase in tailored bylaws

	Flexible bylaws specific provisions	Tailored ownership rights	Tailored control rights	Tailored cash-flow rights
Exposure \times Post	.014*** (.0037)	.01** (.0044)	.012** (.0051)	.00095 (.00068)
<i>Fixed Effects</i>				
Industry	✓	✓	✓	✓
Industry (2-digit) \times Year	✓	✓	✓	✓
County \times Year	✓	✓	✓	✓
<i>Controls</i>				
Pre-reform flexible share \times Year	✓	✓	✓	✓
Average entry size \times Year	✓	✓	✓	✓
Observations	660,801	660,801	660,801	660,801

Investment

- LHS = Capital (tangible+intangible) three years after creation (=0 if firm exits)
- Coefficients on Exposure \times Year dummies:



Investment

- 1 SD increase in exposure \Rightarrow €1,200 increase in capital investment after 3 years (4% relative to the mean)

	$K_{i,t+3}$			
Exposure \times Post	1.6*** (.35)	1.5*** (.35)	1.5*** (.33)	1.2** (.49)
<i>Fixed Effects</i>				
Industry	✓	✓	✓	✓
Industry (2-digit) \times Year	✓	✓	✓	✓
County \times Year	—	—	✓	✓
<i>Controls</i>				
Pre-reform flexible share \times Year	—	✓	✓	✓
Average entry size \times Year	—	—	—	✓
Observations	673,430	673,430	673,430	673,430

Percentiles

- LHS: dummy top k^{th} percentile of the distribution of K_{t+3}
- ⇒ Effect is concentrated at the right tail of the distribution
- ⇒ Complex contracts matter for growth-oriented firms

Percentile:	Pr[$K_{i,t+3} > \text{Percentile}$]				
	50	66	75	80	90
Exposure×Post	0.0088** (0.0037)	0.010*** (0.0037)	0.0086*** (0.0032)	0.0089*** (0.0028)	0.0077*** (0.0022)
<i>Fixed Effects</i>					
Industry	✓	✓	✓	✓	✓
Industry (2-digit)×Year	✓	✓	✓	✓	✓
Observations	712,432	712,432	712,432	712,432	712,432

Mechanism: firms raise more equity at creation

- 1 SD increase in exposure \Rightarrow additional €340 of equity

	$E_{i,t+1}$			
Exposure \times Post	.29*** (.075)	.26*** (.067)	.27*** (.065)	.34*** (.081)
<i>Fixed Effects</i>				
Industry	✓	✓	✓	✓
Industry (2-digit) \times Year	✓	✓	✓	✓
County \times Year	—	—	✓	✓
<i>Controls</i>				
Pre-reform flexible share \times Year	—	✓	✓	✓
Average entry size \times Year	—	—	—	✓
Observations	663,215	663,215	663,215	663,215

Mechanism: firms attract additional shareholders

- Number of initial shareholders \uparrow
- Probability of shareholders joining between year 1 and 3 \uparrow

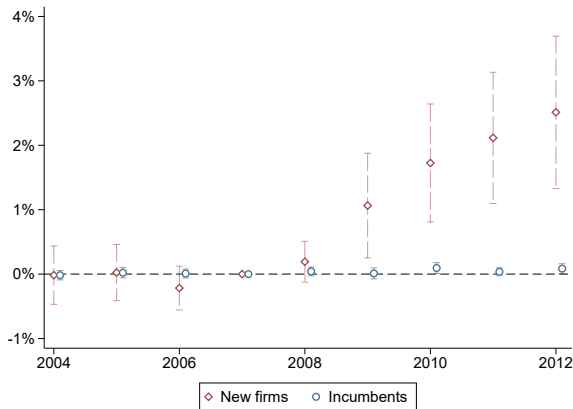
	# Shareholders $_{i,t+1}$	New shareholder $_{i,t+1 \rightarrow t+3}$
Exposure \times Post	.01** (.0048)	.0027*** (.001)
<i>Fixed Effects</i>		
Industry	✓	✓
Industry (2-digit) \times Year	✓	✓
County \times Year	✓	✓
<i>Controls</i>		
Pre-reform flexible share \times Year	✓	✓
Average entry size \times Year	✓	✓
Observations	390,099	390,099

Other Results

- Significant effect from year 1 to year 5
- Employment ↑
- Sales ↑
- No effect on firm exit

A Placebo Test

- Incumbent firms don't switch from restricted form to flexible form
- LHS = 1 if flexible legal form (sample: incumbents aged 5-10):



- Legal form inertia consistent with Gordon & MacKie-Mason '94, Giroud & Rauh '18, Matray '23

A Placebo Test

- No effect on investment by incumbent firms

	$\Delta K_{i,t+3}$			
Exposure×Post	.0023 (.0048)	.0033 (.0048)	.0016 (.0048)	.0056 (.0069)
<i>Fixed Effects</i>				
Industry	✓	✓	✓	✓
Industry (2-digit)×Year	✓	✓	✓	✓
County×Year	—	—	✓	✓
<i>Controls</i>				
Pre-reform flexible share×Year	—	✓	✓	✓
Average entry size×Year	—	—	—	✓
Observations	1,461,505	1,461,505	1,461,505	1,461,505

Wrap Up

- Many new firms tailor bylaws—not only VC-backed
- Tailoring correlates with asymmetric info & founder sophistication
- Causal impact?
 - ⇒ Yes: more equity, more capital, more labor, more revenues
- Contracting flexibility at startup stage matters for growth

Back-up slides

Top/Bottom Sector Exposure to the Reform

Most exposed industries

Code	Sector	Average Equity/Assets
7211Z	Recherche-développement en biotechnologie	25.1
4782Z	Commerce de détail de textiles, d'habillement et de chaussures sur éventaires et marchés	24.4
4791A	Vente à distance sur catalogue général	23.3
6312Z	Portails internet	22.6
6209Z	Autres activités informatiques	22.5
4789Z	Autres commerces de détail sur éventaires et marchés	22.4
6190Z	Autres activités de télécommunication	22.2
6202B	Tierce maintenance de systèmes et d'applications informatiques	20.8
5829C	Edition de logiciels applicatifs	20.6
4791B	Vente à distance sur catalogue spécialisé	20.5

Least exposed industries

Code	Sector	Average Equity/Assets
4312B	Travaux de terrassement spécialisés ou de grande masse	7.3
4311Z	Travaux de démolition	7.1
4110D	Supports juridiques de programmes	7
4391A	Travaux de charpente	6.9
2511Z	Fabrication de structures métalliques et de parties de structures	6.9
4312A	Travaux de terrassement courants et travaux préparatoires	6.9
4711D	Supermarchés	6.9
4778A	Commerces de détail d'optique	6.8
4399E	Location avec opérateur de matériel de construction	6.7
1610B	Imprégnation du bois	4.6

Firm Creation

- No effect on the number of new firms

<i>Dependent variable:</i>		Log(# firms)				
<i>Weights:</i>	Equal-weighted			# firms		
	(1)	(2)	(3)	(4)	(5)	(6)
Exposure×Post	0.0011 (0.030)	-0.023 (0.030)	-0.039 (0.031)	0.050 (0.041)	0.052 (0.042)	-0.023 (0.058)
<i>Fixed Effects</i>						
Industry	✓	✓	✓	✓	✓	✓
Industry (2-digit)×Year	✓	✓	✓	✓	✓	✓
<i>Controls</i>						
Pre-reform flexible share×Year	—	✓	✓	—	✓	✓
Average entry size×Year	—	—	✓	—	—	✓
Observations	4,779	4,707	4,617	4,393	4,379	4,342

Dynamics

	$K_{i,t+h}$				
	t+1	t+2	t+3	t+4	t+5
	(1)	(2)	(3)	(4)	(5)
Exposure×Post	.94* (.55)	.97** (.49)	1.2** (.49)	1.1** (.5)	1.4*** (.49)
<i>Fixed Effects</i>					
Industry	✓	✓	✓	✓	✓
Industry (2-digit)×Year	✓	✓	✓	✓	✓
County×Year	✓	✓	✓	✓	✓
<i>Controls</i>					
Pre-reform flexible share×Year	✓	✓	✓	✓	✓
Average entry size×Year	✓	✓	✓	✓	✓
Observations	673,430	673,430	673,430	673,430	673,430

Survival

	Survival _{<i>i,t+h</i>}				
	t+1	t+2	t+3	t+4	t+5
	(1)	(2)	(3)	(4)	(5)
Exposure×Post	-	-.0041**	-.0033	-.0027	.0014
	-	(.0018)	(.0023)	(.0029)	(.0035)
<i>Fixed Effects</i>					
Industry	-	✓	✓	✓	✓
Industry (2-digit)×Year	-	✓	✓	✓	✓
County×Year	-	✓	✓	✓	✓
<i>Controls</i>					
Pre-reform flexible share×Year	-	✓	✓	✓	✓
Average entry size×Year	-	✓	✓	✓	✓
Observations	-	712,432	712,432	712,432	712,432

Employment

- 1 SD increase in exposure \Rightarrow €1,500 increase in annual wage bill

	$L_{i,t+3}$			
Exposure \times Post	1** (.5)	.83* (.5)	.83* (.5)	1.5** (.6)
<i>Fixed Effects</i>				
Industry	✓	✓	✓	✓
Industry (2-digit) \times Year	✓	✓	✓	✓
County \times Year	—	—	✓	✓
<i>Controls</i>				
Pre-reform flexible share \times Year	—	✓	✓	✓
Average entry size \times Year	—	—	—	✓
Observations	690,848	690,848	690,848	690,848

- 1 SD increase in exposure \Rightarrow €6,100 increase in annual wage bill

	$Y_{i,t+3}$			
Exposure \times Post	4.6** (1.9)	4** (1.8)	3.9** (1.8)	6.1*** (2.1)
<i>Fixed Effects</i>				
Industry	✓	✓	✓	✓
Industry (2-digit) \times Year	✓	✓	✓	✓
County \times Year	—	—	✓	✓
<i>Controls</i>				
Pre-reform flexible share \times Year	—	✓	✓	✓
Average entry size \times Year	—	—	—	✓
Observations	683,193	683,193	683,193	683,193