Who Absorbs the Shares? Retail Absorption, Keiretsu Resilience, and Valuation Effects of Cross-Shareholding Reform in Japan

Abstract

When Japanese firms unwind cross-shareholdings under recent governance reforms, who buys the released shares, and does it matter for firm value? Using approximately 2,500 firms over 2019 to 2024 and a continuous-treatment intensity difference-in-differences design, we show that retail investors, not foreign or domestic institutions, are the residual absorbers: individual ownership rises with pre-reform cross-shareholding intensity after the 2021 Corporate Governance Code revision, foreign institutional ownership is unaffected, and domestic institutional ownership declines modestly. These effects concentrate in non-keiretsu firms, whose cross-holdings are shallower and more policy-sensitive, while keiretsu ownership structures remain stable. Despite the absence of institutional monitoring, dissolution still raises firm value: non-keiretsu firms experience Tobin's Q gains, driven by market capitalization appreciation rather than mechanical asset reduction, whereas keiretsu firms show no gain. The results are robust to two-way clustering, generalized-propensity-score weighting, and industry-level foreign-capital-flow controls. They challenge the assumption that governance reform must attract institutional capital to create value: in Japan, market re-rating accompanies the act of unwinding itself, independent of the replacement shareholders' identity.

Keywords: Cross-shareholding, Corporate Governance Code, ownership structure, retail investors, keiretsu

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