Towards win-win: Evidence from commercial dispute resolution in India

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Abstract

Alternate Dispute Resolution through mediation as opposed to lengthy and uncertain trial is a common policy response to backlogged courts world-wide. Yet there is limited causal evidence on judicial efficiency and subsequent economic implications of mediation-based dispute resolution. In this paper, we leverage random assignment of commercial litigation cases to judges in newly created commercial courts in India to examine the impact of judge-led mediation on the efficiency of dispute resolution and litigating firms' economic outcomes. We find that being assigned a "settlement-prone" judge increases the probability that a dispute is resolved through mediation rather than a trial, which then reduces its duration and its pending status in the court. Furthermore, plaintiff firms assigned to a settlement-prone judge gain and defendant firms experience a loss around the timing of settlement but the extent of loss fades in the long-run. Plaintiff firms continue to benefit and expand after the case exits the court. Our results indicate that reduced uncertainty from settlement, particularly for firms with fewer cases, is a plausible mechanism.

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1 Introduction

In dynamic business environments, disputes naturally arise due to disagreements on contractual terms, payment delays or defaults, and other disagreements (Banerjee and Duflo 2000; Djankov et al. 2008; Ryan 2020). For effective dispute resolution, disputes are expected to be resolved within a reasonable time and to the satisfaction of the disputing parties. This depends not only on the efficiency of the dispute resolution process but also on the ability of a third party (for example, courts) to mediate a resolution through mutually agreeable settlement terms, which could then preclude the often costly, lengthy, and uncertain trial. Alternate Dispute Resolution (ADR) mechanisms, such as mediation, have been actively promoted world-wide since the mid-20th century (Shavell 1982; Silbey and Merry 1986) and have gained considerable policy traction in countries like India as solutions to severely backlogged courts. Despite the policy interest, there is limited causal evidence on the effects of mediation on the efficiency of dispute resolution or its welfare implications.[1]

Recent empirical research has focused much on capacity constraints within the judiciary and its downstream consequences (Chemin 2010; Ponticelli and Alencar 2016; Coviello et al. 2018; Chemin 2020; Amirapu 2021; Kondylis and Stein 2023; Rao 2024) and not much on the process of dispute resolution itself (Sadka et al. 2024).[2] Another strand of the literature has examined informal dispute resolution systems, including the role of local communities (Blattman et al. 2014; Sandefur and Siddiqi 2015; Hartman et al. 2021), and its interaction with the formal system (Mattsson and Mobarak 2025), with ambiguous welfare implications. There is limited evidence on the causal implications of faster, mutual-reconciliation-based dispute settlement and why this matters for economic development.

This paper addresses this gap by examining mediation as a dispute resolution strategy in the context of recently introduced commercial courts in India. We estimate large effects of contractual dispute settlement following judge-facilitated mediation on case and litigants' outcomes using data from the universe of legal cases in two large, newly created exclusive commercial courts, and random assignment of cases to judges. Judges in these courts are required by law to offer mediation once a case is filed before starting trial proceedings. Thus, this context allows us to isolate whether a case is settled through mediation from being assigned a judge who is "settlement-prone" relative to the average judge to examine the downstream implications on the litigants.[3]

[1] Theoretical work, for example Shavell 1982, 2026 shows that the welfare effect of mediation can be mixed due to differential litigation strategies adopted by plaintiff and defendants in response to settlement as an option.

[2] A key exception in economics is Sadka et al. (2024) that specifically deals with information asymmetries in the dispute resolution process. Another vast literature in socio-legal studies and sociology of law documents mediation using qualitative methods such as Silbey 1998; Wissler 2004.

[3] Random assignment of cases has recently been built into the Court Information System or CIS as

This judge-specific settlement propensity is measured as a jack-knife leave-out average settlement rate using cases from others litigants assigned to the same judge (similar to the leniency measure as in Kling 2006; Arnold et al. 2018). We combine the jack-knife instrument with Difference in Differences (DiD) design around various timing within the case life-cycle using a matched balanced panel of litigating firms' quarterly balance sheet data, separately for plaintiff and defendant firms. We compare changes in the economic outcomes of litigants assigned to a judge who is one standard deviation higher in their settlement-index ("treated") with those assigned to a judge with an average settlement-index ("control") before and after the timing of filing and exit of their first case in the sample courts.[4]

Commercial courts were created under the federal Commercial Courts Act, 2015, with the objective of bringing faster resolution to commercial and contractual dispute litigation in India. Specifically, the reform focused on mandatory offer of mediation to litigants to encourage settlement before beginning a trial. The typical process is as follows: a plaintiff files a case, the case is randomly assigned to a judge by a computerized system, the judge summons plaintiff and defendants for a mediation hearing. If mediation is successful, the case is resolved and exits the pending backlog. If mediation fails, full trial process begins. Following the new law, dedicated commercial courts were established in four commercial centers in India - Delhi, Mumbai, Bengaluru, and Kolkata - between 2017 and 2020. These metropolitan areas are also regions where over 50% of all formal sector firms in India are located. Random assignment of cases started in 2020. We use the full universe of publicly available case-level data from Delhi and Bengaluru commercial courts following the random assignment policy.

We document several results. First, we find a strong first stage. The probability that a case itself is settled through mediation is largely determined by the judge assigned to the case. Judges vary in their settlement propensity; some judges are better at helping negotiate a mutually agreeable outcome whereas others are not. In typical mediation hearings, judges discuss the details of the case with the litigants and provide information on the legal processes. Judges vary in what type of information they provide and how they provide (Silbey and Merry 1986), which could affect the litigants' decision to settle or not. We find that a case assigned to a judge with one standard deviation higher settlement index is close to 18 percentage points more likely to be settled. This probability is similar whether we examine cases where the sample firm appears as a plaintiff or when they appear as a defendant.

Second, we find significant heterogeneity in settlement responses by litigating firm type. Specifically, financial sector plaintiffs are 19 percentage points more likely than non-

part of the ongoing efforts to digitize and improve the business process workflow in courts across India. This automatic random assignment started in early 2020.

[4]Many firms have more than one case in the courts, so we examine outcomes around the first filed case and verify robustness across different case order.

financial plaintiffs to settle a case during mediation on their own. The additional effect of being assigned a settlement-prone judge among financial sector plaintiffs is relatively muted. That is, the additional effect of a settlement-prone judge is similar across plaintiff types. In contrast, financial sector defendants are 7 percentage points *less* likely to settle when their case is assigned to a judge with a one standard deviation higher settlement index.

Third, we find systematic correlation between resolution of a case by settlement and efficiency of the judicial process measured in terms of case duration or pending status. A case that is settled is associated with 50 fewer days pending in court. Cases assigned to judges with one-standard deviation higher settlement index are 8.4 percentage points less likely to remain pending.

Fourth, we find 18% increase in quarterly profit among plaintiff firms assigned a judge with one-standard deviation higher settlement index. Among defendants, we find about 30% decrease in quarterly profits. These effects are seen immediately following case filing when mediation is offered rather than around the timing of case decision. The profit effects persist for plaintiff whereas it partially reverses for defendants. Much of the positive effect on profits among plaintiff firms is driven by those with lighter caseloads, for whom the dispute could plausibly represent a holdup.

Finally, we find that treated plaintiff firms expand their wagebill by 15% and long-run investment by 5% after the case decision date. We find negative but noisy effects among defendant firms. We see limited heterogeneity in these outcomes by firms' litigation intensity.

The timing of the profit effects and the longer run expansion decisions by plaintiffs suggest that the results could plausibly be driven by reduced uncertainty from avoided trial. The profit results implies that the "monetary" effect of settlement is felt immediately. Consider the example of debt or trade credit dispute. When both parties agree to settle, the defendant pays a mutually agreed amount immediately even when the judge takes time to write her decision and close the case. The settlement can be viewed as a money transfer, which is reflected as a positive profit effect in the plaintiff's balance sheet and negative in the defendant's balance sheet. An entire literature on corporate finance has shown that cash now has higher marginal value in the context of missing capital and credit markets (Faulkender and Wang 2006; Djankov et al. 2008).

We frame our findings as a 'win-win' outcome that operates on two levels. First, settlement leads to unambiguous efficiency gains to the process of dispute resolution by reducing case duration and pendency. Second, settlement offers a weakly Pareto-improving outcome for litigants: plaintiffs experience substantial gains, while the initial loss experienced by defendants are recovered post case decision. The counterfactual is that these litigants would otherwise undergo lengthy and uncertain trial process in the absence of mediation, where the trial outcome could even be worse than settlement. We

situate this framing within the specific context of commercial litigation landscape where firms engaged in such litigation are large and approach courts as the last resort. We do not find any evidence that plaintiff firms that settle their first case through mediation are more likely to file additional new cases in courts. In contrast, the evidence suggests that initial experience of settling is correlated with increased settlement in subsequent cases.

We carry out multiple robustness tests to verify these results. First, we verify the validity of random assignment of cases to judges as explained in the policy using the case-level data.[5] Second, we find that the profit effects are robust even under different restrictions to the event window. Third, we account for the fact that a firm can have multiple cases by focusing on the first case. We verify that the effects are robust even when using different case order. Lastly, to the extent feasible, we rule out the possibility that these effects are not driven by other judge characteristics such as judge's human capital measured in terms of their ability to cite other case precedents or recovery rate (award relative to initial claim).

This paper contributes to the literature on dispute resolution by courts and its development ramifications by documenting *what* improves dispute resolution. This is among the first set of papers in this literature to use judge-specific characteristics, such as settlement propensity, to resolve a contractual dispute in a timely manner as opposed to procedural or legal reforms that are often complicated and require support through legislation. The results suggest improvements in the efficiency of dispute resolution as well as in the profitability of firms engaged in commercial disputes. This is consistent with a rich theoretical and empirical literature on court efficiency and economic growth, suggesting that firms and economic agents shift to a second-best equilibrium in response to judicial inefficiency (Djankov et al. 2003; Nunn 2007; Visaria 2009; Coviello et al. 2015; Ponticelli and Alencar 2016; Coviello et al. 2018; Chemin 2020; Amirapu 2021; Liu et al. 2022; Kondylis and Stein 2023). This paper provides experimental evidence from random assignment of cases to settlement-prone judges, showing the inverse of this relationship: when courts function better, the resulting outcome is a Pareto improvement. This paper highlights the importance of mutually agreed-upon settlement of the dispute, facilitated within the legal framework by a judge, as a solution to the problem of court inefficiency.

Furthermore, we show that financial institutions such as banks respond strategically to the mediation reform. We show that banks are among the biggest users of courts for contractual disputes concerning their lending operations and prefer a faster resolution of disputes as plaintiff. In contrast, they are less likely to settle a case as a defendant particularly in cases that are counter-suits filed by borrowers to prevent banks from liquidating assets. Consequently, banks are potentially less likely to agree with settlement

[5]Random assignment is computer generated by a new, computerized case management system now installed across most courts in India. Thus, the random variation we exploit for our analysis is unconditional. Case assignment is carried out every day as new cases are filed into the system.

conditions in such situations. Thus efficiency of improving the dispute resolution process specifically matters for financial sector plaintiffs in debt recovery (Visaria 2009; Lilienfeld-Toal et al. 2012; Rao 2024). Settlement is thus an effective debt enforcement strategy when trials take longer relative to the implicit discount rate on the claim amount in debt recovery litigation (Djankov et al. 2008).

The results in this paper are also consistent with Silveira 2017; Sadka et al. 2024, showing that litigants often are over-optimistic in their trial outcome. The mediation process addresses some of the key challenges arising from information asymmetry and over-optimism, enabling firms to resolve their dispute through mutually agreeable settlement terms, facilitated by judges, rather than continuing full trial. This paper extends the scope and conclusion by Sadka et al. (2024), who studied labor disputes, and Silveira (2017) examining criminal plea bargaining, to all commercial disputes in the context of a developing economy. Settlement generates immediate liquidity for plaintiff firms even in cases other than finance or debt recovery. This additional cash at hand has a higher marginal value in developing countries with limited access to capital markets (Faulkender and Wang 2006).

The rest of the paper are organized as follows: section 2 provides background about the policy, section 4 details the research design to estimate the causal effects of being assigned a settlement-prone judge on case and firm-level outcomes. We details the datasets and analysis sample construction in section 3, discuss the results in section 5. We discuss the results in light of doctrinal legal analysis to suggest policy action, particularly to the legal and judicial stakeholders in the policy space in section 6, finally concluding in section 7.

2 Background

Prior to 2015, commercial litigation in India was handled by general civil courts, which were often overburdened with cases across different dispute types. This resulted in significant delays in adjudicating commercial matters, undermining contractual reliability and increasing transaction costs for firms operating in the country (Ghosh, 2018).

In response to these inefficiencies, the Commercial Courts Act, 2015 was enacted by the Government of India to establish dedicated courts for the adjudication of commercial disputes. The Act introduced Commercial Courts at the district level, Commercial Divisions in High Courts with original jurisdiction, and Commercial Appellate Divisions for appeals. According to Section 2(1)(c) of the Act, the scope of a "commercial dispute" includes a broad set of issues such as breach of contract, shareholder disputes, intellectual property rights, and admiralty matters, provided the monetary value involved exceeds *Rs.*1 crore (approximately USD 120,000).

The legislation aimed to streamline dispute resolution through procedural innovations. A key feature is mandatory mediation, which must be undertaken before the trial begins

— except in cases requiring urgent interim relief. The process is as follows: a plaintiff files a lawsuit concerning commercial dispute in court. The court registrar assigns the case to a judge. Once the case is assigned, the judge summons both the plaintiff and defendants for a mediation hearing. The judge provides information on the mediation process and also what the litigation process could look like if mediation fails. In the event of mediation failure, the formal trial process begins with structured phases: filing of pleadings, disclosure and inspection of documents, issue framing, examination of witnesses, and final arguments. On paper, the judgment is required to be delivered within 90 days after the conclusion of final arguments. However, in practice despite procedural streamlining, the examination phase remains the most time-consuming, often extending up to six months, where the entire process typically takes about a year(The Economic Times, 2021).

Another relevant innovation under the Act was the introduction of random allocation of cases to judges through a digital Case Information System (CIS 3.2). Since 2020, this system has been operational in the dedicated Commercial Courts of Delhi, Mumbai, Bengaluru, and Kolkata. By automatically assigning cases without human intervention, the system minimizes scope for "forum shopping" or bias in judicial assignment, enhancing transparency and fairness in the process.

Finally, litigants do not have a choice over which court to file their lawsuits in. This process is governed by the Code of Civil Procedure of 1908, which specifies both territorial and monetary jurisdiction of courts. This procedural law provides a mapping between cases and courts.

3 Data

This paper combines two primary data sources: (i) firm-level quarterly balance sheet data from the Prowess dataset curated by the Centre for Monitoring Indian Economy (CMIE), and (ii) universe of case-level records from Delhi and Bengaluru commercial courts, following the adoption of random assignment policy in 2020 spanning 3 years (2020-2023). This section describes each dataset, outlines how we construct the analysis dataset (firm–court panel), and details our various classification algorithms to generate variables of interest.

3.1 Firm-Level Data

We use firm-level panel data from Prowess, spanning over 40,000 Indian firms. The dataset covers publicly listed, unlisted, and privately held companies and includes annual and quarterly information on profit and loss statements, balance sheets, cash flows, and firm characteristics such as industry affiliation, ownership, and incorporation year.

Our primary firm-level outcome variables are quarterly profit (income net of expenses), wagebill, and investments.

3.2 Judicial Data and Entity-Type Classification

We compile a case-level dataset of the universe of commercial court filings in Delhi and Bengaluru commercial courts since the start of random assignment of cases. These data contain detailed records for each case, including plaintiff and defendant names, filing and resolution dates, and basic metadata such as the judge name and case type.[6]

To structure the data for empirical analysis, we develop a rule-based text classification algorithm to categorize both plaintiffs and defendants into one of three mutually exclusive entity types: Individuals, Firms, and Banks.

Firms are identified using a large set of regular expressions and keywords commonly associated with companies and organizations (e.g., LTD, LLP, PVT, TECH, FOUNDATION, SOCIETY, TRUST, etc.). Banks and financial firms are further segregated from general firms using keywords such as BANK, FINANCE, CREDIT. All remaining entities are classified as individuals, assumed to be natural persons not associated with any institutional identifier.

This classification is applied separately to plaintiffs and defendants. We then construct a categorical variable for each case indicating the entity-type pair involved in the dispute (e.g., Firm–Firm, Bank–Individual). This approach enables scalable classification of cases by actor type.

3.3 Matched Panel Construction

We link commercial court cases to firms in Prowess by matching on the names of plaintiffs and defendants. We then use a string-matching procedure to compare the cleaned names in court data with firm names in Prowess. The match is based on exact or near-exact string matches, allowing for minor spelling or formatting differences. We keep only those cases where the match quality is high—specifically, where the string similarity score exceeds 90%. This ensures that we are linking firms to court cases with a high degree of confidence. We manually verify the resulting match to ascertain its correctness.

Using this approach, we construct two matched samples: one where the firm appears as the plaintiff and one where the firm appears as the defendant in a court case.

[6]We also have the universe of all case-level data from the inception of these courts but we do not include cases that were not randomly assigned to judges in our analysis.

3.4 Summary of Entity-Type Pairs

Panel A of Table 1 presents the distribution of entity-type pairs across the full case-level sample and matched plaintiff and defendant samples. In the full sample, firm to firm cases represent a third of all commercial disputes (33.45%). Banks as plaintiff cases represent another third of the disputes, followed by firm–individual (14%) and individual–firm (10.52%). These latter two categories represent contractual disputes between formal and informal sector firms or retail consumers.

The matched plaintiff sample is overrepresented by bank-related cases (bank-individual (33.8%) and bank-firm cases (46.95%), while firm-firm (12.86%) or firm-individual (5.96%) cases are under-represented. The defendant-matched panel contains a higher share of firm to firm disputes.

Table 1 Panel B presents summary statistics for firms in the full Prowess dataset and for firms matched as plaintiffs or defendants in our sample. Firms in the matched plaintiff sample are, on average, slightly older (37.5 years) than both the general Prowess population (30.2 years) and firms in the defendant sample (32.8 years). This suggests that firms initiating litigation tend to be more established.

Sectoral composition is representative for trade and services sectors whereas manufacturing is underrepresented. The analysis sample also over-represents the set of publicly listed firms relative to their share in the overall population of formal sector firms.

These patterns occur due to the composition of Prowess database, which contains large formal sector firms, including banks. High frequency firm-level outcome data are mainly available for such firms, and thus, all inference must be made keeping this limitation in mind.

3.5 Case Type Composition

There are four types of cases in commercial courts: (a) Execution (ComEX), (b) Appeals (ComAA), (c) Original/New Suits (ComOS), and (d) a residual Other category. Table A1 reports the average shares of these case types across the full sample and the two matched samples. In the full sample, nearly half (48%) of all cases are original suits, followed by execution proceedings (23%) and other case types (19%). Appeals constitute a smaller share (10%). The analysis sample for plaintiff firms maintains this ordering qualitatively, where original suits make the largest share, followed by execution.

3.6 Analysis Sample

We carry out our analysis separately for firms appearing as plaintiff and firms appearing as defendants. The plaintiff sample has 1490 cases matched to 154 unique firms in Prowess with quarterly balance sheet data. The defendant sample has 248 cases matched to 124

unique firms. Within the plaintiff sample, over 85% plaintiff cases map to 35 unique financial sector firms and the remaining map to 119 unique non-financial firms. In the defendant sample, 53% cases map to 41 unique financial sector firms and the remaining 47% cases map to 83 non-financial sector firms. The firm-level observations include quarterly data from 2011-2024 for each of these sets of firms.

4 Empirical Design

We leverage random assignment of contract and commercial dispute cases to judges in two exclusive commercial courts in India. This new randomized case assignment system (see Figure A1 for an example of the assignment process) that started in late 2019-2020 in these courts replaced an old system, which was a black-box that followed the discretion of court's principal administrative judge in assigning cases. The main case-level data used in the analysis for this paper includes all new cases that were randomly allocated to the judges in these sample courts.

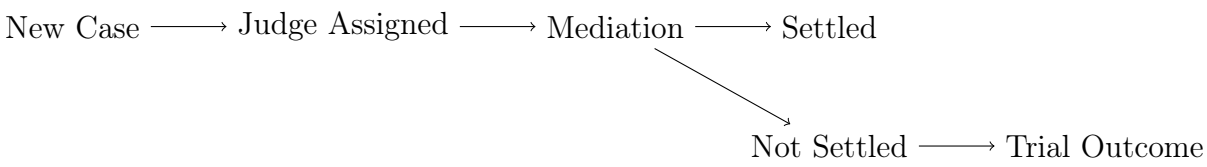
Following a large literature in empirical legal studies and labor economics such as (Kling, 2006; Arnold et al., 2018) and many others, our empirical design combines judge-leniency design with difference in differences (DiD) design, since case-specific settlement outcome is likely to be endogenous. The "treatment" is whether a case is assigned to a settlement-prone ("lenient") judge or not, which we measure as the jack-knife leave-out settlement average using outcomes of cases by other litigants presided by the same judge.

We construct the treatment variable as below, following the standard leave-out judge leniency instrument as constructed in Arnold et al. 2018:

$$z_{cj} = \left(\frac{1}{n_j - n_{ij}}\right)\left(\sum_{k=0}^{n_j} \text{Settled}_{ik} - \sum_{c=0}^{n_{ij}} \text{Settled}_{ic}\right) \tag{1}$$

where Settled_{ik} represents a dummy variable for each case k with a judge j that takes value 1 if that case is settled. Similarly, Settled_{ic} is a dummy variable for firm i's case c with judge j that takes value 1 if it is settled. n_j and n_{ij} are the total number of cases assigned to judge j and the number of firm i's cases assigned to judge j, respectively. z_{cj} is the leave-out average proportion of cases assigned to judge j that are settled. Due to data limitation, we compute the leave-out settlement rate at judge level as opposed to judge-year level to preserve statistical power.

The random assignment of newly filed cases to judges and the mediation clause in the Commercial Court Act, 2015, introduce the following causal chain.



Following this, cases are either: (a) resolved during mediation ("settled" through reconciliation between the two litigating parties), (b) fails mediation and resolved at the end of the trial, and (c) fails mediation and is pending for resolution. We estimate the following empirical specification as the "first stage" of contract enforcement in courts:

$$\text{Case Outcome}_{c(i)j} = \delta_s + \delta_m + \delta_l + \beta z_{c(i)j} + \varepsilon_{c(i)j} \tag{2}$$

where Case Outcome$_{cij}$ of case c of firm i assigned to judge j includes whether the case is resolved through settlement. It can also mean other outcomes including duration and pending status. The specifications include city location s fixed effect, registration month m fixed effect, and case type l fixed effect. City location and registration month are stratifying variables used in the randomization process and thus, follow the design. We include case type l fixed effect as there may be an imbalance in the flow of cases of different types over time, which may not follow a random process. We cluster the standard errors by judge, which is the unit of treatment variation.

We examine the outcomes of the litigating firms, separately for plaintiff and defending firm samples. Taking advantage of panel structure of the balance sheet data, we estimate the effects of being assigned a settlement-prone judge on firm productivity (both in levels and changes). We execute this as a generalized (continuous-valued) DiD design using the leave-out settlement average before and after the quarter the corresponding case is resolved in the court. Our estimating equation is as follows:

$$\text{Y}_{it} = \phi_s + \phi_m + \phi_i + \phi_t + \gamma z_{c(i)j} \text{ x } Post_t + \alpha Post_t + \epsilon_{it} \tag{3}$$

where i denotes the litigating firm with outcome Y_{it} reported in quarter t. $Post_t$ indicates quarters after the first case is resolved.[7] The rest of the subscripts are as defined as before. In addition to city location and registration month fixed effects, we include firm and reporting quarter fixed effects as in standard DiD specifications. We cluster standard errors by the assigned judge.

Using Equation 3, we compare the outcomes of firms assigned to a higher-intensity settlement-prone judge to those assigned to a lower-intensity settlement-prone judge before and after their corresponding case is resolved. We also include firms whose cases continue to remain pending until the end of the study period as never-treated.

[7]Since a firm can have multiple cases, we test for robustness using different orders of cases that are resolved.

For causal inference, we invoke additional assumptions used in staggered DiD designs as the dates on which a case is resolved are staggered for different litigants. Random assignment of cases ensures that the judge leave-out settlement-propensity is exogenous to case and litigant-specific potential outcomes. Since we estimate our main models - Equation 2 and Equation 3 - as reduced-form specifications using OLS estimators rather than estimating the local average treatment effect (LATE) parameter using two-stage-least-squares (2SLS) estimator, the coefficients should be interpreted as the average treatment effect on the treated (ATT). This also addresses the problem of selection bias arising from selection to different treatment intensities (Callaway et al. 2024) and reduces concerns about negative weights, although estimating Equation 3 still assumes homogeneous treatment effects. We present the raw means and include multiple event indicators to address concerns about dynamic treatment effects.

Although we do not estimate a LATE parameter, we address concerns about exclusion restriction and monotonicity. For exclusion restriction to hold even with the random assignment of cases to judges, we need to assume that judges affect both plaintiff and defendant outcomes only through settlement of *their specific case* during mediation and not through other channels (such as firms' overall litigation strategy). While this is a fundamentally untestable assumption, the workflow of a lawsuit mechanically includes mediation as the first step for *all* cases filed in these courts. The implicit assumption then is that once a litigant encounters a settlement-prone judge, they do not alter their litigation strategy across other contractual disputes. We discuss this in detail later in this section.

We also do not require monotonicity assumption since our design does not estimate and interpret the LATE parameter. Recent literature (Bhuller and Sigstad 2022; Sigstad 2023; Frandsen et al. 2023) has questioned the validity of judge leniency designs in studies examining the consequences of sentencing or bail decisions, which implicitly impose a single dimension of decision-maker behavior (such as acquittal or bail approval). With the caveat that it is impossible to observe any judges' internal ranking on case outcomes in this context, the nature of settlement suggests that if a less settlement-prone judge helps settle a case, then a more settlement-prone judge will also be able to settle the same case if it was assigned to them.

4.1 Balance Test

Table 2 presents the results of balance tests using settlement propensity of assigned judge as the treatment variable. Columns 1-3 present omnibus test of exogeneity using judge id as the dependent variable with explanatory variables including types of litigation - whether it is a bank vs. bank, bank vs. firm, firm vs. firm, and so on - and litigating firm characteristics (when we are able to identity and match the firm with firm-level

data). Col 1 includes the entire case-level data in the commercial court sample. Columns 2-3 are restricted to the matched firm-level analysis sample of plaintiffs and defendants, respectively.

Columns 4-5 report results from a similar exercise where the dependent variable is the leave-out settlement rate. These columns present the required tests of exogeneity since settlement rate and not judge id is the exogenous variable. While some individual case and firm-level characteristics are statistically significant, we are unable to reject the joint null of any case or litigant-specific characteristic determining judge settlement propensity. Moreover, we account for all firm-specific time invariant potential confounders in the form of firm fixed effects in our empirical specifications.

We also verify random assignment of cases to judges by examining the properties of its statistical distribution. Assuming that the random assignment follows a uniform distribution so as a generate equal workload among the judges, we find that the correlation between assigned number of cases and expected number of cases per judge on any given day is close to 1 (see Figure 1).

4.2 Exclusion Restriction

While randomization ensures exogeneity between a judge's settlement propensity and potential outcomes, it does not guarantee exclusion restriction. That is, being assigned a settlement-prone judge should affect the litigants' outcomes only through the fact that the specific case is settled and not because of other induced behavior that is also correlated with the judge's settlement propensity. For example, instead of settlement in the corresponding case, if the experience of being assigned to a specific judge alters the firms' overall litigation strategy or contracting behavior, then exclusion restriction is likely to be violated.

Table A2 examines the correlation between the settlement propensity and other metrics reflecting the "quality" of judgment including number of pages, and citation of precedents for a random subsample of cases. We don't find evidence of any substantial correlation, suggesting that judge-specific human capital is unlikely to violate exclusion restriction. We also do not find substantive evidence that lower-valued cases are more likely to be assigned to settlement-more judges.

Finally, litigating firms are not more likely to file new lawsuits following the settlement of their first few cases, suggesting that litigating firms' are unlikely to alter their litigation strategy or contracting behavior (see subsection 5.5).

5 Results

In this section, we first detail the effects of being assigned to a settlement-prone judge on case-level outcomes and subsequently discuss the effects on litigating firms' outcomes.

5.1 Judge Settlement Propensity

We calculate the main explanatory variable - judge settlement propensity - following the construction process described in Equation 1 separately for plaintiff and defendant samples, respectively. Figure 2 depict judge-level variation across plaintiff and defendant samples. This difference in the distributions of settlement propensity is both due to differences in the composition of judges in each dataset as well as differences in the composition of firms and their litigation intensities.

5.2 Case-level outcomes

First, we find a strong first stage relationship between the judge leave-out settlement rate and the case-level settlement indicator. We find that being assigned a one standard deviation higher settlement-prone judge is strongly correlated with a case being settled in both datasets. Plaintiff firms' cases are 18 percentage points more likely to be settled (Col 1 Table 3) and defendant firms' cases are 22 percentage points more likely to be settled (Col 3 Table 3). Judge settlement propensity has a substantial explanatory power, with F-statistic > 150 in the plaintiff dataset. This statistic is smaller in the defendant dataset, likely due to a smaller matched sample.

We find significant heterogeneity in case-level outcomes depending on the sector of the litigating firm. Columns 2 and 4 Table 3 presents the results from examining heterogeneity by whether a litigating firm is a financial sector firm including banks. We find that financial plaintiff firms are 19 percentage points more likely to settle irrespective of the judge assigned, suggesting a settlement-oriented dispute resolution strategy. We find muted interaction effect of judge settlement propensity among financial sector plaintiff firms. As defendants, financial sector firms are no more or no less likely to settle on their own irrespective of judge whereas the interaction effect is negative and statistically significant.

Surprisingly, this interaction effect is negative in the defendant sample, where financial defendant firms assigned to settlement-prone judges are 24 percentage points less likely to settle. This suggests potentially differential bargaining power by the identity of the firms. Financial sector firms typically appear as defendants when borrowers file counter-suits to prevent liquidation or restructuring in debt recovery. In such cases, financial firms are less likely to settle as that would mean withdrawing their liquidation or asset restructuring processes. In contrast, they are more likely to renegotiate parts of contractual terms, such

as waiving parts of interest dues or extent repayment period, in debt recovery proceedings as plaintiff.

Second, we find strong correlation between case settlement through mediation and the "efficiency" of dispute resolution. Panel A Table 4 presents correlations between case settlement and its duration and pending status, separately for plaintiff and defendant samples. Overall, we find that when a case is settled through mediation, it is around 16 and 23 percentage points less likely to be associated with pending status across plaintiff and defendant samples, respectively. We also note that a settled case is associated with lower duration from the time of filing. On average, plaintiff cases are settled about 50 days earlier than cases that are not settled and go through full trial. Among defendants, this association is even larger: settled cases experience 137 fewer days in court relative to other cases.[8]

The reduced form effects of being assigned a one standard deviation higher settlement-prone judge is also in the similar direction (although loses statistical precision for case duration). A more settlement-prone judge is over 8 percentage points less likely to keep plaintiff firms' cases pending until the end of the study period, and is also more likely to resolve the case sooner than judges who are less settlement prone (see Panel B Table 4). For defending firms, these numbers are even higher.

5.3 Firm-Level Productivity Effects

In our matched data for plaintiff firms, only 10% of the firms have just one case. The median non-financial sector firms like those in manufacturing or trade have 1 case per firm (average number of cases is 1.46; the maximum number of cases per firm in this sector is 5). In contrast, the median financial sector firm such as a bank has 72 cases per firm, with a maximum of 471 cases. Among the defendant sample, 25% of the firms have only one case (median is 2 cases per firm). The median non-financial sector defendant firm has 1 case (average is 1.55 and maximum is 7 per firm). The median financial sector defendant firms have 3 cases, with maximum 25 cases per firm.

Since firms can have multiple cases, the main analysis using firm sample uses the timing of the first filed case, with robustness tests using the timing of subsequently filed cases.

We define a firm as "treated" (i.e., resolve their dispute through settlement) if the earliest case (in terms of date of filing) is assigned to a one standard deviation higher settlement-prone judge. The timing of treatment is the filing and decision dates of that case. That is, we define two post-treatment periods - first are all quarters following the date of filing of the case and the second is all the quarters following the decision date

[8]The distributional effects on case duration is much more stark relative to the average treatment effects. See Figure A2 for kernel density distributions of case duration in both plaintiff and defendant datasets by their settlement status.

of the earliest dispute filed in the courts. For firms with only one case, this corresponds to the outcome of that case. This naturally generates a staggered treatment design with pre- and post periods in the quarterly profits. The never-treated group includes all firms assigned less settlement-prone judges with the case decision still pending. We test for robustness using alternate definitions of treatment, including using timing of the last filed case that is settled.

Figure A3 presents the distribution of quarterly profits among the sample firms, separately for plaintiff and defendant firms, prior to the random case assignment policy in 2020. The average baseline quarterly profits of plaintiff firms is *Rs.* 504 Million (approx USD 5.7 Million) and that of defendant firms is *Rs.* -220 Million (USD -2.5 Million). The differences in baseline profits between groups of firms with settled cases vs those with failed mediation are not statistically significant.

Figure 3 depicts the raw trends in the levels of firms' quarterly profits before and after judges' decision by groups based on whether the firm's case is settled through mediation or not. We note that the profits of plaintiff firms are higher after judges' decision for the group with settled cases relative to group with cases that are either not settled or continue to be pending at the end of the study period. In contrast, we note the opposite result among defending firms. Since the mediation outcome of a specific firm is potentially endogenous, we examine the reduced form effects of being assigned a settlement-prone judge, measured using the jack-knife leave-out measure. Because cases are randomly assigned to judges, the main policy variable is the "leniency" of judge assigned to a specific case and not the outcome of the case as settled or failed to settle.

We report the DiD reduced form estimates of the effect of being assigned a settlement-prone judge after the date of decision among plaintiff and defendant firms in Table 5. Odd-numbered Columns present the results from the plaintiff dataset whereas even-numbered Columns present the results from defendant dataset. We include time dummies for the date of filing as well as the date of decision of the case in order to understand the dynamics of the treatment effects. The quarterly profit of plaintiff firms increases substantially by 18% after being assigned to a one standard deviation higher settlement-prone judge, which is immediately evident after filing and continues to remain high after resolution relative to firms assigned to less settlement-prone judges whose case may still be pending under full trial. For defending firms, the effect of a settlement-prone judge on quarterly profits is negative after filing, but this effect wears away subsequently.

Table A5 presents robustness against the definition of settlement when firms have multiple cases. We find qualitatively similar effects even when we examine the consequences of settlement among the last filed case.

5.4 Reduced Uncertainty from Lawsuits Enables Production

One of the channels through which plaintiff firms experience effects on their quarterly profits after settlement through mediation is through reduced uncertainty and subsequent expansion of productive activities. In Table 8, we present the details of case-specific judgment orders through text analysis of orders associated with a random subsample. We find that settlement terms favor plaintiff firms in situations where defendants have stopped attending court hearings ("ex-parte" decision). The value of the decree issued by the court is substantive - over 80% in value relative to cases assigned to less settlement-prone judges.

Next, we focus on wage bills and investments to examine subsequent production decisions. When firms file lawsuits, they may reduce labor demand by letting go of temporary, contractual workers. They may also be less likely to invest on longer term projects in the presence of uncertainty in the litigation outcome. When such disputes are settled through mediation, firms may expand production by increasing demand for factors of production and increased investment in productive capacity.

Plaintiff firms assigned to a settlement-prone judge expand both their wage expenditures and investment following the decision on their case relative to those assigned judges who are less settlement-prone. Conversely, defendant firms assigned to settlement-prone judges contract their wage expenditures and investments following their case decision relative to those assigned less settlement-prone judges, although the estimates are noisy and lack statistical significance (see Table 6 and Table 7).

5.5 Firms' Subsequent Litigation Behavior

An unintended consequence of increased resolution of lawsuits from mediation could lead to an increase in lawsuits. If this were to be the case, it may crowd-out business as usual resolution through other means and increase the demand for court-based dispute resolution and even reduce overall judicial efficiency. We do not find strong evidence supporting this explanation.

First, we do not find that firms "crowd-in" new litigation following settlement of their lawsuits through mediation. The number of newly filed lawsuits is relatively flat over time among plaintiff firms (see Figure A5). Second, we observe that such firms are more likely to settle their subsequent lawsuits during mediation. This suggests that mediation is potentially an efficiency-improving service provided by the judiciary, which is unlikely to crowd-out business as usual dispute resolution outside the judicial system while at the same time holds potential to reduce pending case backlog and reduce uncertainty involved in litigation.

5.6 Treatment Effect Size

The relatively large profit effect among plaintiff is mainly driven by plaintiffs with fewer cases. For such firms with fewer cases, resolution of their case through mediation potentially unlocks a meaningful constraint relative to those firms with multiple cases (for example, large national banks). Plaintiff firms with 2 or fewer cases in commercial courts are more likely to be from trade, non-financial services, and manufacturing sectors relative to banks or financial services (Figure 4). For such firms, settlement of disputes through mediation translates to positive profit effects. For plaintiff firms with more cases, such as banks, the average marginal effect is muted or even negative (though noisy) for those with very large number of cases. The negative effects among defendant firms is almost uniformly negative by their underlying number of cases per firm (see Figure 5).

6 Discussion

The main findings of this paper are consistent with the socio-legal and empirical legal studies literature that documents that over two-thirds of disputes are settled through mediation rather than continue with trial (Silbey and Merry 1986; Kaplan et al. 2008; Silveira 2017). The main mechanism of mediation discussed in these broader literature is the reduction of information asymmetries, both between plaintiff and defendants, as well as about the uncertainties of the legal process itself. While neither the existing literature nor we have information to causally examine this specific mechanism rigorously with the exception of Sadka et al. (2024), the evidence from case order analysis is supportive of this mechanism. The contribution of this study is to examine the impact of mediation among the broader class of commercial and contractual disputes beyond labor disputes examined in Sadka et al. (2024).

In order to draw policy implications, we need to first discuss the implications of our findings through the lens of the statutory provisions within the legal system in India. These include examining the constitutionality of mediation as policy as well as identifying practical next steps such as training judges in mediation strategies.

6.1 Doctrinal Legal Analysis

The Commercial Courts Act's primary objective is to achieve faster resolution of commercial and contractual disputes. This study demonstrates that resolution through mediation (settlement) is negatively correlated with its duration and its pending status. These findings are consistent with the legislative intent behind establishing dedicated commercial courts and emphasizing settlement. From a legal standpoint, the reduction in case duration and pendency aligns with constitutional mandates for speedy justice and

the efficiency principles underlying procedural laws such as the Code of Civil Procedure, 1908.

Constitutionality of "Mandatory" Mediation A critical feature of the reform is **mandatory** mediation, which must precede any trial proceedings. The positive effect on the profitability of plaintiff, and the stemming of losses for defendant firms through settlement, underscore mediation's role in achieving beneficial outcomes for litigants. This offers good reasons for exploring mandatory mediation provisions in other legislation as well, especially those dealing with commerce and business. The findings also provide a basis for defending these provisions against constitutional challenges to such requirements by arguing that they impede access to court.

The mandatory nature of Section 12A of the Commercial Court Act 2015 has had implications on the interpretation of India's constitution after the Patil Automation case in the Supreme Court of India.[9] In this constitutional case, the Supreme Court of India dismissed the arguments against the mandatory nature of the provision. This paper provides empirical support for the court's reasoning by demonstrating that settlement does not necessarily generate winners and losers and could potentially lead to a Pareto Improvement over the existing equilibrium. Furthermore, any challenges to this order citing an exception under urgency for an interim relief could be resolved using the empirical findings of this paper. Since the law does not define what is meant by "urgent", the results in this study provide support for a strict reading of what is statutorily meant by "urgent", incentivizing mediation-induced settlement in most cases.

Another philosophical debate against mandating mediation is premised on the fact that mediation is essentially a consent-based system, and thus, mandating it is contradictory to its philosophy. However, there is support from legal literature such as Sander et al. (1996) and Sander (2007), which classify case referred to mediation into two classes - categorical and discretionary. In categorical cases, judges typically have no discretion and mediation is a must. Some authors (for example, Wissler 2002) have critiqued this approach, arguing that the benefits of mandatory mediation are not supported by empirical evidence. This study counters the apprehensions expressed in these arguments by providing empirical evidence in support of mediation.

6.2 Random Assignment and Mediation

Since the random assignment policy in 2020, cases are randomly allocated to judges through a digital Case Information System (CIS 3.2) to minimize forum shopping or bias and increase transparency.[10] This assignment system ensures any of the judge's

[9] Patil Automation (P) Ltd. v. Rakheja Engineers (P) Ltd., 2022 SCC OnLine SC 1028

[10] This system is part of a larger effort to introduce transparency and objectivity in the Indian judicial system at the district level. The basis of this measure is that every case should have a similar outcome

characteristics, including their settlement propensity, are exogenous to case and litigant-specific potential outcomes.

The finding that there exists a distribution of judge-specific settlement propensity - that some judges are able to settle more cases than others - indicates that effective mediation is a distinct judicial skill, not merely an incidental function. Legally, this has important implications for judicial training, performance evaluation, and potentially even judicial appointments in commercial courts. It supports the development of specialized judicial education programs focused on negotiation, conflict resolution, and mediation techniques for commercial court judges.

Even though judicial training academies and institutes exist in every state in India, and judicial officers are provided training after their induction into service, specific modules to increase the settlement propensity are potentially lacking in these training programs. The systemic problems in the judicial training philosophy and practice are immense and are documented extensively by the Supreme Court itself in the *All India Judges' Association Case* and in literature such as Oberoi (2018) and by Chen et al. (2026) in the judicial context outside India.

6.3 Way Forward

There are two potential policy implications of this study. First, we now have empirical evidence in the context of commercial dispute resolution in India that suggests that mediation increases the efficiency of dispute resolution process when measured in terms of case duration or pending status. This can be used to resolve petitions challenging the constitutional validity of the mandatory mediation provision within the Commercial Courts Act, 2015, and serves as an example of how commercial dispute resolution codes can be designed in common law legal systems.

Second, this paper documents a wide variation in the extent of mediation abilities among commercial court judges. While this enabled causal identification for this paper, this variation has implications for judicial organizational structure in terms of training judges in the art of negotiating settlement through mediation.

7 Conclusion

To conclude, this paper is among the first to examine the causal effects of court-mediated settlement on litigating firms' welfare in contract enforcement and commercial dispute litigation. Random assignment of cases to judges in commercial courts in India has enabled causal inference by introducing exogenous variation in judge "leniency" or settlement-propensity to determine the final case outcome of commercial and contractual cases.

irrespective of the judge on the case.

Randomization also introduces independence between any of the litigating firms' identity and judge identity, minimizing concerns of forum-shopping where litigants may game the assignment system to get a favorable judge for their case.

We find that settling a case before undergoing full trial is beneficial both for case-level metrics such as reduced duration and lower pending status as well as for litigant welfare measured as quarterly profit. Whereas the profit effects are unequivocally positive for plaintiff firms, the effects on defending firms are a bit more subtle. These firms first experience a decline in their profit, which follows after the filing of their first case in the court. However, the trend reverses when the defending firms settle their case through mutual reconciliation.

Additional research is needed to interpret the policy implication of this finding on the long-run welfare of litigants and the broader economy. Should the role of courts be to facilitate settlement rather than trial? If so, why couldn't the litigants have settled the dispute themselves before filing the case in the court in the first place? To some extent, this could reflect overoptimism among litigants in obtaining a decision in their favor through full trial, which a judge can correct. Indeed, Sadka et al. (2024) shows that this is a possibility in the context of labor disputes in Mexican labor courts.

Another explanation is that litigants prefer formal approval to the resolution of their dispute, which is provided by courts. Mediation enables them to resolve their dispute faster *and* with a formal, state-supported mandate. This renders an interpretation that the state still plays an important role in contract enforcement even when the litigants themselves may resolve their dispute through mutual reconciliation because it could minimize future disagreements.

Court-facilitated mediation is a potential solution to reduce the duration of legal cases in courts and reduce pending backlog. This could be interpreted as a win-win for litigating firms if mediation generates positive welfare effects for plaintiff but not at the cost of negative effects among defendants. Even in disputes such as debt recovery and bankruptcy suits where the outcome results in the liquidation of the defending firm, this need not be viewed as a "cost". In fact, a rich literature on capital misallocation suggests that many inefficient firms continue to exist instead of exiting at the cost of aggregate inefficiency (Hsieh and Klenow 2009; Chatterjee et al. 2025).

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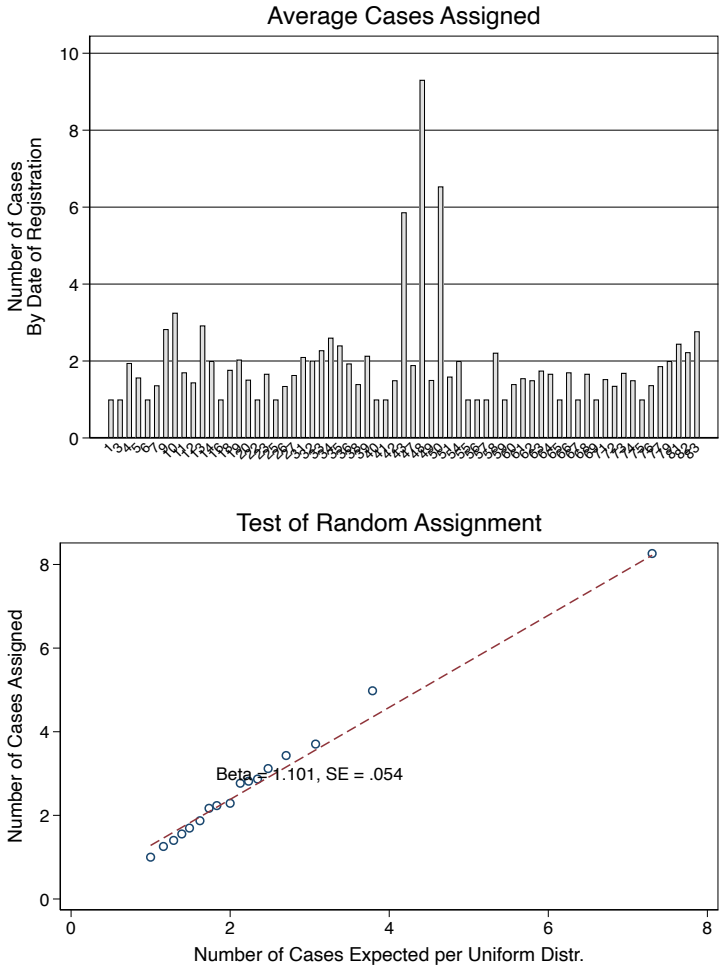
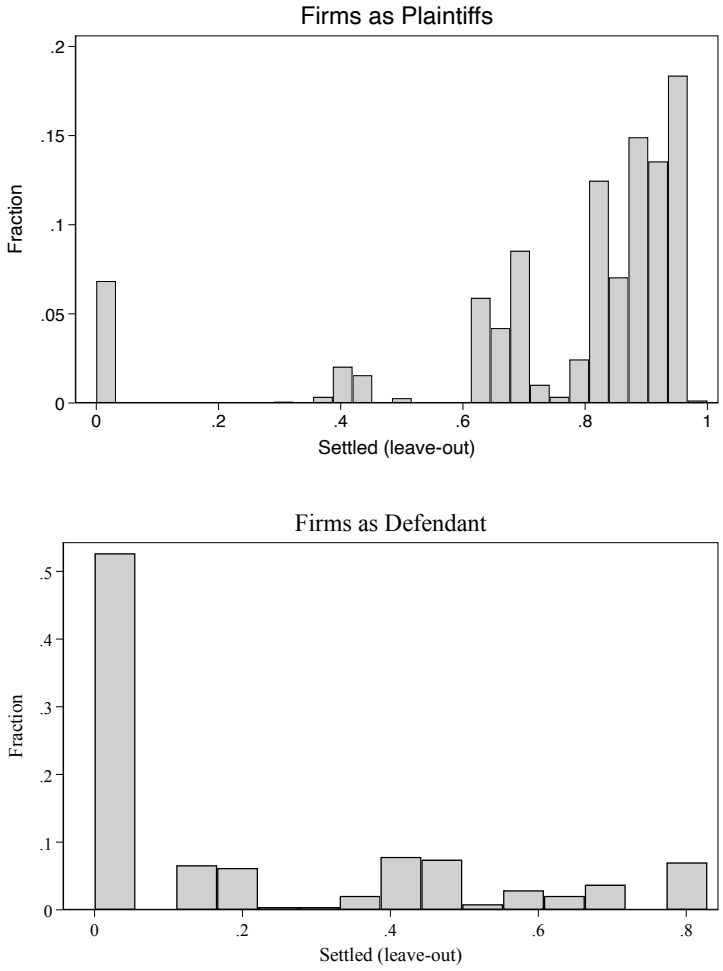
8 Figures

Figure 1: Judge Workflow Generated by Random Assignment



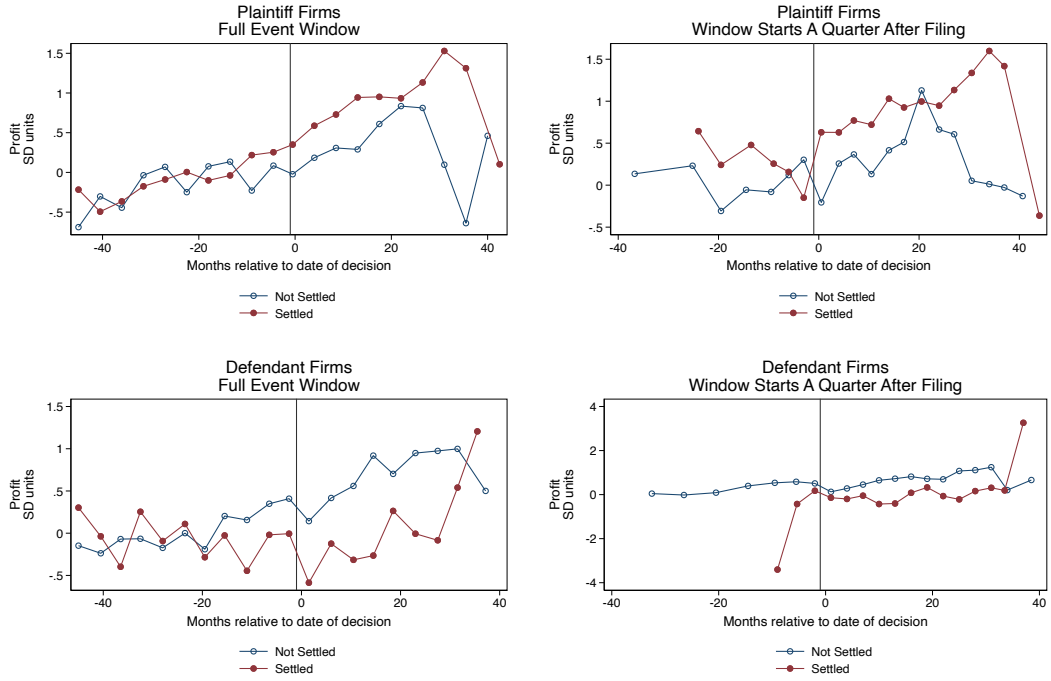
Notes: The figures above depict the number of cases assigned per date of registration to judges (judge ID as x-axis label in top panel) in each commercial court, respectively. The "spikes" observed in number of cases per judge ID in the histogram is due to newly added judges to the commercial courts who are randomly assigned a whole docket at the time of joining. The figure below plots the correlation between assigned (realized) workload and expected workload following a uniform random assignment algorithm on any given day.

Figure 2: Settlement Propensity by Assigned Judges



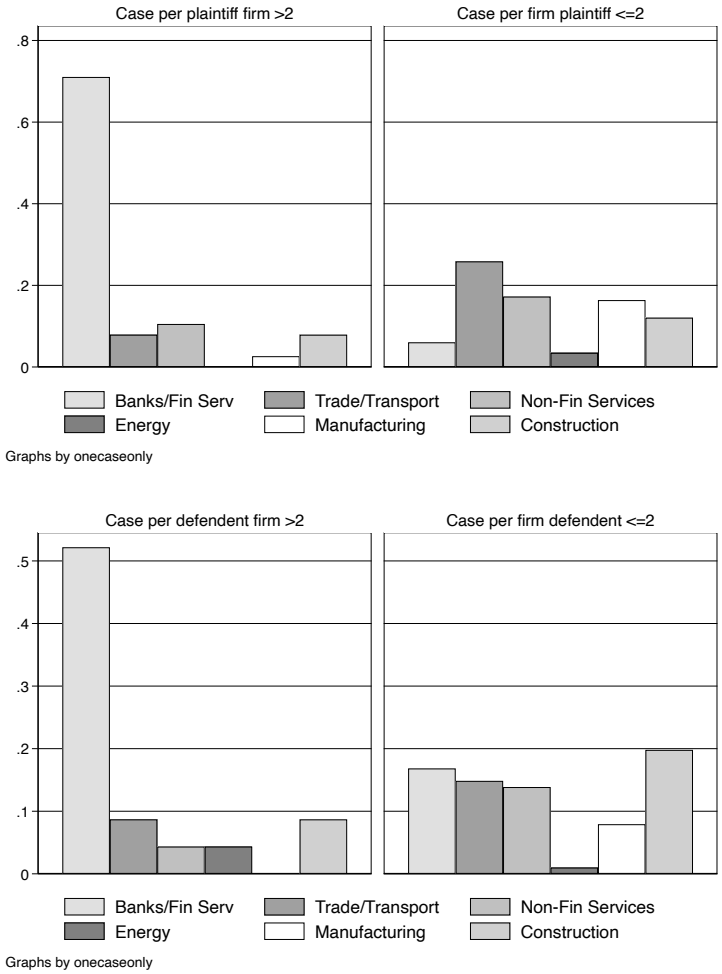
Notes: Distribution of leave-out settlement average by judge based on cases classified as including firms as plaintiff (top) or as defendants (bottom). The summary leave-out settlement rate of judges in the plaintiff data is 0.76 mean 0.24 standard deviation whereas in the defendant dataset, the mean and standard deviation are 0.22 and 0.27, respectively.

Figure 3: Raw Means of Firm-level Quarterly Profit Around Case Decision



Notes: The figures above present quarterly profit in levels, measured in standard deviation units relative to the long run average firm-specific profit, separately for plaintiff and defendant samples. The groups include those that settled during mediation and those that did not settle but obtained a case outcome during trial. Vertical lines denote the event time reference (1 quarter prior to decision).The event time is relative to the date of decision of a case in the respective commercial court. In our causal analysis, we examine the effect of settlement propensity of judge randomly assigned to a case since whether a case is settled or not is potentially endogenous.

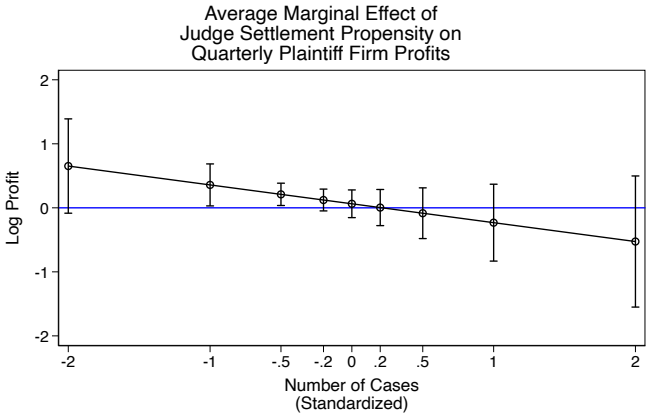
Figure 4: Firm Sector By Litigation Intensity (Number of Cases)



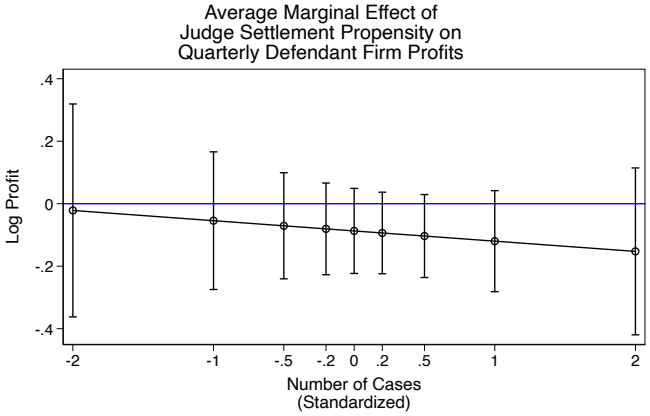
Notes: Distribution of number of cases per firm by sector across plaintiff (top) and defendant firms (bottom).

Figure 5: Average Marginal Effects on Firm Profit

Panel A: Plaintiff Firms



Panel B: Defendant Firms



Notes: The figures above present average marginal effects by firms' number of cases in the commercial courts, separately for plaintiff (Panel A) and defendant firms (Panel B). The dependent variable is log profit.

9 Tables

Table 1: Summary Statistics and Sample Composition

Panel A: Distribution of Litigant-Type Pairs

	(1) Full Case Sample	(2) Plaintiff	(3) Defendant
Bank–Bank	0.05	0.20	–
Bank–Firm	16.89	46.95	2.35
Bank–Individual	16.65	33.82	–
Firm–Bank	1.37	0.20	10.59
Firm–Firm	33.45	12.86	55.29
Firm–Individual	13.99	5.96	–
Individual–Bank	1.28	–	10.59
Individual–Firm	10.52	–	21.18
Individual–Individual	5.78	–	–
Cases	6,624	1,493	255

Panel B: Firm Characteristics Summary

	(1) Full Prowess Sample	(2) Plaintiff	(3) Defendant
Age	30.165	37.513	32.772
	(16.495)	(28.385)	(21.910)
Manufacturing	0.373	0.175	0.153
	(0.484)	(0.381)	(0.362)
Trade and Retail	0.186	0.175	0.113
	(0.389)	(0.381)	(0.318)
Services	0.166	0.182	0.129
	(0.372)	(0.387)	(0.337)
Publicly Listed	0.544	0.617	0.669
	(0.498)	(0.488)	(0.472)
Observations (Firms)	40,786	154	124

Notes: Panel A reports percentages of litigant-type pairs in the case-level data. Col 1 presents the distribution across the universe of commercial cases from the two courts in our study. Col 2 presents the distribution among a subset of these cases where we identify the plaintiff as a firm (either a bank/financial firm or non-financial firms) in Prowess. Col 3 presents the distribution among another subset where we identify the defendants as a firm (bank/financial or non-financial firms) in Prowess. Panel B presents the characteristics of firms matched to the litigants in the case-level data, reporting the means with standard deviations in parentheses. Col 1 represents the distribution of characteristics across the full sample in Prowess database. Cols 2 and 3 present the distribution of these characteristics among firms found in the case-level data, depending on whether the firm appears as a plaintiff or as a defendant, respectively.

Table 2: Balance Table

Dep Var	Judge ID			Leave-out Settled	
	(1) All	(2) Plaintiff	(3) Defendants	(4) Plaintiff	(5) Defendants
Bank–Bank	6.55	13.10	. †	-0.14	. †
	(18.11)	(21.86)	(.)	(0.13)	(.)
Bank–Firm	-1.37	3.35	-15.45	-0.01	-0.19*
	(2.38)	(5.32)	(11.79)	(0.03)	(0.09)
Bank–Individual	-1.84	3.02	–	0.00	–
	(2.63)	(4.98)		(0.03)	
Firm–Bank	1.74	24.38***	8.07	-0.18*	0.12**
	(2.84)	(7.81)	(11.96)	(0.10)	(0.05)
Firm–Individual	-3.48***	-2.60	–	0.02	–
	(1.21)	(4.64)		(0.03)	
Individual–Bank	-2.31	–	-14.32*	–	0.06
	(3.76)		(7.61)		(0.06)
Individual–Firm	-2.50	–	-7.88	–	-0.01
	(2.09)		(7.41)		(0.03)
Individual–Individual	-3.32	–	–	–	–
	(2.38)				
Age	–	0.00	0.02	-0.00**	0.00
		(0.03)	(0.08)	(0.00)	(0.00)
Non-Finance Firm	–	4.86	-3.68	-0.06	0.00
		(3.23)	(5.94)	(0.04)	(0.04)
Bank	–	-4.26*	-6.85	0.04*	-0.12*
		(2.41)	(12.37)	(0.02)	(0.06)
Observations	6,081	1,489	247	1,450	216
F-stat	1.18	3.64	1.92	0.96	1.12
Joint p-value	0.326	0.003	0.095	0.485	0.380
City Fixed Effects	✓	✓	✓	✓	✓
Registration-Month FE	✓	✓	✓	✓	✓
Case Type FE	✓	✓	✓	✓	✓

Notes: Robust standard errors in parentheses. The dependent variable in Columns (1)–(3) is `judge_id`; in Columns (4)–(5) it is the leave-out mean of settlement. All regressions include fixed effects for the city, registration month-year, and commercial case type (execution, appeals, or original suit). $^{***}p < 0.01$, $^{**}p < 0.05$, $^{*}p < 0.1$, † omitted due to no variation.

Table 3: Probability of Settlement by Settlement-Propensity of Assigned Judge

	(1) Case Settled Plaintiff	(2) Case Settled Plaintiff	(3) Case Settled Defendant	(4) Case Settled Defendant
Leave-out Settled (SD)	0.177***	0.148***	0.216***	0.233***
	(0.0132)	(0.0216)	(0.0341)	(0.0318)
Financial Firm x Leave-out Settled (SD)		0.0251		-0.0666**
		(0.0184)		(0.0284)
Financial Firm		0.185***		-0.0175
		(0.0477)		(0.0787)
Observations	1470	1470	235	235
No. Judges	30	30	30	30
City FE	Y	Y	Y	Y
Registration-Month FE	Y	Y	Y	Y
Case-Type FE	Y	Y	Y	Y
Control Mean	0	0	0.00781	0.0244
Control SD	0	0	0.0884	0.156
Adj R-Squared	0.368	0.381	0.384	0.382
F-stat	178.1	114.9	40.30	34.52

Standard errors in parentheses

* $p < 0.1$, ** $p < .05$, *** $p < 0.01$

Notes: Sample includes cases that were randomly assigned to judges in commercial courts in the two cities/metropolitan areas. Columns 1 and 2 use matched-firm case-level data from the plaintiff dataset whereas columns 3 and 4 use matched-firm case-level data from the defendant dataset. The main explanatory variable is the judge settlement propensity constructed as leave-out average of settlement rates in cases other than the specific firm in normalized units (standard deviation from the average settlement propensity). Since cases were randomly assigned, we interpret the coefficients in this table as causal effect parameters. This table should be interpreted as a "first stage" in our analysis. Columns 1 and 3 examine the effect of being assigned a settlement-prone judge on whether a case is settled through mediation (coded 1) or not (coded 0). Columns 2 and 4 present heterogeneity analysis based on whether the litigating firm is a financial sector firm or not. All specifications include randomization strata fixed effects (city specific court and case allocation batch fixed effects) in addition to controlling for specific type of the case. Standard errors are clustered at the judge-level.

Table 4: Settlement and Other Case-Level Outcomes

	(1) Pending Plaintiff	(2) Duration (Days) Plaintiff	(3) Pending Defendant	(4) Duration (Days) Defendant
		Panel A: OLS		
Case Settled	-0.163**	-50.98**	-0.234**	-136.9***
	(0.0598)	(19.23)	(0.108)	(36.81)
Control Mean	0.126	437.7	0.0865	406.8
Control SD	0.333	399.9	0.282	371.4
Adj R-Squared	0.198	0.701	0.217	0.779
		Panel B: "First Stage"		
Leave-out Settled (SD)	-0.0841**	-4.257	-0.202**	-26.02
	(0.0395)	(17.26)	(0.0881)	(37.26)
Observations	1470	1420	235	216
No. Judges	30	30	30	30
City FE	Y	Y	Y	Y
Registration-Month FE	Y	Y	Y	Y
Case-Type FE	Y	Y	Y	Y
Control Mean	0.033	678.0	0.071	443.8
Control SD	0.18	438.5	0.26	413.1
Adj R-Squared	0.188	0.696	0.315	0.763

Standard errors in parentheses

* $p < 0.1$, ** $p < .05$, *** $p < 0.01$

Notes: Sample includes cases that were randomly assigned to judges in commercial courts in the two cities/metropolitan areas. Columns 1 and 2 use matched-firm case-level data from the plaintiff dataset whereas columns 3 and 4 use matched-firm case-level data from the defendant dataset. The number of observations slightly differ between odd and even columns because of missing duration data for cases that are pending at the end of the study period. The main explanatory variable in Panel A is whether a particular case is settled through mediation or not. Note that this could be endogenous and thus, the coefficients presented in this table should only be interpreted as correlational. The main explanatory variable in Panel B is the judge settlement propensity constructed as leave-out average of settlement rates in cases other than the specific firm. Since cases were randomly assigned, we interpret the coefficients in this table as causal effect parameters. All specifications include randomization strata fixed effects (city specific court and case allocation batch fixed effects) in addition to controlling for specific type of the case. Standard errors are clustered at the judge-level.

Table 5: Reduced Form Effects on Firms' Profitability: Around Filing and Around Decision

	(1) Log Profit Plaintiff Around Filing	(2) Log Profit Defendants Around Filing	(3) Log Profit Plaintiff All Periods	(4) Log Profit Defendants All Periods
Post Filing Before Decision=1	-0.0455	0.0593	-0.0335	-0.00116
	(0.121)	(0.185)	(0.125)	(0.191)
Post Filing Before Decision=1 × Leave-out Settled (SD)	0.179**	-0.294**	0.183**	-0.311**
	(0.0636)	(0.115)	(0.0707)	(0.112)
	{ 0.01}	{0.127 }	{0.044 }	{0.035 }
Post Decision=1			0.0390	0.0465
			(0.150)	(0.142)
Post Decision=1 × Leave-out Settled (SD)			0.0420	0.164
			(0.0805)	(0.117)
			{0.61 }	{ 0.286}
Observations	1819	1260	2265	1539
No. Judges	19	21	19	21
No. Firms	70	56	71	56
City FE	Y	Y	Y	Y
Registration-Month FE	Y	Y	Y	Y
Firm FE	Y	Y	Y	Y
Quarter FE	Y	Y	Y	Y
Mean Dep Var	6434.2	5795.8	6434.2	5795.8
SD Dep Var	30894.3	20867.0	30894.3	20867.0
Adj R-Squared	0.834	0.846	0.836	0.846

Standard errors in parentheses

* $p < 0.1$, ** $p < .05$, *** $p < 0.01$

Notes: Sample includes firm-level quarterly profit among firms matched to cases that were randomly assigned to judges in the sample commercial courts. The time period includes quarters from 2011 to 2024, with "Post Filing" dummy denoting quarters following the filing date of the first case and "Post Decision" period denoting quarters after the decision date of that case. The time period in Col 1-2 is surrounding the timing of filing the suit but excluding quarters just before its resolution. Col 3-4 include the full panel. Mean and standard deviation of profit levels reported in the footer. Standard errors are clustered by judge. Bootstrapped p-values in {.}.

Table 6: Real Economic Outcomes: Wagebill

	(1) Log Wage Bill Plaintiff Around Filing	(2) Log Wage Bill Defendants Around Filing	(3) Log Wage Bill Plaintiff All Periods	(4) Log Wage Bill Defendants All Periods
Post Filing Before Decision=1	-0.298	-0.265	-0.198	-0.189
	(0.205)	(0.223)	(0.161)	(0.160)
Post Filing Before Decision=1 × Leave-out Settled (SD)	-0.0619	0.0295	-0.00389	-0.0269
	(0.101)	(0.185)	(0.0838)	(0.176)
	{ 0.597}	{ 0.893}	{ 0.968}	{0.860}
Post Decision=1			0.0625	-0.389**
			(0.144)	(0.150)
Post Decision=1 × Leave-out Settled (SD)			0.153**	-0.0724
			(0.0708)	(0.0840)
			{ 0.034}	{0.322 }
Observations	2363	1661	2910	2051
No. Judges	19	21	19	21
No. Firms	70	56	71	56
City FE	Y	Y	Y	Y
Registration-Month FE	Y	Y	Y	Y
Firm FE	Y	Y	Y	Y
Quarter FE	Y	Y	Y	Y
Mean Dep Var	6193.4	8631.4	6193.4	8631.4
SD Dep Var	8392.7	25564.3	8392.7	25564.3
Adj R-Squared	0.935	0.939	0.928	0.920

Standard errors in parentheses

* $p < 0.1$, ** $p < .05$, *** $p < 0.01$

Notes: Sample includes firm-level quarterly wage bill among firms matched to cases that were randomly assigned to judges in the sample commercial courts. The time period includes quarters from 2011 to 2024, with "Post Decision" period denotes quarters after the decision date of the first filed case. All columns include the full panel. Mean and standard deviation of wage-bill levels reported in the footer. Standard errors are clustered by judge. Bootstrapped p-values in {.}.

Table 7: Real Economic Outcomes: Long-run Investment

	(1) Log Investments Plaintiff Around Filing	(2) Log Investments Defendants Around Filing	(3) Log Investments Plaintiff All Periods	(4) Log Investments Defendants All Periods
Post Filing Before Decision=1	-0.0960	0.0288	-0.0464	0.00402
	(0.0604)	(0.105)	(0.0618)	(0.0839)
Post Filing Before Decision=1 × Leave-out Settled (SD)	-0.0223	0.0210	0.0219	-0.0168
	(0.0657)	(0.0603)	(0.0599)	(0.0551)
	{ 0.722}	{0.829}	{0.728 }	{0.809}
Post Decision=1			-0.0453	0.0585
			(0.0708)	(0.0962)
Post Decision=1 × Leave-out Settled (SD)			0.0505*	-0.0209
			(0.0251)	(0.0448)
			{ 0.131}	{ 0.705}
Observations	2356	1651	2894	2041
No. Judges	19	20	19	20
City FE	Y	Y	Y	Y
Registration-Month FE	Y	Y	Y	Y
Firm FE	Y	Y	Y	Y
Quarter FE	Y	Y	Y	Y
Mean Dep Var	187418.1	779964.4	187418.1	779964.4
SD Dep Var	251535.0	2643113.8	251535.0	2643113.8
Adj R-Squared	0.965	0.952	0.968	0.956

Standard errors in parentheses

* $p < 0.1$, ** $p < .05$, *** $p < 0.01$

Notes: Sample includes firm-level quarterly investments in long-run assets among firms matched to cases that were randomly assigned to judges in the sample commercial courts. The time period includes quarters from 2011 to 2024, with "Post Decision" period denotes quarters after the decision date of the first filed case. All columns include the full panel. Mean and standard deviation of investment levels reported in the footer. Standard errors are clustered by judge. Bootstrapped p-values in {.}.

Table 8: Mechanism: Specifics of Settlement

	(1) Ex-Parte Order	(2) No. Pages Order	(3) Decree Amount Missing	(4) Decree Amount (100,000 INR)
Leave-out Settled (SD)	0.0571***	1.468**	-0.0439	0.893*
	(0.0148)	(0.682)	(0.0273)	(0.438)
Observations	1091	1091	1091	471
No. Judges	24	24	24	17
City FE	Y	Y	Y	Y
Registration-Month FE	Y	Y	Y	Y
Case-Type FE	Y	Y	Y	Y
Control Mean	0.387	16.06	0.742	6.761
Control SD	0.495	9.487	0.445	6.311
Adj R-Squared	0.302	0.237	0.390	0.995

Standard errors in parentheses

* $p < 0.1$, ** $p < .05$, *** $p < 0.01$

Notes: The variables in this table are generated from the text of the orders of the case-level sample. Since orders are generated once a decision had been made, the sample in this table is the subset of cases with a decision. We used Claude Opus 4.6 model to read all textual information from the final orders scraped from court websites as PDF documents. Based on the textual data in these orders, the AI model generated outcome variables to illustrate whether defendant was present at the time of final order (Col 1 Ex-Parte Order), number of pages in the order (Col 2), and decree amount (Col 3-4; including whether this information is missing in the case order). Standard errors are clustered by judge.

Online Appendix

B Data and Variable Construction

B.1 Data Sources and Preparation

The analysis combines three primary data sources: (1) case records from Delhi and Karnataka courts, (2) judicial assignment records, and (3) corporate financial statements from the Prowess IQ database. We implemented a multi-stage cleaning and merging process to construct the final analytic dataset.

B.2 Case Record Processing

The raw case data (`Delhi_Kar_CC`) underwent extensive cleaning to standardize party names and case outcomes. We removed non-alphabetic characters, standardized legal entity suffixes (e.g., converting "LIMITED" to "LTD"), and created indicators for corporate parties using a dictionary of common business terms supplemented by manual review. Case dispositions were categorized into six mutually exclusive outcomes: ALLOWED, CONTESTED, DISMISSED, ORDERED, SET ASIDE, and SETTLED, with spelling variations normalized through automated and manual corrections.

B.3 Judge Data Merging

We matched cases to judges using court identifiers and hearing dates, ensuring temporal alignment with judicial tenures. The merge accounted for judge transfers between courts by verifying assignment periods against official records. For Karnataka courts, we implemented a court-by-court matching procedure (courts L32-L39) before combining results, while Delhi cases were appended after processing. This yielded a judge-case panel covering all observed dispositions.

B.4 Firm Identification and Matching

Corporate parties were identified using a combination of:

- Regular expressions for common business suffixes
- Manual review of entity names
- Fuzzy string matching (Jaro-Winkler similarity > 0.9) with corporate registries

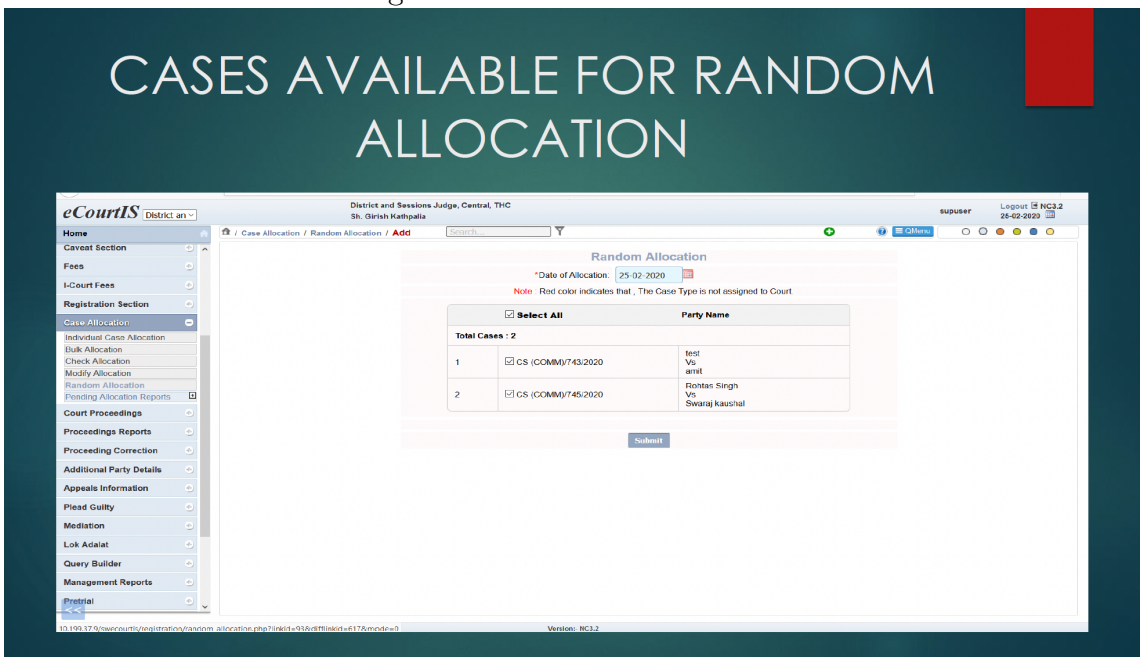
The matching process successfully linked 476 unique firms (249 petitioners and 227 respondents) to their financial records. We verified matches through manual checks of a random sample (10% of matched cases), finding 98% accuracy in entity identification.

B.5 Financial Data Integration

Balance sheet information was merged using unique company identifiers (`co_code`), with quarterly financials aligned to case timing. We retained only exact matches between legal records and financial data, yielding eight complete datasets (petitioners/respondents $\times$ income/expenses/assets/capital). Financial variables were inflation-adjusted using RBI price indices and winsorized at the 1st/99th percentiles to mitigate outlier effects.

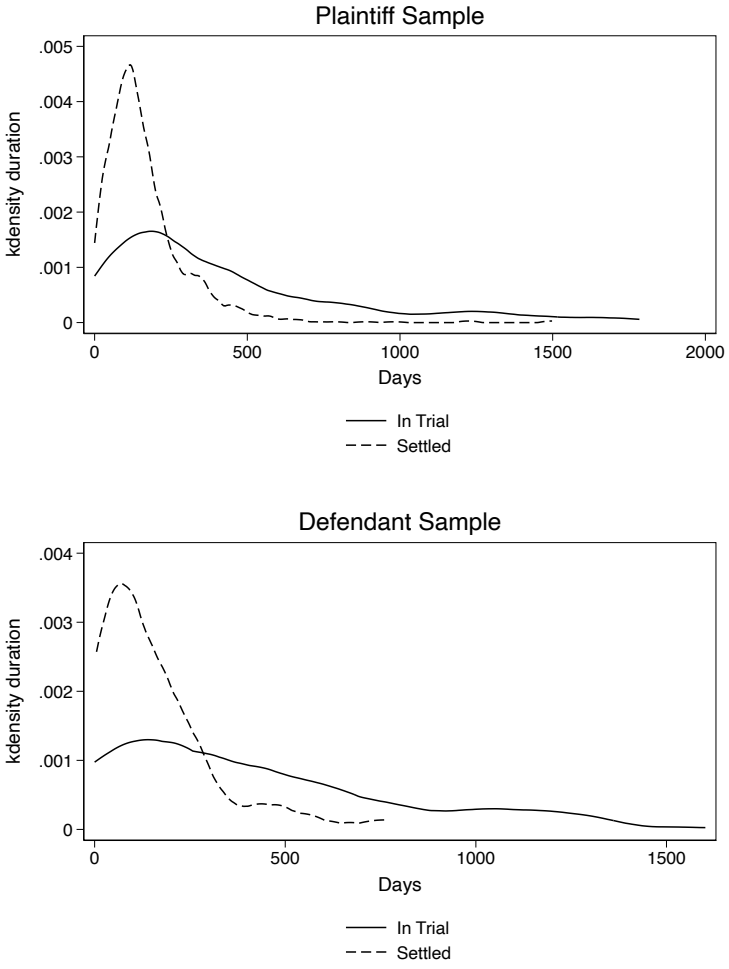
C Appendix Figures

Figure A1: Random Allocation



Notes: Screenshot from `eCourtIS 3.0`

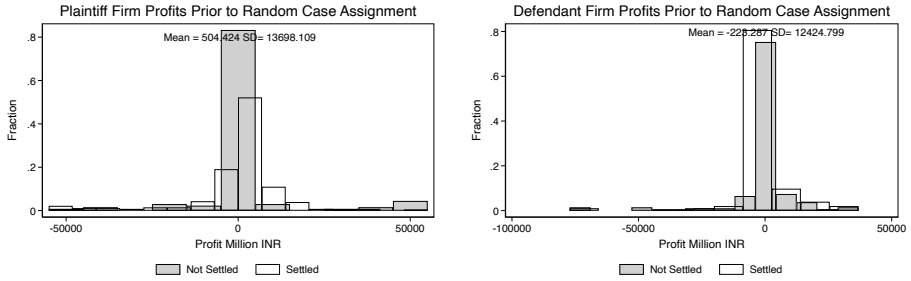
Figure A2: Case Duration By Settlement Status



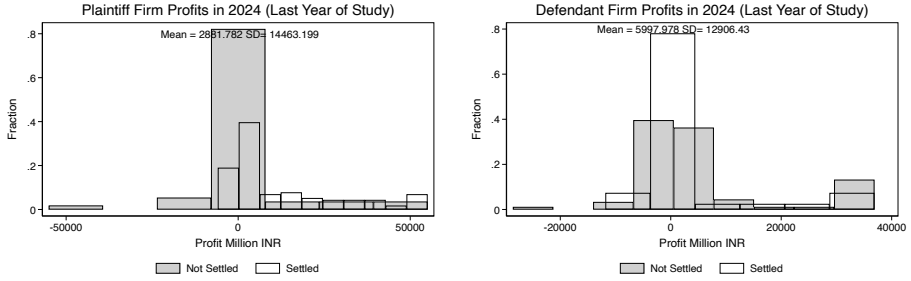
Notes: Distribution of case duration by case settlement status during mediation plaintiff (top) and defendant samples (bottom). The median duration is 132 days if settled relative to a median of 313 days among those that fail settlement in the plaintiff dataset. The numbers are similar in defendant dataset, with the mediation duration 109 days among settled cases and 297 days among those that fail to settle.

Figure A3: Profit Distribution by Litigant Type Prior to Random Case Assignment Policy and at the End of the Study Period

Panel A: Prior to Random Assignment

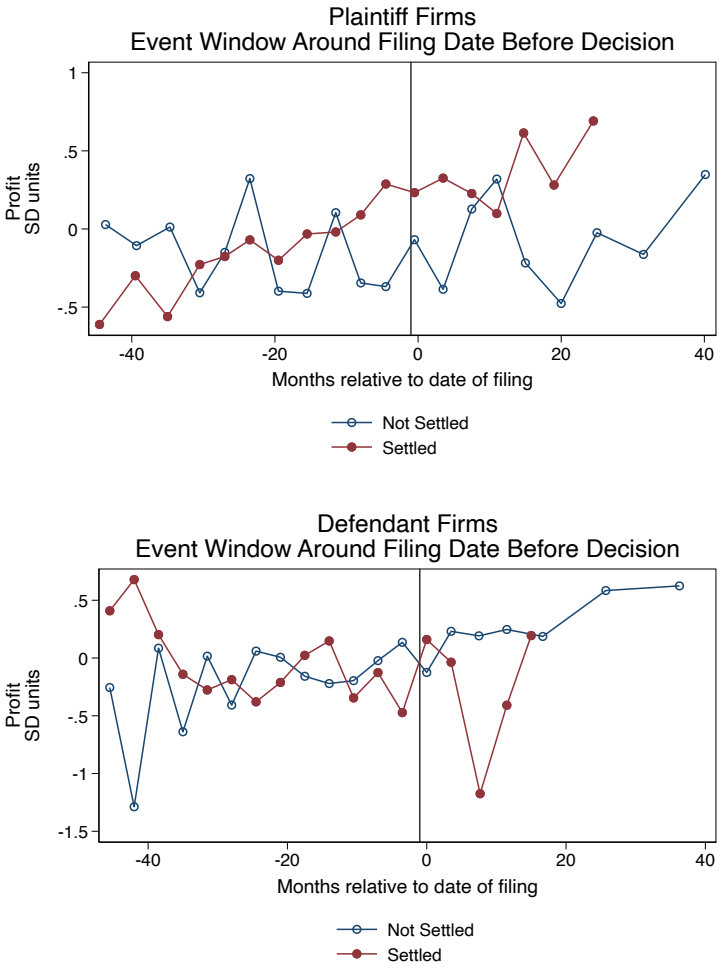


Panel B: End of Study Period



Notes: The figures present the distribution of quarterly profits across plaintiff and defendant firms in the period prior to random case assignment of judges that started in 2020 (Panel A) and at the end of the study period in 2024 when most of the cases are either settled through mediation or not (Panel B). The differences in means between settled and not settled groups of firms are not statistically or economically significant within the plaintiff or defendant samples in prior period. At endline, the differences in means between settled and not settled groups of firms among plaintiff is statistically significant with $p < 0.01$ with mean difference of *Rs.* 9515 Million. On the other hand, the differences in mean between settled and not settled groups among defendant firms is not statistically significant and moderately negative at endline.

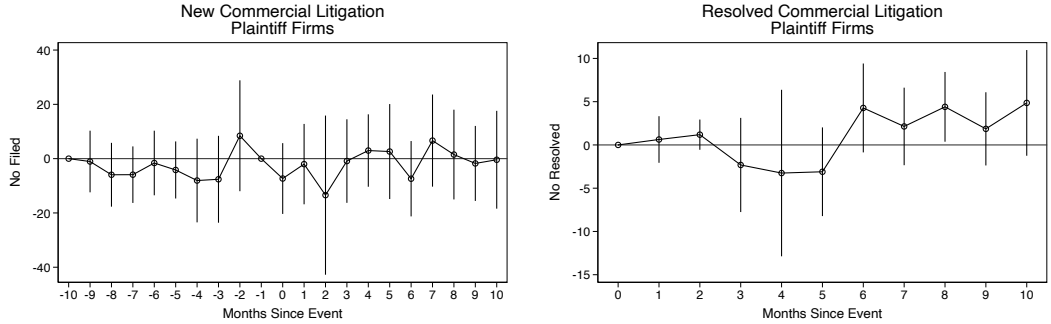
Figure A4: Raw Means of Firm-level Quarterly Profit Around Case Filing



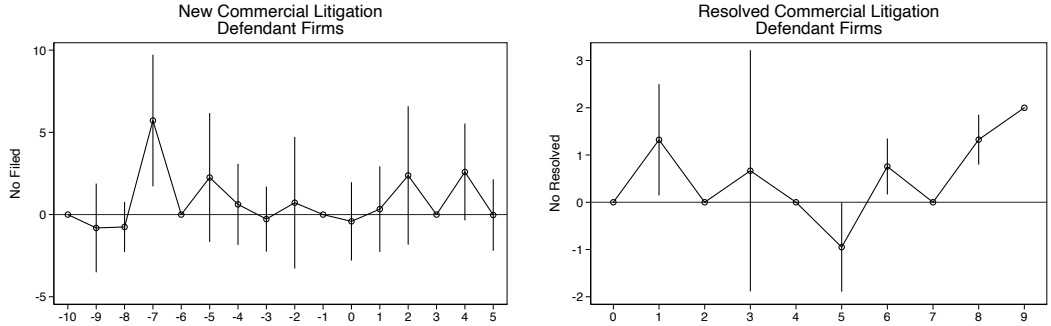
Notes: The figures above present quarterly profit, measured in standard deviation units relative to the long run average firm-specific profit, separately for plaintiff and defendant samples. The groups include those that settled during mediation and those that did not settle but obtained a case outcome during trial. Vertical lines denote the event time reference (1 quarter prior to filing). The event time is relative to the date of filing a case in the commercial court.

Figure A5: Subsequent Firm Lawsuit Behavior

Panel A: Plaintiff Firms



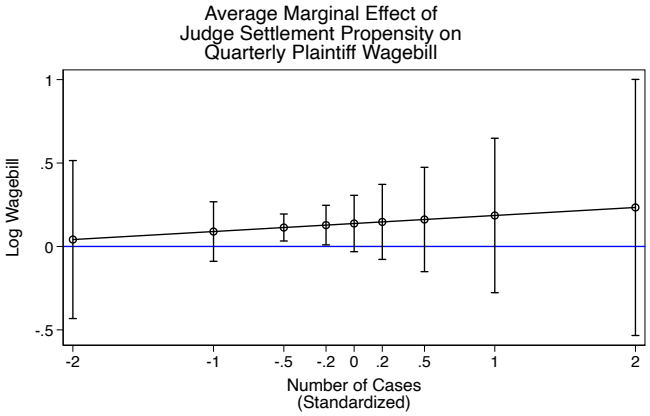
Panel B: Defendant Firms



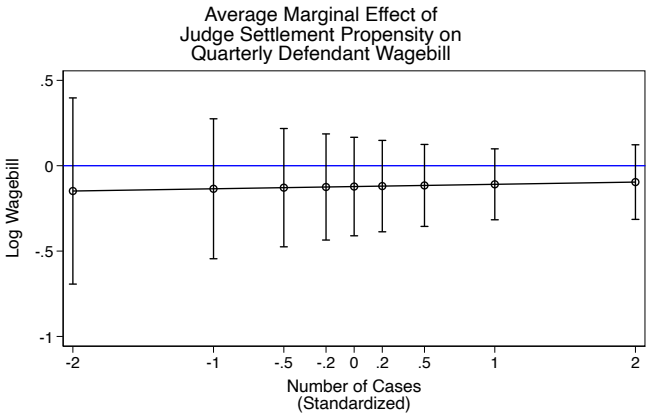
Notes: The figures above present number of cases filed and number of cases resolved by each firm in the plaintiff and defendant firm samples around the time of their first case resolution. The "treated" group are firms with cases settled through mediation. The event time is relative to the date of resolution of the first case via mediation. The control sample includes plaintiff firms with no cases settled through mediation as well as subsequent cases that were resolved through mediation later. Note that because the event is defined as first case resolution, there is no pre-period for number of subsequent case resolutions by definition.

Figure A6: Average Marginal Effects on Firm Wagebill

Panel A: Plaintiff Firms



Panel B: Defendant Firms



Notes: The figures above present average marginal effects by firms' number of cases in the commercial courts, separately for plaintiff (Panel A) and defendant firms (Panel B). The dependent variable is log wagebill.

D Appendix Tables

Table A1: Case Type Summary Statistics

Distribution of Case Types

	(1) Full Sample	(2) Firm Plaintiff	(3) Firm Defendant
Execution	0.232	0.208	0.086
	(0.422)	(0.406)	(0.280)
Appeals	0.099	0.059	0.070
	(0.299)	(0.235)	(0.255)
Original/New Suit	0.482	0.660	0.325
	(0.500)	(0.474)	(0.469)
Other	0.187	0.073	0.520
	(0.390)	(0.260)	(0.500)
Observations	16,098	3,417	502

Notes: Panel A reports percentages of litigant-type pairs in the data. Col 1 presents the distribution across the universe of commercial cases from the two courts in our study. Col 2 presents the distribution among a subset of these cases where we identify the plaintiff as a firm (either a bank/financial firm or non-financial firms). Col 3 presents the distribution among another subset where we identify the respondents as a firm (bank/financial or non-financial firms).

Table A2: Settlement propensity not correlated with quality or initial claim

	(1) Characters Per Page Order	(2) No. Precedents Order	(3) Case Value (100,000 INR)	(4) Recovery Rate
Leave-out Settled (SD)	28.29	0.0149	-0.526	-0.214
	(26.09)	(0.0164)	(0.328)	(0.980)
Observations	1091	1091	464	392
No. Judges	24	24	19	15
City FE	Y	Y	Y	Y
Registration-Month FE	Y	Y	Y	Y
Case-Type FE	Y	Y	Y	Y
Control Mean	1565.4	0.613	15.98	100
Control SD	386.8	0.495	6.353	0
Adj R-Squared	0.402	0.312	0.342	0.176
F-stat	1.175	0.827	2.570	0.0476

Standard errors in parentheses

* $p < 0.1$, ** $p < .05$, *** $p < 0.01$

Notes: This table uses case order data to estimate the correlation between the leave-out settlement propensity and case-level outcomes measuring quality of resolution (precedents) and initial claim. Standard errors are clustered by judge.

Table A3: Settlement-prone judges do not decide trials differently

	(1) Plaintiff Wins	(2) Plaintiff Wins	(3) Financial Firm Wins
Leave-out Settled (SD)	0.0599***	0.0525**	0.0349
	(0.0171)	(0.0205)	(0.0227)
Trial=1		-0.0595	-0.146***
		(0.0617)	(0.0416)
Trial=1 × Leave-out Settled (SD)		0.0115	0.0175
		(0.0387)	(0.0376)
Observations	1091	1091	1091
No. Judges	24	24	24
City FE	Y	Y	Y
Registration-Month FE	Y	Y	Y
Case-Type FE	Y	Y	Y
Control Mean	0.419	0.419	0.677
Control SD	0.502	0.502	0.475
Adj R-Squared	0.529	0.530	0.491
F-stat	12.21	5.737	9.539

Standard errors in parentheses

* $p < 0.1$, ** $p < .05$, *** $p < 0.01$

Notes: This table uses case order data to examine whether judges by their leave-out settlement propensity differentially affect plaintiff-wins or bank-wins in trials (when settlement fails). Standard errors are clustered by judge.

Table A4: Mediation is a dispute resolution strategy for banks and financial-sector firms

	(1) Goes to Trial	(2) Bank Wins	(3) Goes to Trial	(4) Bank Wins
Plaintiff Bank	-0.201***	0.408***		
	(0.0463)	(0.0243)		
Defendant Bank	-0.0204	0.762***		
	(0.0851)	(0.0717)		
Plaintiff Bank=1			-0.170***	0.386***
			(0.0437)	(0.0235)
Leave-out Settled (SD)			-0.0426	0.0316
			(0.0326)	(0.0224)
Plaintiff Bank=1 × Leave-out Settled (SD)			-0.0130	-0.00276
			(0.0312)	(0.0416)
Defendant Bank=1			0.0196	0.875***
			(0.173)	(0.107)
Defendant Bank=1 × Leave-out Settled (SD)			0.0418	0.0496
			(0.0831)	(0.0520)
Observations	1097	1097	1091	1091
No. Judges	28	28	24	24
City FE	Y	Y	Y	Y
Registration-Month FE	Y	Y	Y	Y
Case-Type FE	Y	Y	Y	Y
Control Mean	0.128	0.603	0.128	0.603
Control SD	0.335	0.490	0.335	0.490
Adj R-Squared	0.183	0.565	0.178	0.565

Standard errors in parentheses

* $p < 0.1$, ** $p < .05$, *** $p < 0.01$

Notes: This table uses case order data to examine trial behavior and trial outcomes (when settlement fails) by whether the plaintiff or defendant firm is a bank/financial sector firm and the litigant's sector interacts with judge settlement propensity. Standard errors are clustered by judge.

Table A5: Robustness: Causal effects on firms using last case filed

	(1)	(2)	(3)	(4)
	Profit (SD units) Plaintiff	Profit (SD units) Plaintiff Post Filing Periods Only	Profit (SD units) Defendant	Profit (SD units) Defendant Post Filing Periods Only
Post Decision=1	-0.102	-0.347	-0.0150	-0.286
	(0.196)	(0.216)	(0.185)	(0.222)
Post Decision=1 × Leave-out Settled	0.422	0.598**	-1.235**	0.420
	(0.249)	(0.241)	(0.471)	(0.602)
	{p=0.084}	{p=0.059}	{p=0.012}	{p=0.503}
Observations	2910	939	2051	665
No. Judges	18	18	23	23
No. Firms	71	67	56	51
City FE	Y	Y	Y	Y
Registration-Month FE	Y	Y	Y	Y
Firm FE	Y	Y	Y	Y
Quarter FE	Y	Y	Y	Y
Mean Dep Var	0	0	0	0
SD Dep Var	0.988	0.988	0.987	0.987
Adj R-Squared	0.138	0.299	0.0429	0.308

Standard errors in parentheses

* $p < 0.1$, ** $p < .05$, *** $p < 0.01$

Notes: Sample includes cases that were randomly assigned to judges in commercial courts in the two cities/metropolitan areas matched with firm-level quarterly balance sheet data. Columns 1 and 3 include firm-level data from 2011 (prior to the Commercial Courts Act, 2015), with post period denoted as quarters following the decision date of a case (decision date for counterfactual is the date when the case is resolved through full trial or continues to be pending outcome). In the event when firms have multiple cases, we use the last resolved case as the reference. Columns 2 and 4 subsets the data to include time periods (quarters) only after the date when a case is filed, with post period defined as previously. Standard errors are clustered by assigned judge. Bootstrapped p-values in {.}.