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Judicial quality and corporate value: evidence from China's judicial reform

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ABSTRACT

This study employs China's judicial reform as a quasi-natural experiment to examine how judicial improvements affect corporate value. The findings reveal that: (1) compared with companies that were not affected by judicial reform, the market value of companies affected by judicial reform increased by 6.62%; (2) the reform drives corporate value through increasing investment, promoting innovation, reducing financing costs, and improving stock liquidity; (3) the effect is more pronounced for companies with poor internal control, weak board governance, low institutional investor ownership, and fewer analysts' coverage. Our paper clarifies the causal effect between judicial reform and corporate value, complementing the previous literature on law and finance. This study bears consideration for China's comprehensive promotion of the rule of law and the high-quality development of the capital market. It also provides empirical evidence for the necessity and importance of achieving the rule of law modernisation in emerging capital market countries.

KEYWORDS

Judicial reform; corporate value; contract enforcement; transaction cost; corporate governance

1. Introduction

As articulated in *The Spirit of Law* by Montesquieu, law is the fundamental tool of the country and the safeguard of the people. The comprehensive promotion of the rule of law is not only an important component of political system reform but also an important content of promoting the modernisation of national governance. The modernisation of the rule of law is an important path to achieve the modernisation of national governance. However, law is often not self-enforcing and must be implemented through the judicial system. Therefore, promoting judicial reform is a prerequisite for achieving the modernisation of the rule of law. The legal and judicial systems set behavioural boundaries for all major participants in corporate governance and provide institutional safeguards for fulfilling contracts among them (La Porta et al., 2002).

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'Rule of law in the market' is the cornerstone of the healthy development of the capital market. To examine the impact of legal systems on investor protection, it is necessary to investigate not only whether there are clear legal provisions that safeguard investors' interests, but also whether the relevant legal conditions have been effectively implemented. A large stream of literature on law and finance that began in the late 1990s in the U.S. documents that the origins of a country's legal system (common law versus civil law) determine the level of protection afforded to investors in the capital market (La Porta et al., 2000). At the macro level, better investor protection further promotes market size (Djankov et al., 2008; La Porta et al., 1997) and economic growth (Beck et al., 2000; Demirgüç-Kunt & Maksimovic, 1998). At the micro level, a well-protected market can better safeguard investors' interests (Claessens & Laeven, 2003; Foroughi et al., 2022; La Porta et al., 1998, 1999; Schiantarelli et al., 2020), improve company investment efficiency (Huang et al., 2021; Rajan & Zingales, 1998; Wurgler, 2000), and thereby enhance corporate value (Eldar, 2018; La Porta et al., 2002; Z. Li et al., 2020). Despite the link between legal rules and financial market development is comparatively well documented, less is known for the role that judiciaries play in shaping corporate decision-making.

Existing literature on the embedding of judicial systems in corporate finance and accounting is mostly based on mature capital markets, and there is relatively less research on emerging capital markets. Moreover, the findings are inconclusive for different research settings. In particular, when conducting cross-national comparisons and empirical tests in the field of law and finance, most of the literature does not include China in the sample. Despite existing studies provide a myriad of empirical results, the origins of a country's judicial system did not undergo a time-series change during the research sample period. Consequently, the findings documented in previous literature indicate a correlation between the legal and judicial system and financial and economic outcomes, without identifying their causal effects. As La Porta et al. (1997) acknowledged in their conclusion: other factors at the national level (such as culture and beliefs) may simultaneously affect a country's legal system and the observed economic consequences.¹ Unfortunately, we still lack direct and reliable empirical results to clearly and accurately identify the causal effects between the legal or judicial systems and macroeconomic development as well as micro-corporate behaviours. To fill this void, this paper uses China's judicial reform as a quasi-natural experiment to systematically evaluate the causal effect of judicial improvement on corporate value.

In June 2014, China passed the 'Opinions on Several Issues Concerning Pilot Reforms of the Judicial System' (hereinafter referred to as 'Opinions'), which comprehensively and systematically reformed the existing judicial system in three aspects: (1) confirming that judges are responsible for their judgements for life; (2) improving the independence of judges during trials; and (3) enhancing the transparency of judges' judgements. Meanwhile, seven provinces and municipalities including Shanghai, Guangdong, and Jilin became the first pilot areas to officially start judicial reform. In May 2015, 11 provinces including Shanxi, Jiangsu, and Zhejiang were designated as the second batch of pilot areas for judicial reform. In January 2016, 13 provinces (regions, cities) including Beijing,

¹La Porta et al. (1997, p. 1150): 'It is possible that some broad underlying factor, related to trust, influences the development of all institutions in a country, including laws and capital markets. We cannot resolve these issues now, but hope to address them in future work'.

Tianjin, and Hebei began the third batch of pilot reforms in the judicial system. The staggered nature of China's judicial reform has caused a time-series change in the judicial system, and can also alleviate interference from institutional environments other than the judiciary in different countries, providing us with valuable research opportunities to reveal the causal relationship between judicial improvement and corporate value.

From a theoretical perspective, judicial reform can improve the legal system and increase law enforcement efficiency. The enhanced investor protection can effectively reduce market trading uncertainty, alleviate internal and external information asymmetry, constrain self-interested behaviours of the management, improving corporate governance, and enhancing corporate value. From the perspective of corporate value, this paper empirically examines the consequences of judicial improvement by adopting a difference-in-differences (DID) design and finds that: compared with firms that were not affected by judicial reform, firms affected by judicial reform experienced a significant increase in their corporate value. The results still largely hold after a series of robustness tests; judicial reform affects corporate value by stimulating corporate investment, promoting innovation, lowering financing costs, and improving stock liquidity; cross-sectional tests reveal that the positive effect of judicial reform on firm value is more pronounced for companies with weaker internal control, weaker board governance, lower institutional investor ownership, and fewer analyst coverage.

Our paper adds to extant literature in threefold. First, our study contributes to the extensive literature on the economic consequences of law and judicial systems (Huang et al., 2021; Long, 2010; Pan et al., 2022). Our paper exploits China's staggered judicial reform to systematically and rigorously evaluate the causal effect of judicial improvement on corporate value, enriching the literature on the economic consequences of judicial reform. Existing literature mainly focuses on the impact of legal origins on economic growth and capital market development from a static perspective (Beck et al., 2000; La Porta et al., 1997, 1998). Due to the lack of changes in the measurement of legal origins and judicial efficiency over time, it is difficult to accurately identify the causal relationship between judicial system changes and corporate value. Second, this paper analyzes the possible mechanisms through which the judicial reform affects corporate value. We document that judicial improvement helps to increase company investment, promote innovation, lower financing costs, and improve stock liquidity, thereby deepening understanding into how judicial reform bolsters corporate value. Finally, given the underdeveloped judicial systems in emerging capital markets, this study offers strong policy implications, providing robust empirical support for the importance of advancing the rule of law in China and similar markets. China's current judicial reform focuses on judicial decentralisation and de-administration, and the preliminary research findings of this paper confirm the effectiveness of China's judicial reform pilot institutions.

2. Institutional background and hypothesis development

2.1. Institutional background

As an important component of national political system reform, judicial reform is a vital path to achieve modernisation of national governance, and its progress has an important impact on social transformation. Compared with the completeness of legal provisions, the

actual enforcement of laws is particularly important for the economic development of transitional countries. With the comprehensive deepening of reform and opening up, various social contradictions have emerged during the period of social transformation. Systemic problems such as low judicial credibility, improper conduct of judicial personnel, and lack of integrity in handling cases have hindered the function of the judiciary and fair justice. This has made it difficult to resolve social contradictions, ensure social security, protect citizens' rights and seriously threatens social order and the stable operation of the economy.

Reviewing the history, China's judicial system has been in a process of reform since the 1980s. In 1978, the Third Plenary Session of the Eleventh Central Committee proposed to protect people's democracy and strengthen socialist legal system. In 1997, the report of the Fifteenth National Congress of the Communist Party of China first proposed 'promoting judicial reform'. Moreover, the report of the Sixteenth National Congress of the Communist Party of China in 2002 clarified the task of 'promoting judicial system reform'. In addition, in 2007, the report of the Seventeenth National Congress of the Communist Party of China required 'deepening judicial system reform'. However, due to the emergence of various social contradictions during the period of social transformation, although there have been some achievements in judicial reform, the overall effect has been limited. The reason for this is that under the system of fiscal decentralisation and the assessment and promotion mechanism based on local economic development, local governments have the incentives to intervene in the process of filing, trial and execution, leading to a tendency towards localisation and administrative control in judicial work. This tendency has made it difficult to completely eliminate the chronic problems in the judicial system, and micro-subjects such as enterprises may be prone to unfair treatment in the judicial process.

To comprehensively promote the rule of law and build a socialist legal system with Chinese characteristics, in 2012, the report of the Eighteenth National Congress of the Communist Party of China called for 'further deepening the reform of the judicial system'. In 2014, as the opening year of a new round of judicial reform in China, specific plans for judicial reform were introduced one after another. In June 2014, the third meeting of the Leading Group for the Comprehensive Deepening of Reform of the Central Committee approved the 'Framework Opinion on Some Issues of Judicial System Reform Pilot', and determined the first batch of pilot areas. In May 2015, the second batch of pilot areas for judicial reform was determined, and in January 2016, judicial reform was comprehensively implemented in all regions.

The current round of judicial reform is mainly driven by top-level design. Unlike previous judicial reforms that were led by the Central Political and Legal Affairs Commission, this round of judicial reform is centrally planned, with the central government providing clear direction and requirements for the reform at a macro level, ensuring the overall integrity and strength of the reform. The main objective of this round of judicial reform is to eliminate localisation and bureaucratisation of the judiciary. On the one hand, this round of judicial reform emphasises the role of judges and prosecutors in handling cases, which promotes unified management of personnel, finances and materials for lower courts and procuratorates and improves the judicial accountability system. This results in an elimination of inappropriate local interference, thus forming a clear mechanism for exercising judicial power. On the other hand, this round of judicial reform

focuses on improving the classification management of judicial personnel and establishing a sound system for their professional protection, allowing judges to devote more energy to handling major and difficult cases, and promoting the construction of a team of judicial personnel with good political and professional qualities. In addition, specific measures such as setting up circuit courts, publicising judgements, and establishing smart courts are taken to improve judicial convenience and ensure the smooth progress of the judicial reform. An efficient, fair, and impartial judicial system contributes to the construction of a sound legal and commercial environment. With the implementation of judicial reform, China's legal and commercial environment has significantly improved. According to the World Bank's 'Doing Business 2020' report, China's quality of judicial procedures index scored 16.5 out of a perfect score of 18 (Pan et al., 2022).

2.2. Hypothesis development

The continuous advancement of judicial reform has become a key indicator of the Comprehensive Rule of Law strategy and the continuous improvement of China's judicial environment and judicial efficiency. At the macro level, judicial reform helps to resolve the localisation of judicial power and judicial corruption, allowing the judicial system to break free from the control of government administrative power (G. Chen, 2012; Hellman et al., 2003). This enhances the ability of the judiciary to monitor and balance administrative power, curbs the excessive expansion of government power, and promotes economic freedom and growth (Feld & Voigt, 2003; Hayek, 1960). G. Chen and Li (2013), using the exchange of judges across regions as an experiment, found that enhancing the independence of local judicial departments in China not only helps to break the market segmentation led by local governments but also significantly promotes economic growth. At the micro level, the increase in judicial efficiency brought about by judicial reform can effectively implement contract protection and breach compensation in corporate business activities (Johnson et al., 2002). Transaction cost theory suggests that a company is a consortium of contractual agreements, and transaction costs exist in all contracts (Cheung, 1983; Coase, 1937; Williamson, 1979). As China's economy continues to expand, the friction between market actors increases, and adjusting the friction between transaction entities means a higher demand for and reliance on the law. Huang et al. (2021), taking the establishment of circuit courts in China as the setting, found that after the provinces where listed companies are located are covered by circuit courts, the investment scale significantly increases. Pan et al. (2022) found that the construction of smart courts has improved the convenience and fairness of judicial protection, thereby increasing creditors' willingness to provide commercial credit financing to enterprises.

This paper investigates the effect of judicial quality on corporate value. Judicial reform can promote capital investment and corporate innovation, reduce financing costs, and improve stock liquidity, thereby enhancing corporate value. First, judicial reform optimises the business environment, encouraging companies to increase investment scale and promote corporate innovation. On the one hand, the study of law and finance believes that the legal environment is a core consideration factor in corporate investment decisions (Huang et al., 2021). Judicial de-localisation and de-administration reduce improper government intervention in the economy, optimising the business environment and encouraging companies to increase investment scale. As General Secretary Xi Jinping

said at the second meeting of the Central Comprehensive Rule of Law Committee, the rule of law is the best business environment. A legal business environment can weaken the impact of improper local government intervention, improve the security of business operations, and encourage companies to implement long-term business arrangements and plans. On the other hand, judicial reform helps to protect the property rights, and the improvement of property rights protection is conducive to protecting corporate property from encroachment and encouraging companies to engage in R&D and innovative activities. Long (2010) found that China's formal legal system protects property rights, and when a higher proportion of commercial disputes are resolved by the court system, companies will have more investments, R&D, and cross-regional sales, and the higher the degree of property rights protection, the higher the probability of companies engaging in investment and R&D activities. Investment activities are the source of company value creation, and long-term investments represented by R&D and innovation can help companies obtain heterogeneous resources and improve competitive advantages. New patented technologies mean new investment opportunities and new products, which helps companies increase sales revenue and profits, and thereby enhance company value. S. Li et al. (2012) found that for every additional patent obtained by listed companies, the total market value of the company will increase by 2.23 million yuan. J. Y. Li et al. (2016), taking Chinese mobile internet companies as a sample, found that corporate innovation activities help to improve corporate performance and value.

Second, judicial reform strengthens the protection of creditors, reducing creditors' concerns about unfair treatment in the process of rights protection and making them more willing to provide funding to enterprises (Pan et al., 2022). The study of law and finance points out that the definition and implementation of financial contracts largely depend on legal protection. Establishing a strong judicial system and effective execution can fundamentally improve a country's financial market development level (La Porta et al., 1998; Lepore et al., 2018). Judicial improvement can reduce default risk and transaction costs, increase creditors' willingness to provide funds, and alleviate corporate financing constraints. The reduction of external financing costs helps to enhance corporate value. On the one hand, according to the tax-inclusive MM theory, increasing debt financing under the tax shield effect can increase corporate value (Q. Wang & Li, 2021); on the other hand, creditors impose informal influence on corporate governance, thereby enhancing company value (Nini et al., 2012).

Finally, judicial reform helps to reduce the uncertainty of market transactions and lower transaction costs, thereby increasing stock liquidity and enhancing corporate value. On one hand, judicial reform can not only improve judicial efficiency and quality, helping to reduce the uncertainty of market transactions and transaction friction, ensuring the smooth execution of property rights exchanges and lowering transaction costs (Alchian & Demsetz, 1972; Cheng et al., 2016; Cheung, 1983; H. Liu et al., 2015). It can also optimise the composition of stock market traders, improve investor protection mechanisms, thereby increasing investors' willingness to invest and trading behaviours, and consequently increasing the stock liquidity. On the other hand, judicial reform provides safeguards for investors' rights and remedies, reducing the likelihood of insider encroaching on minority shareholders. This is beneficial for external investors in optimising investment decisions, changing investment beliefs, and increasing company stock liquidity. Stock liquidity affects corporate value by impacting the cost of capital and cash flow. Chen et al.

(2011) found that higher stock liquidity can reduce the required rate of return for investors and the cost of equity capital, increasing the cost of opportunistic behaviour by management, thereby enhancing corporate value.

In summary, judicial reform has increased judicial efficiency, improved the rule of law in the business environment, and reduced transaction costs. Whether it is in motivating corporate investment and innovation, reducing the cost of external financing, or increasing stock liquidity, judicial reform ultimately enhances company value. Based on this, the paper proposes the following hypothesis to be tested:

H1: *Other things being equal, judicial reform significantly enhances corporate value.*

3. Research design

3.1. Sample and data

This study encompasses all A-share listed companies on the Shanghai and Shenzhen stock exchanges as its initial sample. The phased implementation of judicial reforms across various provinces, including directly-administered municipalities, occurred in three key periods: June 20 May 2014¹⁵, and January 2016. To effectively delineate experimental and control groups, the study's sample period spans from 2012 to 2015, deliberately concentrating on the two-year intervals pre- and post-implementation of the inaugural batch of judicial reform pilots. Firms situated in the first group of pilot provinces (Shanghai, Guangdong, Jilin, Hubei, Qinghai, Hainan, and Guizhou) are designated as the treatment group. In contrast, those located in the third group of pilot provinces (Beijing, Tianjin, Hebei, Liaoning, Jiangxi, Henan, Hunan, Sichuan, Shaanxi, Gansu, Guangxi, Tibet, and Xinjiang) comprise the control group. We exclude firms in the financial sector and special treated (ST) companies, as well as those lacking end-of-year stock price data or missing data for control variables. This process yielded 5050 firm-year observations. To address the potential influence of statistical outliers on the regression outcomes, all continuous variables in this study are winsorised at both the 1% and 99% thresholds. The empirical analysis relies on financial, corporate governance, and property rights data sourced exclusively from the CSMAR database.

3.2. Model and variable definition

To examine the impact of judicial reform on corporate value, this paper employs a DID design to test the differences in corporate value before and after the initiation of the 2014 judicial reform. The model is set as follows:

$$TOBINQ_{it} = \alpha_1 + \alpha_2 TREAT_i \times POST_t + \alpha_3 CONTROLS_{it} + Firm/YearFE + \varepsilon_{it} \quad (1)$$

where i denotes the firm, while t signifies the fiscal year. The dependent variable, $TOBINQ_{it}$ is the proxy for corporate value (C. R. Chen et al., 2017; Z. Li et al., 2020). $TOBINQ1$ is the ratio of a company's market value of equity plus book value of total debt to book value of total assets. $TOBINQ2 = (\text{a firm's market value of equity} + \text{book value of total debt to book value}) / (\text{total assets} - \text{the net amount of intangible assets and goodwill})$. To ensure

a robust comparison in our study, companies from the first and third batches of pilot provinces are selected as the treatment and control groups, respectively. Companies in the first-batch pilot province are designated as $TREAT_i = 1$, whereas those in the third-batch are coded as $TREAT_i = 0$. The variable $POST$ is assigned a value of 1 for the years from 2014 onwards, and 0 for prior years. In line with our hypothesis, we anticipate a significantly positive coefficient α_2 for the interaction term $TREAT_i \times POST_t$. The model accounts for unvarying firm-specific characteristics and macroeconomic factors by controlling for firm fixed effects (Firm FE) and year fixed effects (Year FE). Additionally, to mitigate the risk of standard error distortions due to clustering, the regression analysis employs clustering at the firm level.

Following prior research (Lin & Su, 2008; Shao & Lu, 2015), we control for a comprehensive set of variables: (1) company size ($SIZE_{it}$), (2) leverage ratio (LEV_{it}), (3) sales growth rate ($GROWTH_{it}$), (4) shareholding percentage of the largest shareholder ($TOP1_{it}$), (5) separation of control rights and cash-flow rights (SEP_{it}), (6) industry concentration (HHI_{it}), (7) firm profitability (ROA_{it}), (8) degree of financing constraints (SA_{it}), (9) proportion of tangible assets (PPE_{it}), (10) property rights (SOE_{it}), (11) institutional investor shareholding percentage ($INST_{it}$), (12) audit quality ($BIG10_{it}$), (13) analyst attention (ANA_{it}), (14) board size ($BOARD_{it}$), (15) proportion of independent directors ($INDEP_{it}$), and (16) number of company committees (COM_{it}). Detailed definitions of these variables are provided in Table 1.

Table 2 provides characteristics of the sample distribution for the judicial reform. In June 2014, the Framework Opinions on Several Issues Concerning the Pilot Reform of the Judicial System were issued, marking the official start of judicial reforms in China. Shanghai, Guangdong, Jilin, Hubei, Qinghai, Hainan, and Guizhou were selected as the first batch of pilot provinces. In May 2015, the second batch of 11 provinces commenced their pilot reforms, and in January 2016, including Beijing, 13 provinces initiated judicial reforms, signifying that all provinces in China had embarked on reforms. It is important to emphasise that the pilot provinces and cities from different batches demonstrate a random geographical distribution. This suggests that the judicial reform in China represents an external shock to companies rather than an endogenous event, thereby strengthening the causal relationship revealed between law and corporate value.

Table 3 reports the descriptive statistics of the variables. As shown in Table 3, the mean value of the corporate value ($TOBINQ1$) is 2.370, with a median of 1.687; the mean value of $TOBINQ2$ is 2.809, with a median of 2.079, consistent with prior literature. The mean of $TREAT \times POST$ is 25.6%, and the mean of $TREAT$ is 0.491, indicating that 49.1% of the sample is affected by the judicial reform. Moreover, the statistical characteristics of control variables are consistent with existing literature (C. R. Chen et al., 2017; Lin & Su, 2008; Shao & Lu, 2015).

4. Empirical results

4.1. Baseline results

Table 4 reports the regression results of the impact of judicial reform on corporate value. Columns (1) and (3) report the univariate regression results, while columns (2) and (4) present the multivariate regression results. The coefficient of $TREAT \times POST$ is positive in columns (1) and (3) and significant at the 1% level, preliminarily

Table 1. Definition of variables.

Variables	Variable definitions
<i>Explained variable</i>	
$TOBINQ1_{it}$	The ratio of a company's market value of equity plus book value of total debt to book value of total assets
$TOBINQ2_{it}$	(A firm's market value of equity + book value of total debt to book value)/(total assets – the net amount of intangible assets and goodwill)
<i>Key explanatory variables</i>	
$TREAT_i$	Dummy variable, if the firm is located in the first pilot province $TREAT = 1$, if the firm is located in the third pilot province $TREAT = 0$
$POST_t$	Dummy variable, $POST$ equals 1 for 2014 and after, 0 otherwise
<i>Control variables</i>	
$SIZE_{it}$	Firm size, natural logarithm of total firm assets
LEV_{it}	Leverage, total liabilities divided by total assets
$GROWTH_{it}$	Growth, sales revenue growth rate
$TOP1_{it}$	Shareholding concentration, proportion of shares held by the largest shareholder
SEP_{it}	Cash-flow rights, the difference between control and ownership
HHI_{it}	Industry concentration, the sum of the squares of the ratio of a firm's revenue to the total revenue of all firms in a industry
ROA_{it}	Firm profitability, net profit divided by total assets
SA_{it}	Financing constraints (Hadlock & Pierce, 2010)
PPE_{it}	Proportion of tangible assets, sum of net fixed assets and net inventories divided by total assets
SOE_{it}	Nature of property rights, when the firm is state-controlled, otherwise 0
$INST_{it}$	Institutional investor shareholding percentage, number of shares held by institutional investors as a percentage of outstanding shares
$BIG10_{it}$	Audit quality, 1 when the firm's auditor is from one of the top ten accounting firms in the country, and 0 otherwise
ANA_{it}	Analyst attention, the number of analysts (teams of analysts) who have followed the firm during the year
$BOARD_{it}$	Board size, natural logarithm of total number of directors
$INDEP_{it}$	Proportion of independent directors, proportion of independent directors to the total number of directors
COM_{it}	Number of committees established by the firm

Table 2. Characteristics of the distribution of the judicial reform.

Pilot period	Pilot region
June 2014	Shanghai, Guangdong, Jilin, Hubei, Qinghai, Hainan, Guizhou
May 2015	Shanxi, Inner Mongolia, Heilongjiang, Jiangsu, Zhejiang, Anhui, Fujian, Shandong, Chongqing, Yunnan, Ningxia
January 2016	Beijing, Tianjin, Hebei, Liaoning, Jiangxi, Henan, Hunan, Sichuan, Shaanxi, Gansu, Guangxi, Tibet, Xinjiang

proving that judicial reform significantly enhances corporate value. In columns (2) and (4), after including control variables that may affect corporate value, the coefficient of $TREAT \times POST$ remains significantly positive at the 5% level. Economically, given the mean $TOBINQ1$ of 2.370, the coefficient of $TREAT \times POST$ in column (2) is 0.157, indicating that the judicial reform increased corporate value by about 6.62% ($= 0.157/2.370$).

Among the control variables, company size ($SIZE$), profitability (ROA), institutional investor shareholding ($INST$), and analyst attention (ANA) are significantly positively correlated with corporate value, while industry concentration (HHI), financing constraints (SA), property rights (SOE), and number of committees established (COM) are significantly negatively correlated.

Table 3. Descriptive statistics of variables.

Variable	Obs.	Mean	S.D.	P25	Median	P75
$TOBINQ1_{it}$	5050	2.370	2.235	0.919	1.687	2.995
$TOBINQ2_{it}$	5050	2.809	2.156	1.431	2.079	3.320
$TREAT_i \times POST_t$	5050	0.256	0.437	0.000	0.000	1.000
$TREAT_i$	5050	0.491	0.500	0.000	0.000	1.000
$POST_t$	5050	0.522	0.500	0.000	1.000	1.000
$SIZE_{it}$	5050	22.109	1.371	21.147	21.858	22.872
LEV_{it}	5050	0.436	0.217	0.258	0.434	0.602
$GROWTH_{it}$	5050	0.173	0.513	-0.055	0.083	0.240
$TOP1_{it}$	5050	0.361	0.155	0.234	0.342	0.471
SEP_{it}	5050	0.042	0.072	0.000	0.000	0.063
HHI_{it}	5050	0.307	0.140	0.228	0.274	0.302
ROA_{it}	5050	0.039	0.055	0.013	0.036	0.067
SA_{it}	5050	4.172	1.668	3.060	3.838	4.955
PPE_{it}	5050	0.222	0.171	0.089	0.182	0.322
SOE_{it}	5050	0.444	0.497	0.000	0.000	1.000
$INST_{it}$	5050	0.068	0.072	0.014	0.043	0.099
$BIG10_{it}$	5050	0.624	0.485	0.000	1.000	1.000
ANA_{it}	5050	1.549	1.123	0.693	1.609	2.485
$BOARD_{it}$	5050	2.147	0.199	2.079	2.197	2.197
$INDEP_{it}$	5050	0.376	0.056	0.333	0.355	0.429
COM_{it}	5050	3.934	0.510	4.000	4.000	4.000

4.2. Parallel trend assumption

The premise of using a DID model is to satisfy the parallel trends assumption. This paper uses corporate value $TOBINQ1$ and $TOBINQ2$ as the dependent variables, and variables in the pilot areas one year before ($TREAT \times BEFORE1$), during ($TREAT \times CURRENT$), and one year after ($TREAT \times AFTER 1$) the judicial reform pilot as explanatory variables for regression testing.

As shown in Table 5, prior to the judicial reform, there was no significant change in the difference in corporate value between the treatment and control groups, meeting the parallel trends requirement. The coefficient for the year of judicial reform ($TREAT \times CURRENT$) is not significant, while the coefficients for one year after the reform pilot ($TREAT \times AFTER 1$) are significantly positive, indicating a significant increase in corporate value after the improvement of the judiciary, further confirming the conclusion of Table 4 that judicial reform is conducive to the growth of corporate value.

4.3. Placebo test

To ensure the reliability of the estimates, this study adopts the research method of R. M. Liu et al. (2020) and conducts a placebo test by randomly assigning the treatment group to exclude other random economic consequences. Specifically, this paper randomly selects provinces equivalent in number to the first batch of judicial reform pilot provinces as new pilot provinces and assigns companies in these new pilot provinces as a fictitious treatment group for the judicial reform pilot, denoted by the variable *Placebo*. This *Placebo* variable replaces the *TREAT* variable in model (1) for regression, and the results are presented in Table 6. The coefficient of the interaction term $Placebo \times POST$ does not pass the significance test, indicating that other random factors can be ruled out as influencing the results in Table 4, thus reconfirming the main conclusion that judicial reform significantly enhances corporate value.

Table 4. Baseline regression results.

	(1)	(2)	(3)	(4)
	<i>TOBINQ1_{it}</i>	<i>TOBINQ1_{it}</i>	<i>TOBINQ2_{it}</i>	<i>TOBINQ2_{it}</i>
<i>TREAT_i × POST_t</i>	0.218*** (3.215)	0.157** (2.537)	0.261*** (3.274)	0.181** (2.479)
<i>SIZE_{it}</i>		4.689*** (6.955)		9.615*** (12.037)
<i>LEV_{it}</i>		0.038 (0.155)		-0.306 (-1.064)
<i>GROWTH_{it}</i>		0.058 (1.471)		0.091* (1.952)
<i>TOP1_{it}</i>		1.397*** (3.162)		0.296 (0.566)
<i>SEP_{it}</i>		0.179 (0.256)		0.882 (1.063)
<i>HHI_{it}</i>		-5.483*** (-10.078)		-7.185*** (-11.147)
<i>ROA_{it}</i>		3.080*** (5.781)		2.945*** (4.666)
<i>SA_{it}</i>		-5.075*** (-8.742)		-9.098*** (-13.227)
<i>PPE_{it}</i>		-0.213 (-0.706)		-0.777** (-2.169)
<i>SOE_{it}</i>		-0.650*** (-2.667)		-0.932*** (-3.229)
<i>INST_{it}</i>		4.355*** (12.140)		4.791*** (11.272)
<i>BIG10_{it}</i>		-0.217*** (-2.963)		-0.211** (-2.439)
<i>ANA_{it}</i>		0.277*** (8.389)		0.286*** (7.305)
<i>BOARD_{it}</i>		0.155 (0.656)		0.286 (1.020)
<i>INDEP_{it}</i>		0.470 (0.707)		0.718 (0.912)
<i>COM_{it}</i>		-0.171** (-2.154)		-0.232** (-2.478)
Year FE	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes
Observations	5050	5050	5050	5050
Within R ²	0.120	0.182	0.126	0.186

***, **, and * denote statistical significance levels of 1%, 5%, and 10% (two-tailed), respectively, and t-values in parentheses are calculated from robust standard errors.

4.4. Other robustness checks

In the baseline regression results, we include firm fixed effects (Firm FE) and year fixed effects (Year FE) in the model (1) to control for firm-level time-invariant characteristics and potential time trends. In model (2), we control for industry fixed effects and year fixed effects as a robustness check.

$$\begin{aligned}
 TOBINQ_{it} = & \alpha_1 + \alpha_2 TREAT_i \times POST_t + \alpha_3 TREAT_i + \alpha_4 CONTROLS_{it} + IndustryFE + YearFE \\
 & + \varepsilon_{it}
 \end{aligned}
 \tag{2}$$

Table 7 reports the regression results with industry and year fixed effects. Columns (1) and (3) present the univariate regression results, while columns (2) and (4) show the multivariate regression results. The coefficient of *TREAT × POST* is significantly positive at the 5% level, indicating that judicial reform significantly

Table 5. Parallel trend test.

	(1)	(2)
	<i>TOBINQ1_{it}</i>	<i>TOBINQ2_{it}</i>
<i>TREAT_i</i> × <i>BEFORE_t</i>	0.128 (1.463)	0.141 (1.368)
<i>TREAT_i</i> × <i>CURRENT</i>	0.098 (1.120)	0.119 (1.145)
<i>TREAT_i</i> × <i>AFTER_t</i>	0.348*** (3.980)	0.391*** (3.773)
<i>Control</i>	Yes	Yes
Year FE	Yes	Yes
Firm FE	Yes	Yes
Observations	5050	5050
Within R ²	0.184	0.187

***, **, and * denote statistical significance levels of 1%, 5%, and 10% (two-tailed), respectively, and t-values in parentheses are calculated from robust standard errors.

Table 6. Results of placebo test.

	(1)	(2)	(3)	(4)
	<i>TOBINQ1_{it}</i>	<i>TOBINQ1_{it}</i>	<i>TOBINQ2_{it}</i>	<i>TOBINQ2_{it}</i>
<i>Placebo_i</i> × <i>POST_t</i>	0.001 (0.025)	-0.025 (-0.500)	-0.063 (-0.985)	-0.081 (-1.388)
<i>Control</i>	No	Yes	No	Yes
Year FE	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes
Observations	5050	5050	5050	5050
Within R ²	0.004	0.180	0.014	0.185

Table 7. Robustness tests: controlling for industry and year fixed effects.

	(1)	(2)	(3)	(4)
	<i>TOBINQ1_{it}</i>	<i>TOBINQ1_{it}</i>	<i>TOBINQ2_{it}</i>	<i>TOBINQ2_{it}</i>
<i>TREAT_i</i> × <i>POST_t</i>	0.218** (2.454)	0.174** (2.253)	0.269** (2.535)	0.217** (2.286)
<i>TREAT_i</i>	0.130* (1.698)	-0.043 (-0.671)	0.093 (1.050)	-0.125 (-1.642)
<i>Control</i>	No	Yes	No	Yes
Year FE	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes
Observations	5050	5050	5050	5050
Adjusted R ²	0.240	0.535	0.251	0.520

***, **, and * denote statistical significance levels of 1%, 5%, and 10% (two-tailed), respectively, and t-values in parentheses are calculated from robust standard errors.

enhances corporate value still holds after adopting industry fixed effects and year fixed effects.

Our baseline regression uses companies located in the first and third batches of pilot provinces are used as the treatment and control group to construct a traditional DID model. In this section, to further substantiate the above results, this paper constructs a staggered DID design. For this model, all A-share listed companies in the Shanghai and Shenzhen stock markets from 2011 to 2018 are used as the initial research sample. In defining the treatment group, companies located in all three batches of pilot provinces are considered simultaneously.

Table 8. Robustness tests: staggered difference-in-differences model.

	(1)	(2)	(3)	(4)
	<i>TOBINQ1_{it}</i>	<i>TOBINQ1_{it}</i>	<i>TOBINQ2_{it}</i>	<i>TOBINQ2_{it}</i>
<i>REFORM_{it}</i>	0.161*** (4.032)	0.148*** (4.268)	0.159*** (4.026)	0.146*** (4.203)
<i>Control</i>	No	Yes	No	Yes
Year FE	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes
Observations	18413	18413	18413	18413
Within <i>R</i> ²	0.142	0.350	0.145	0.336

***, **, and * denote statistical significance levels of 1%, 5%, and 10% (two-tailed), respectively, and t-values in parentheses are calculated from robust standard errors.

$$TOBINQ_{it} = \beta_1 + \beta_2 REFORM_{it} + \beta_3 CONTROLS_{it} + FIRMFE + YEARFE + \varepsilon_{it} \quad (3)$$

The explanatory variable $REFORM_{it}$ is a dummy variable: if the company's province becomes a judicial reform pilot and in the years after judicial reform, it is assigned a value of 1, otherwise 0. The coefficient β_2 tests the change in corporate value in the treatment group relative to the control group before and after the implementation of judicial reform.

Table 8 reports the results of the regression using the staggered DID model. Columns (1) and (3) report the univariate regression results, while columns (2) and (4) report the multivariate regression results. The coefficient of $REFORM$ is significantly positive at the 1% level, consistent with the baseline regression results in Table 4, further confirming the main conclusion that judicial reform significantly enhances corporate value.

However, when the policy effect changes over time, even if the policy intervention itself produces a positive effect for all time points of the treatment group, the estimated coefficient of the staggered DID model may still be negative (Chaisemartin & D'Haultfoeuille, 2020). To address this, the paper refers to the studies of Callaway and Sant'anna (2021) and Sun and Abraham (2021), conducting a dynamic effect test on the staggered DID model. The test results are shown in Figure 1, where Tp_0 represents the period in which the entity is receiving treatment, Tp_1 represents the period after the treatment, Tm_1 (Tm_2 , Tm_3) represents the period(s) before the treatment (one, two, three periods before, respectively). The coefficients for the three years before the judicial reform (Tm_3 , Tm_2 , Tm_1) are insignificant, indicating no significant change in the difference in corporate value between the experimental and control groups in the three years before the reform. However, the coefficients for the year of the reform and the first year after the reform (Tp_1) are significantly positive, demonstrating that the progressive difference-in-differences model passes the dynamic effect test.

5. Channel analyses

The previous analysis suggests that there are four potential channels through which judicial improvement can increase corporate value: (1) corporate investment; (2) corporate innovation; (3) financing costs; and (4) stock liquidity. To identify the specific channels through which judicial quality enhances corporate value, this paper establishes the following model:

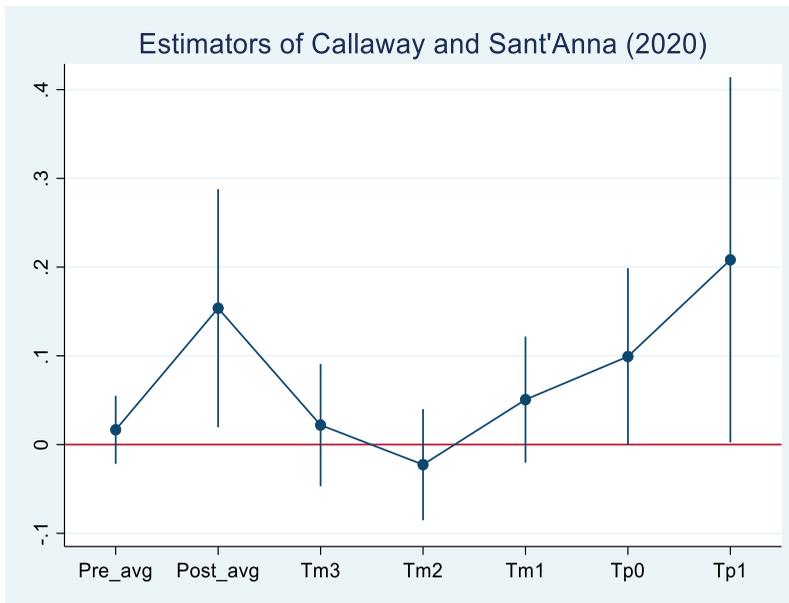


Figure 1. Staggered difference-in-differences model dynamic effects test.

$$CHANNEL_{it} = \gamma_1 + \gamma_2 TREAT_i \times POST_t + \gamma_3 CONTROLS_{it} + FIRMFE + YEARFE + \epsilon_{it} \quad (4)$$

$CHANNEL_{it}$ represents the four possible channels. The paper measures corporate capital investment ($INVEST_{it}$) as the difference between cash paid for constructing fixed assets, intangible assets, and other long-term assets and cash received from disposing of these assets, divided by total assets at the beginning of the year (Huang et al., 2021); corporate innovation (RD_{it}) is measured by the ratio of research and development expenditures to total assets; financing costs ($COST_{it}$) are measured by the ratio of interest expenses to the average total of short and long-term debts (Gong et al., 2021); and stock liquidity is inversely measured by the illiquidity measure ($LLIQ_{it}$) (Amihud, 2002; Tian et al., 2021). Other variables are defined consistently with model (1).

Table 9 reports the corresponding empirical results. Column (1) shows the results for corporate investment. The coefficient of $TREAT \times POST$ is 0.004, significantly positive at the 10% level, indicating that judicial reform increases corporate investment. Column (2) shows the results for corporate research and development expenditure. The coefficient of $TREAT \times POST$ is 0.001, significantly positive at the 5% level, suggesting that judicial reform increases corporate innovation input. Column (3) shows the results for corporate financing costs. The coefficient of $TREAT \times POST$ is -0.001 , significantly negative at the 5% level, indicating that judicial reform reduces corporate financing costs. Column (4) shows the results for stock illiquidity. The coefficient of $TREAT \times POST$ is -0.085 , significantly negative at the 1% level, suggesting that judicial reform improves corporate stock liquidity. In summary, the test results of Table 9 indicate that after the implementation of judicial reform, compared to the control group, companies in the treatment group have significantly increased their investment, research and development expenditures, and stock liquidity, and have significantly reduced their financing costs.

Table 9. Mechanism test for the impact of judicial quality on corporate value.

	(1)	(2)	(3)	(4)
	$INVEST_{it}$	RD_{it}	$COST_{it}$	$LLIQ_{it}$
$TREAT_i \times POST_t$	0.004* (1.845)	0.001** (2.571)	-0.001** (-2.011)	-0.085*** (-2.641)
Control	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes
Observations	5050	5015	5050	5050
Within R ²	0.102	0.059	0.114	0.241

***, **, and * denote statistical significance levels of 1%, 5%, and 10% (two-tailed), respectively, and t-values in parentheses are calculated from robust standard errors.

6. Heterogenous analyses

The above analyses suggest that judicial reform can significantly increase corporate value. However, it is noteworthy that under different internal and external governance environments, the impact of judicial reform on corporate value may exhibit asymmetry. Therefore, this paper further examines the cross-sectional differences in the impact of judicial reform on corporate value from the perspectives of internal governance characteristics (internal control and board of directors) and external governance characteristics (institutional investors and analysts). Table 10 reports the results of the cross-sectional tests.

6.1. Internal governance characteristics

Panel A of Table 10 reports the regression results for internal governance characteristics. This paper uses internal control and board governance as proxy variables for the internal governance environment of the company. Existing literature (Xiao & Zhang, 2013) found that the quality of internal control is beneficial both for improving earnings sustainability and for enhancing corporate value. Higher internal control quality can increase the sensitivity of investment expenditures and investment opportunities, thereby increasing corporate value. Therefore, we predict that the impact of judicial reform on enhancing corporate value will be more pronounced for firms with poorer internal controls. Following Ye et al. (2015) and Jin and Wu (2022), we measure the quality of internal control using the Dibo internal control index, where a higher value indicates better internal control quality. The results in column (1) show that the coefficient of $TREAT \times POST \times IC$ is significantly negative at the 5% level, indicating that the impact of judicial reform on enhancing corporate value is more pronounced in samples with poorer internal control. Furthermore, the board of directors plays a central role in the corporate governance structure. Although the supervisory capacity of the board increases with the number of directors, the coordination cost exceeds the benefits brought by an increase in the number of directors. Larger board sizes often lead to communication and coordination difficulties among members, reducing the quality of decision-making. Therefore, this paper expects that the impact of judicial reform on enhancing corporate value will be more pronounced for firms with larger board sizes. Referring to B. Li et al. (2013), we measure board size using the natural logarithm of the number of directors. The regression results in column (2) show that the coefficient of $TREAT \times POST \times BOARD$ is significantly

Table 10. Cross-sectional analysis test of the impact of judicial reforms on firm value.

	(1)	(2)
Panel A:		
	<i>TOBINQ1_{it}</i>	<i>TOBINQ1_{it}</i>
<i>TREAT_t × POST_t</i>	2.283*** (3.143)	0.737*** (3.315)
<i>TREAT_t × POST_t × IC_{it}</i>	-0.355** (-2.495)	
<i>POST_t × IC_{it}</i>	-0.302*** (-2.962)	
<i>Treat_t × IC_{it}</i>	0.101 (0.924)	
<i>TREAT_t × POST_t × BOARD_{it}</i>		-0.990*** (-2.947)
<i>POST_t × BOARD_{it}</i>		-0.870*** (-3.716)
<i>Treat_t × BOARD_{it}</i>		0.277 (0.592)
<i>Control</i>	Yes	Yes
<i>Year FE</i>	Yes	Yes
<i>Firm FE</i>	Yes	Yes
<i>Observations</i>	7605	7605
<i>Within R²</i>	0.247	0.293
Panel B:		
	<i>TOBINQ1_{it}</i>	<i>TOBINQ1_{it}</i>
<i>TREAT_t × POST_t</i>	0.824*** (4.619)	0.686*** (3.492)
<i>TREAT_t × POST_t × INST_{it}</i>	-0.443*** (-3.983)	
<i>POST_t × INST_{it}</i>	0.328*** (4.296)	
<i>Treat_t × INST_{it}</i>	5.211*** (9.552)	
<i>TREAT_t × POST_t × ANAL_{it}</i>		-0.341*** (-2.684)
<i>POST_t × ANAL_{it}</i>		-0.111 (-1.365)
<i>Treat_t × ANAL_{it}</i>		0.444*** (4.623)
<i>Control</i>	Yes	Yes
<i>Year FE</i>	Yes	Yes
<i>Firm FE</i>	Yes	Yes
<i>Observations</i>	5050	5050
<i>Within R²</i>	0.143	0.124

***, **, and * denote statistical significance levels of 1%, 5%, and 10% (two-tailed), respectively, and t-values in parentheses are calculated from robust standard errors.

negative at the 1% level, indicating that the impact of judicial reform on enhancing corporate value is more pronounced in samples with poorer board governance. The results of Panel A show that internal governance mechanisms, represented by internal control and the board of directors, can substitute for judicial improvement.

6.2. External governance characteristics

Panel B of Table 10 reports the regression results for corporate external governance characteristics. This paper uses the shareholding of institutional investors and analysts as the proxies for the external governance environment. Existing research

has found that institutional investor shareholding can enhance corporate value by constraining the encroachment actions of controlling shareholders (Zeng et al., 2018). Accordingly, the marginal impact of judicial reform on enhancing corporate value is more pronounced in samples with lower proportions of institutional investor shareholding. Specifically, we measure the shareholding of institutional investors as the proportion of institutional investor shareholding to the total shares. The results in column (1) show that the coefficient of $TREAT \times POST \times INST$ is significantly negative at the 1% level, indicating that the impact of judicial reform on enhancing corporate value is more pronounced in companies with lower institutional investor shareholding ($INST$), suggesting that the external governance mechanism of institutional investor shareholding can to some extent substitute for judicial improvement.

Securities analysts, as an external governance mechanism, have been confirmed in the literature for their governance effect in improving information transparency (Devos et al., 2017). Therefore, the marginal impact of judicial reform on enhancing corporate value should be more pronounced in samples with lower levels of analyst attention. Following Luo and Wu (2022), this paper measures analyst attention by taking the natural logarithm of the number of analysts following plus one. The regression results in column (2) show that the coefficient of $TREAT \times POST \times ANAL$ is significantly negative at the 1% level, indicating that analyst coverage significantly inhibits the positive impact of judicial reform on corporate value, possibly because increased analyst attention enhances company information transparency, thereby weakening the enhancing effect of judicial reform on corporate value.

7. Further analyses

According to the institutional theory, corporate practices are stimulated by external institutions, possess strong legitimacy, and contribute to enhancing the efficiency of corporate decision-making (Rerup & Feldman, 2011). However, the implementation of a new institution may challenge existing corporate practices, resulting in a lag from the time of implementation to the production of effective results (Lounsbury, 2002). The impact of judicial reform on corporate value may also exhibit such a lag in institutional effects. Therefore, this paper further examines the short-term and long-term effects of judicial reform on corporate value.² Specifically, we analyse both the market reaction to the announcement date of the judicial reform pilot and the impact of judicial reform on the annual compound stock return rate of companies.

Firstly, this paper conducts a market reaction analysis for each policy announcement date of the judicial reform. In terms of short-term market reactions, there is no significant difference between the treatment group and control group. Table 11 shows the results for a window period of 120 trading days³ prior to the event date of 6 June 2014 (the first batch of pilot announcements). The results indicate no significant difference in the cumulative abnormal return between the treatment

²Great thanks for the valuable suggestions put forward by the referee.

³In addition, we exploit the window period of 90 (180) trading days as robustness checks, the unreported results still show insignificant difference in the cumulative abnormal return between the treatment and control group.

Table 11. Cumulative excess return.

Variables	Treat = 0		Treat = 1		Difference
	Sample	Mean	Sample	Mean	
CAR [-1,1]	1566	-0.005	643	-0.004	-0.001
CAR [-2,2]	1566	-0.002	643	-0.001	-0.001

Table 12. Judicial reform and compound annual stock returns of firms.

	(1) $BHAR1_{it}$	(2) $BHAR2_{it}$
$TREAT_t \times POST_t$	0.064** (2.218)	0.065** (2.229)
Control	Yes	Yes
Year FE	Yes	Yes
Firm FE	Yes	Yes
Observations	5049	5049
Within R ²	0.113	0.114

***, **, and * denote statistical significance levels of 1%, 5%, and 10% (two-tailed), respectively, and t-values in parentheses are calculated from robust standard errors.

and control group. Table 12 reports the impact of judicial reform on the annual compound stock return rate of companies. Columns (1) and (2) calculate the annual compound stock return rate based on monthly individual stock returns that consider (Meng & Huang, 2018) and do not consider (Z. J. Wang & Wang, 2018) cash dividend reinvestment, respectively. The results in columns (1) and (2) show that the coefficient of $TREAT \times POST$ is 0.064 and 0.065, respectively, both significant at the 5% level.

Combining the results of Tables 11 and 12, the effect of judicial reform on corporate value needs to be realised over the long term. Long (2010), focusing on China, found that when the legal system effectively protects property rights and the court system resolves a higher proportion of business disputes, enterprises tend to invest more, engage in more research and development, and have more cross-regional sales. Huang et al. (2021), based on the scenario of establishing circuit courts in China, found that after judicial enhancement in property rights protection, there was a significant increase in corporate investment. In our analysis, we explore the mechanisms by which judicial reform impacts corporate value from the perspectives of investment, innovation, and financing costs. The enhancement of corporate value through the impact of judicial reform on investment and innovation activities takes time. In the short term, judicial reform may lead to an increase in litigation for companies, having an adverse effect or no impact on corporate value.

8. Conclusion

Following the theoretical framework of law and finance and exploiting China's judicial reform as a quasi-natural experiment, this paper investigates the capital market consequence of judicial quality from the perspective of corporate value. We meticulously assess the causal impact of judicial reform on corporate value and delve deeper into mechanisms,

thereby significantly broadening and deepening the understanding within the existing body of literature regarding the economic outcomes of judicial enhancements.

A key finding of this study is that China's judicial reforms are instrumental in bolstering corporate value. This is evidenced through a series of mechanism tests which demonstrate that judicial improvements not only elevate corporate investment and foster innovation but also play a critical role in diminishing financing costs and augmenting stock liquidity. Further, the heterogeneity tests uncover a nuanced landscape where internal governance facets – such as internal control and board of directors – and external governance elements, including institutional investors and analysts, paradoxically mitigate the positive effects of judicial reform on corporate value. This observation underscores the complex interplay and potential substitutive dynamics amongst various governance mechanisms.

The implications of these findings are multifold and carry substantial weight in policy formulation. On one hand, they reinforce the adage that law is the heavy weapon of the state and the guarantee of the people, especially at a juncture where comprehensive reforms face heightened challenges and the diminishing marginal returns of purely economic reforms bring the significance of judicial reforms to the fore. This paper's insights preliminarily validate the efficacy of China's ongoing judicial reforms, suggesting that such improvements are not only necessary but also beneficial in significantly enhancing corporate value. This stage in reform development calls for an intensified focus on deepening judicial reforms, striving towards a more efficient and high-quality judicial system, which, in turn, would catalyse the high-quality development of the capital market.

On the other hand, the conclusions of this paper highlight the positive externalities that judicial reforms can engender. By safeguarding the interests of investors and creditors, judicial reforms contribute substantially to the healthy and sustainable growth of the capital market. This aspect of judicial reform is particularly pertinent as it aligns with the broader goal of ensuring financial stability and fostering an environment conducive to investment and economic growth. In essence, the findings of this study not only underscore the importance of judicial reforms in the contemporary economic landscape but also serve as a beacon, guiding future policy directions and reform initiatives aimed at achieving a more robust, transparent, and efficient capital market.

Disclosure statement

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