

Asset Illiquidity as a Managerial Entrenchment Device: Evidence from Japan

Hajime Tomura

Faculty of Political Science and Economics, Waseda University, 1-6-1 Nishiwaseda, Shinjyuku-ku, Tokyo, Japan, 169-8050.

Yukihiro Yasuda

Graduate School of Business Administration, Hitotsubashi University, 2-1 Naka, Kunitachi-shi, Tokyo, Japan, 186-8601.

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. These findings can be interpreted 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.