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Stock market listing and corporate policy: Evidence from reforms to Japanese corporate law
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Abstract
We study how the tradeoff between stock liquidity and stock market scrutiny affects various aspects of corporate policy, using data that cover public and private companies in Japan. We exploit legal reforms as the source of exogenous variation in stock market listing. The sample used in our main analysis consists of firms whose ownership is concentrated. This sample construction helps us mitigate the agency problems that come from the separation of ownership and control. We find that listing reduces debt financing, especially dependence on long-term debt. In addition, we determine that listing improves profitability. These findings support the importance of stock liquidity. However, we also provide evidence that is not consistent with theories on stock liquidity, by reporting that stock market listing does not reduce cash holdings. We discover that it increases capital expenditures and decreases R&D expenses. The two contrasting effects demonstrate the relevance of short-termism pressure from the stock market. We also observe that listing reduces tax aggressiveness, in line with theories that emphasize the role of stock market scrutiny. Our findings suggest that the liquidity-scrutiny tradeoff of stock market listing has heterogeneous effects on firm policy, depending on its nature.

Keywords: stock market listing; stock liquidity; stock market scrutiny; natural experiment
JEL classifications: G30
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