

Asset Illiquidity as a Managerial Entrenchment Device: Evidence from Japan*

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Abstract

This paper examines how entrenched managers adjust firms' cash holdings, and more generally the liquidity of their assets, in response to corporate governance reform, using Japan's 2013 reform as a quasi-natural experiment. Employing a difference-in-differences regression model with firm and time fixed effects, we show that firms with greater managerial entrenchment experienced a larger post-reform decline in cash holdings. However, this decline coincides with reduced asset tangibility and deteriorating firm performance, as well as increased cross-shareholdings. We interpret these findings as evidence that entrenched managers strategically reduced asset liquidity to lower outside value for potential acquirers and deter external control challenges, rather than improving their operational efficiency.

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