The Impact of Strengthening Legal Liability on the Effectiveness of Internal Control in Listed Companies

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Abstract

This paper utilizes the implementation of the new Securities Law in 2020 as a quasi-natural experiment, drawing on data from Chinese A-share listed companies spanning 2018-2022. It employs a multi-period difference-in-differences approach to investigate the impact of strengthening legal liability on the effectiveness of internal control in listed companies, along with the underlying mechanisms. The findings reveal that, in the full sample, the enhancing effect of the new Securities Law is not significant. However, it exhibits a significant positive impact on super-large enterprises in the top 75th percentile of asset size. Mechanism tests indicate that financial risk constraints serve as the core channel: the policy significantly reduces the leverage ratios of small and medium-sized enterprises, while in super-large enterprises, financial risks exert a significant negative influence on internal control. This study provides crucial evidence for understanding the conditional effectiveness of "harsh laws and stern punishments" style regulation, offering important theoretical and practical implications for advancing differentiated regulation and optimizing capital market governance.

Keywords

internal control, legal liability, difference-in-differences

1.   Introduction

1.1   Research Background and Significance

Internal control serves as the cornerstone of the governance system for listed companies, with its effectiveness directly impacting the information quality of the capital market and the rights and interests of investors. However, typical cases-ranging from the early Yin Guangxia and Lantian to the more recent Evergrande and ST Meicheng-demonstrate that serious deficiencies in internal control persist among some listed companies. These issues not only erode investor confidence but also disrupt market order, further underscoring the urgency of strengthening internal control regulation.

Against this backdrop, to consolidate the institutional foundation for the healthy development of the capital market, the 15th Session of the Standing Committee of the 13th National People's Congress revised and adopted the Securities Law of the People's Republic of China on December 28, 2019, which took effect on March 1, 2020. This revision of the new Securities Law establishes a regulatory orientation of "harsh laws and stern punishments" by substantially increasing violation costs and expanding the scope of responsible entities, thereby significantly strengthening the legal liabilities of all parties involved. This major institutional change provides a powerful quasi-natural experimental setting for examining how the reinforcement of legal liability

affects corporate internal control.

The significance of this study lies in its theoretical contributions, where empirical analysis identifies that the policy exerts a significant effect only on super-large enterprises, aiding a more comprehensive understanding of the impact of institutional changes on corporate behavior. On the practical front, it offers direct references for regulatory authorities in formulating targeted regulatory policies, proposing suggestions such as establishing tiered legal liability requirements based on different enterprise scales, focusing on compliance dynamics of high-leverage enterprises, and optimizing regulatory resource allocation in line with industry characteristics. These recommendations help enhance regulatory efficiency and provide guidance for the healthy development of the capital market.

1.2   Research Approach and Methods

This study revolves around the proposition of under what conditions and through what channels the reinforcement of legal liability affects the effectiveness of internal control in listed companies. It begins by examining the overall impact of the implementation of the new Securities Law on the internal control effectiveness of listed companies, assessing whether policy effects are insignificant at the full-sample level. It then further explores whether the enhancing role of strengthened legal liability on internal control is limited to listed companies within specific asset scale intervals. Subsequently, it delves into identifying the core transmission channels through which strengthened legal liability influences internal control effectiveness. Finally, it investigates the heterogeneity of policy effects across enterprises with different characteristics.

In terms of research method selection and application, the study primarily employs a combined design of multi-threshold treatment group definitions and continuous-type DID (difference-in-differences) approaches. On one hand, it delineates treatment groups using different scale thresholds such as the 75th and 90th percentiles to test the robustness of scale thresholds. On the other hand, it constructs a continuous-type treatment intensity variable to further verify the nonlinear characteristics of policy effects. At the same time, by integrating mechanism testing methods, it empirically analyzes the role of financial risk constraints in the influence of strengthened legal liability on internal control, thereby effectively enhancing the reliability and precision of the research conclusions.

2.   Literature Review and Theoretical Foundation

2.1   Literature Review

Existing research indicates that increasing the intensity of securities violation penalties can effectively reduce irregular information disclosure behaviors among listed companies (Jiang and Huang, 2021). However, the question of whether "strengthening legal liability inevitably and universally enhances the internal control quality of all enterprises" remains a subject of discussion and divergence in academia. Some scholars support the "complementary effect," arguing that legal deterrence prompts enterprises to proactively improve their internal control systems to mitigate risks (Fang and Chen, 2015); yet others propose the "substitution effect" or "heterogeneous response" perspectives, pointing out that different enterprises, due to variations in resources, capabilities, and constraints, exhibit significant differences in their responses to policies. Overall, however, the existing literature has not yet examined the moderating role of a basic firm characteristic-enterprise scale-nor clearly revealed the specific forms through which policies influence internal control.

To clarify the detailed logic of "how strengthening legal liability affects internal control," it is necessary to return to the essence of internal control. Generally speaking, larger-scale enterprises possess more abundant resources to invest in internal control system construction, with more perfected governance structures; at the same time, external pressures such as legal regulation, market competition, and media attention constitute important external drivers for enterprises to enhance internal control levels (Shen, 2005). Among these, the association between financial risk and internal control is particularly close: high-leverage enterprises face immense debt repayment pressures and operational uncertainties, where management may be compelled or proactively relax internal control standards in pursuit of short-term performance (Liu, 2006).

2.2 Theoretical Foundation and Research Hypotheses

Legal deterrence theory originates from the economics of crime, positing that agents' decisions are based on a rational weighing of the benefits and costs of violations. When legal reinforcement significantly increases violation costs, rational managers will proactively adjust behaviors to avoid risks (Song et al., 2020). The new Securities Law substantially raises the upper limit of fines and expands the scope of liability pursuit, markedly elevating potential violation costs and prompting listed companies to establish and maintain effective internal control systems to prevent financial misreporting and irregular operations(Fu et al., 2020). However, the impact of legal deterrence on corporate behavior is not homogeneous; institutional change theory emphasizes that the effects of macro-institutional changes on micro-enterprises are heterogeneous, with firm characteristics moderating their capacity and willingness to respond to policies(Zeng, 2024). Super-large companies typically have more ample financial resources, more professional compliance teams, and more mature management systems, enabling them to adapt more quickly to new legal requirements; in contrast, small and medium-sized enterprises may struggle to respond effectively due to excessively high fixed compliance costs and a lack of professional talent, leading to a scale threshold effect in policy outcomes (Zhang, 2018).

A firm's financial condition similarly influences its response to legal institutions. Financial risk theory posits that a firm's financial status profoundly affects its governance decisions and long-term investments. Enterprises with high financial risks face immense cash flow pressures and bankruptcy risks, where management may prioritize short-term survival and cut back on investments in long-term mechanisms such as internal control; conversely, firms with healthy financial conditions have both the capability and incentive to engage in long-term governance investments (Ye et al., 2023). Considering China's unique institutional environment, the strengthening of legal liability more directly impacts firms' financial discipline and external financing behaviors, rather than profoundly altering internal governance structures in the short term, thereby reducing agency costs.

In summary, this paper proposes the following four hypotheses:

H1: The implementation of the new Securities Law has a positive impact on the effectiveness of internal control in listed companies.

H2: The enhancing effect of the new Securities Law on internal control exhibits a scale threshold effect.

H3: The new Securities Law enhances internal control effectiveness through the channel of reducing corporate financial risks.

H4: The new Securities Law has an insignificant effect on improving agency costs.

3. Research Design

3.1 Sample Selection and Data Sources

This study selects Chinese A-share listed companies from 2018 to 2022 as the initial sample, excluding financial industry companies, ST and *ST companies under special treatment, and observations with missing key variables, ultimately yielding 12,595 firm-year observations. Data on internal control effectiveness are sourced from the DIBO Internal Control Index, which is widely used in domestic internal control research and possesses high authority. Other financial data are obtained from the CSMAR database, ensuring the reliability and consistency of the data.

3.2 Model Specification and Variable Sources

To test research hypotheses H1 and H2, this paper constructs the baseline difference-in-differences (DID) model (1) as follows:

$$ICE_{i,t} = \alpha_0 + \alpha_1 DID_{i,t} + \sum \beta_j Controls_{i,t} + \gamma_i + \lambda_t + \epsilon_{i,t} \qquad (1)$$

where γ_i represents firm fixed effects, λ_t represents year fixed effects, and standard errors are clustered at the firm level.

To examine hypotheses H3 and H4, this paper constructs the mediation effect model (2) as follows:

$$Mediator_{i,t}=\alpha_0+\alpha_1 DID_{i,t}+\sum \beta_j Controls_{i,t}+\gamma_i+\lambda_t+\epsilon_{i,t}$$
$$ICE_{i,t}=\alpha_0+\alpha_1 DID_{i,t}+\alpha_2 Mediator_{i,t}+\sum \beta_j Controls_{i,t}+\gamma_i+\lambda_t+\epsilon_{i,t} \quad (2)$$

Where Mediator refers to the financial risk and agency cost variables, respectively.

The definitions and descriptions of the main variables in this paper are as follows:

First, internal control effectiveness. Considering that the index evaluation method can more comprehensively reflect the overall quality of internal control, this paper borrows the construction method of the DIBO Internal Control Index and uses the natural logarithm of this index as the measure of internal control effectiveness. The index comprehensively reflects the overall levels of five elements: internal environment, risk assessment, control activities, information and communication, and internal supervision, possessing high authority and a broad application foundation. At the same time, in robustness tests, this paper employs internal control defect disclosures as an alternative indicator for re-examination.

Second, strengthening of legal liability. This paper designates listed companies in the top 75th percentile of asset scale as the treatment group and other companies as the control group, using the difference-in-differences method to examine the impact of strengthened legal liability on the internal control effectiveness of listed companies. This paper constructs treatment group dummy variables, time dummy variables, and their interaction terms, respectively. Specifically: the treatment group dummy variable is assigned a value of 1 if the firm's asset scale is in the top 75th percentile, and 0 otherwise; the time dummy variable is assigned a value of 1 if the year is 2020 or later, and 0 otherwise (Zhou and Chen, 2005); the interaction term is the product of the treatment group dummy variable and the time dummy variable (Ye and Wang, 2013).

Third, financial risk. The asset-liability ratio is traditionally regarded as a key indicator of solvency risk (Zhang and Han, 2025), capable of largely reflecting the firm's financial risk level; therefore, this paper uses the asset-liability ratio as the proxy variable for financial risk. To ensure the comparability of the indicator, this paper calculates it as the ratio of total liabilities to total assets (Zuo, 2018). At the same time, in mechanism tests, alternative indicators such as the interest coverage ratio and current ratio are considered for robustness checks.

Fourth, control variables. Based on existing research, the control variables selected in this paper are as follows: firm size, i.e., the natural logarithm of total assets; listing age, i.e., the current year minus the listing year plus 1; return on total assets, i.e., the ratio of net profit to total assets; revenue growth rate, i.e., the ratio of the increase in current-period operating revenue to the previous-period operating revenue; CEO-chair duality, i.e., 1 if the chairperson and CEO are the same person, and 0 otherwise; board size, i.e., the natural logarithm of the number of board members; proportion of independent directors, i.e., the ratio of the number of independent directors to the total number of board members; industry effects, i.e., industry dummy variables; year effects, i.e., year dummy variables. This paper applies winsorization to all continuous variables at the 1% and 99% levels to mitigate the influence of extreme values. Descriptive statistics for the main variables are presented in Table 1.

4. Empirical Analysis

4.1 Descriptive Statistics

Table 1 reports the descriptive statistics for the main variables. In the full sample, the mean value of internal control effectiveness is 6.472, with a standard deviation of 0.131, indicating certain differences in internal control quality across companies. The mean value of the treatment group variable is 0.301, suggesting that approximately 30.1% of the sample is affected by the policy. Inter-group difference tests show significant differences between the treatment and control groups in variables such as internal control effectiveness, firm size, financial risk, and listing age (p < 0.01), providing a basis for the subsequent use of fixed effects models and control variables.

Table 1: Descriptive Statistics

Variable	Observations	Mean	Std. Dev.	Min	Max
Internal Control Effectiveness	14387	6.471873	.1308557	4.749011	6.847272
Treatment Group Variable	12709	.3013612	.4588673	0	1
Treatment Group Dummy Variable	12709	.5008262	.500019	0	1
Time Dummy Variable	14506	.6526265	.4761521	0	1
Firm Size	14506	22.36708	1.284723	20.22243	26.41525
Asset-Liability Ratio	14506	.4019704	.185249	.0614223	.8335249
Listing Age	14506	9.703916	7.619933	1	28

4.2   Baseline Regression Results

Table 2 reports the baseline regression results. In the full-sample baseline DID model, the policy effect coefficient is positive but insignificant (coefficient = 0.005, p = 0.226); thus, hypothesis H1 is not supported. Additionally, the continuous-type DID estimation yields an insignificant policy effect (coefficient = 0.002, p = 0.147). However, when the treatment group is defined as super-large listed companies in the top 75th percentile of asset scale, the policy exerts a significant positive impact on internal control effectiveness (coefficient = 0.011, $p < 0.05$), supporting hypothesis H2. This indicates that the new Securities Law's enhancing effect on internal control exhibits a clear scale threshold effect.

Table 2: Baseline Regression Results (Scale Threshold Effect)

	Baseline DID	Continuous DID	75th Percentile Treatment Group
Treatment Group Variable	0.005		
	(1.21)		
Firm Size	0.021***	0.017**	0.021***
	(3.76)	(3.19)	(3.75)
Asset-Liability Ratio	-0.086***	-0.084***	-0.083***
	(-4.34)	(-4.32)	(-4.22)
Listing Age	0.002	0.002	0.003
	(0.20)	(0.14)	(0.26)
Continuous DID		0.002	
		(1.45)	
75th Percentile Interaction			0.011*
			(2.38)
Constant	6.011***	6.068***	6.005***
	(34.67)	(37.02)	(34.93)
Observations	12595	13913	12595
R-squared	0.417	0.421	0.417
Adjusted R-squared	0.267	0.253	0.268

4.3   Robustness Tests

To verify the reliability of the conclusions, this paper conducts systematic robustness tests. First, the measurement of the dependent variable is replaced by using the raw values of the DIBO Internal Control Index for regression. The results show that the coefficient of the 75th percentile interaction term remains positive and marginally significant at the 10% level, consistent with the baseline regression conclusions. Second, placebo tests are performed by fictitiously shifting the policy time point to 2017 and 2018, respectively, yielding insignificant policy effects, which satisfy the robustness requirements. However, when the policy time point is fictitiously set to 2019, the policy effect is significant at the 1% level, possibly because the Securities Law was revised and adopted at the end of 2019, leading the market to form expectations and react in advance. Finally, different scale threshold definitions are used to delineate the treatment group, and the policy effects

remain insignificant, indirectly confirming the robustness and rationality of using the 75th percentile as the scale threshold.

Table 3: Robustness Test Results

	Replace Dependent Variable	Subsample	Placebo 2017	Placebo 2018	Placebo 2019	Sample Period	Non-Financial	60th Percentile	80th Percentile
75th Percentile Interaction Term	6.217	0.000				-0.002	0.011*		
	(1.85)	(.)				(-0.29)	(2.38)		
Firm Size	11.854**	10.715	0.021***	0.021***	0.020***	0.003	0.021***	0.021***	0.021***
	(3.10)	(1.30)	(3.73)	(3.73)	(3.67)	(0.39)	(3.75)	(3.73)	(3.73)
Asset-Liability Ratio	-63.066***	-127.555***	-0.088***	-0.088***	-0.082***	-0.060*	-0.083***	-0.088***	-0.088***
	(-4.77)	(-3.97)	(-4.47)	(-4.47)	(-4.14)	(-2.49)	(-4.22)	(-4.47)	(-4.47)
Listing Age	4.583	-12.641	0.001	0.001	0.003	-0.008	0.003	0.001	0.001
	(0.54)	(-1.14)	(0.13)	(0.13)	(0.27)	(-0.77)	(0.26)	(0.13)	(0.13)
Fictional 2017 Interaction			0.000						
			(.)						
Fictional 2018 Interaction				0.000					
				(.)					
Fictional 2019 Interaction					0.025***				
					(4.19)				
60th Percentile Interaction Term								0.000	
								(.)	
80th Percentile Interaction Term									0.000
									(.)
Constant	355.369**	687.856**	6.026***	6.026***	6.012***	6.529***	6.005***	6.026***	6.026***
	(2.82)	(2.58)	(35.08)	(35.08)	(35.20)	(32.08)	(34.93)	(35.08)	(35.08)
Observations	12709	3184	12595	12595	12595	10150	12595	12595	12595
R-squared	0.463	0.524	0.417	0.417	0.418	0.468	0.417	0.417	0.417
Adjusted R-squared	0.327	0.402	0.267	0.267	0.269	0.289	0.268	0.267	0.267

4.4   Mechanism Test Results

To examine the channels through which the new Securities Law affects internal control effectiveness, this paper conducts mediation effect tests for hypotheses H3 and H4. The model specification is as shown in Equation (2), with test results reported in Table 4.

Table 4: Mechanism Test Results

	Large Company Leverage	Small Company Leverage	Agency Cost	Direct Effect	Mediation Effect
Treatment Group Interaction Variable	0.000	-0.014***	0.000	0.000	0.000
	(.)	(-4.66)	(.)	(.)	(.)
Firm Size	0.103***	0.075***	-0.185**	0.001	0.021
	(10.11)	(13.50)	(-2.89)	(0.13)	(1.74)
Listing Age	-0.024***	-0.024**	-0.002	-0.012	-0.016
	(-3.72)	(-2.79)	(-0.03)	(-0.70)	(-0.98)
Asset-Liability Ratio			-0.416**		-0.190***
			(-2.58)		(-3.70)
Constant	-1.576***	-1.037***	5.125**	6.662***	6.365***
	(-5.75)	(-7.56)	(3.01)	(17.13)	(16.30)
Observations	3184	9525	3113	3161	3161
R-squared	0.922	0.866	0.627	0.507	0.511
Adjusted R-squared	0.903	0.832	0.530	0.381	0.385

Based on Table 4, the following conclusions can be drawn:

(1) Financial Risk Channel (Hypothesis H3)

The results in column (2) indicate that for small and medium-sized companies, the implementation of the new Securities Law significantly reduces their leverage ratios. This suggests that the policy operates through the channel of alleviating firms' financial pressures. Column (5) further shows that in super-large companies, financial risk has a significant negative impact on internal control effectiveness, meaning that lower leverage ratios correspond to lower financial risks and higher internal control effectiveness. In summary, hypothesis H3 is supported
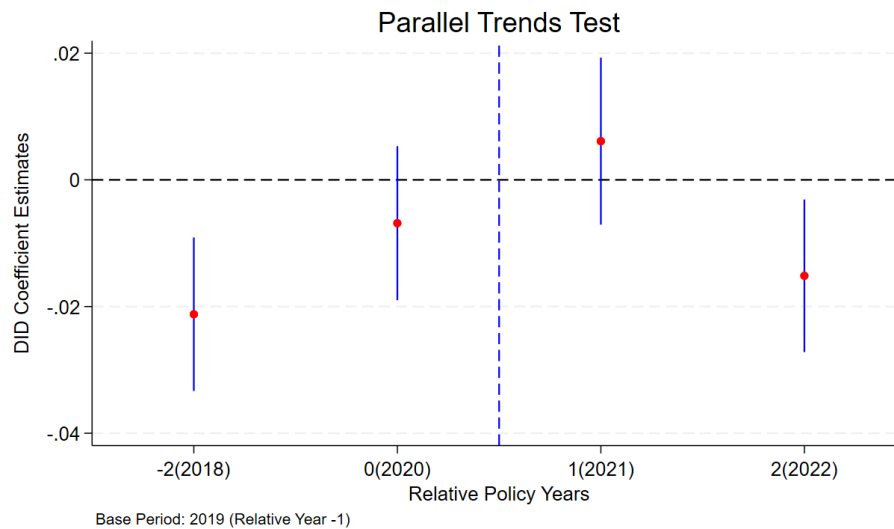
(2) Agency Cost Channel (Hypothesis H4)

The results in column (3) show that the policy has no significant impact on agency costs. This indicates that the new Securities Law does not affect internal control through the path of reducing agency costs or improving internal governance structures. Therefore, hypothesis H4 holds.

4.5   Parallel Trends Test

The parallel trends test results indicate that in the year prior to policy implementation, there are no systematic differences in internal control effectiveness between the treatment and control groups, satisfying the parallel trends assumption. In the year of policy implementation and thereafter, the DID coefficient estimates turn positive and increase in magnitude, suggesting that the policy effects gradually emerge and strengthen over time.

Figure 1: Parallel Trends Test

4.6 Heterogeneity Analysis

The heterogeneity analysis results reveal clear boundary conditions for the policy effects of the new Securities Law. First, grouped by industry characteristics, the policy significantly enhances internal control effectiveness for manufacturing firms (coefficient = 0.018, $p < 0.05$) and non-manufacturing firms (coefficient = 0.014, $p < 0.05$), with the promotional effect slightly more pronounced in manufacturing. Second, grouped by financial risk, the policy yields no significant effects in either high-leverage or low-leverage enterprises, indicating that financial risk itself is not a decisive moderating factor for policy effects.

Table 5: Heterogeneity Analysis Results

	High Leverage	Low Leverage	Manufacturing	Non-Manufacturing
75th Percentile Interaction Term	0.012	0.017	0.018*	0.014*
	(1.65)	(1.46)	(2.12)	(2.07)
Firm Size	0.011	0.023*	0.013	0.013
	(1.06)	(2.45)	(1.57)	(1.71)
Listing Age	0.000	0.020	0.021	-0.001
	(0.02)	(1.39)	(0.92)	(-0.07)
Constant	6.222***	5.778***	5.973***	6.182***
	(21.70)	(23.92)	(20.72)	(26.32)
Observations	6378	5804	5879	6716
R-squared	0.462	0.415	0.408	0.421
Adjusted R-squared	0.293	0.228	0.256	0.273

5. Conclusions and Implications

5.1 Main Research Conclusions

Through empirical methods such as multi-period difference-in-differences, mediation effect tests, and heterogeneity analyses, this paper systematically tests the four proposed research hypotheses. Among them, hypothesis H1 does not receive empirical support, while hypotheses H2, H3, and H4 all pass statistical tests and are fully validated. Specifically, the study yields the following main conclusions:

First, the new Securities Law's impact on internal control effectiveness exhibits a significant scale threshold effect. In the full-sample baseline regression and continuous-type DID estimation, the policy effects fail to pass statistical significance tests, indicating that the overall strengthening of legal liability does not lead to

universal improvements in internal control; thus, hypothesis H1 is not supported. However, when the treatment group is defined as super-large listed companies in the top 75th percentile of asset scale, the policy demonstrates a significant positive impact on internal control effectiveness (coefficient = 0.011, $p < 0.05$). This suggests that the promotional effect of strengthened legal liability on internal control only manifests in enterprises where scale reaches a certain threshold, reflecting the nonlinear and conditional nature of policy effects.

Second, mechanism test results indicate that financial risk constraints serve as the core channel through which the policy operates. As shown in Table 4, among small and medium-sized companies, the policy significantly reduces firms' leverage ratios (coefficient = -0.014, $p < 0.01$), thereby alleviating financial pressures; in super-large companies, financial risk exerts a significant negative impact on internal control effectiveness. This demonstrates that the new Securities Law primarily enhances internal control quality through the path of constraining excessive debt and reducing financial risks. In contrast, the agency cost channel does not pass the significance test (Table 4, column (3)), indicating that the policy does not affect internal control by improving corporate governance structures or reducing agency costs; thus, hypothesis H4 holds.

Third, heterogeneity analyses further reveal clear industry differences in policy effects. The new Securities Law generates significant enhancements in both manufacturing (coefficient = 0.018, $p < 0.05$) and non-manufacturing sectors (coefficient = 0.014, $p < 0.05$), with the effect more pronounced in manufacturing. However, across different financial risk groups, policy effects are insignificant, suggesting that financial risk itself is not a key moderating variable for policy responses.

5.2 Theoretical Contributions

The theoretical contributions of this study are mainly reflected in the following three aspects:

First, the research shifts from "whether it is effective" to "under what conditions it is effective," revealing the nonlinear characteristics and scale threshold effects of strengthened legal liability on corporate internal control, thereby deepening the understanding of the micro-governance effects of legal institutions and addressing deficiencies in existing literature regarding heterogeneous policy response mechanisms.

Second, by constructing a mediation effect model, the study clarifies the dominant role of financial risk constraints in policy transmission, elucidating the micro-path through which legal liability influences corporate financial behaviors and, in turn, internal control. This provides new empirical evidence and theoretical explanations for understanding the mechanisms by which legal environments affect corporate decisions.

Finally, through systematic robustness tests and heterogeneity analyses, the study offers empirical support for institutional change theory from the context of China's capital market institutions, demonstrating that basic attributes such as firm scale and industry characteristics significantly moderate the micro-effects of institutional reforms, thereby expanding the application boundaries of institutional change theory.

5.3 Policy Implications

Based on the above research conclusions, this paper proposes the following policy implications:

First, implement targeted and differentiated regulatory strategies. Given that policy effects are significant only for super-large enterprises, it is recommended that regulatory authorities incorporate tiered scale dimensions when formulating legal liability standards, setting more flexible compliance requirements or longer transition periods for small and medium-sized enterprises. This approach can effectively enhance regulatory efficiency while reducing firms' compliance burdens.

Second, strengthen monitoring and guidance of corporate financial risks. The study confirms that financial risk is a key channel for policy transmission; therefore, regulatory departments can incorporate financial indicators such as leverage ratios and solvency into internal control evaluation systems, thereby guiding enterprises to optimize their capital structures and consolidate the foundation of internal control.

Third, optimize the allocation of regulatory resources and emphasize industry priorities. The research shows that manufacturing enterprises exhibit higher sensitivity to strengthened legal liability; thus, it is suggested to

provide enhanced guidance and support to manufacturing firms in regulatory practices.

Fourth, prudently assess the applicability boundaries of "harsh laws and stern punishments" style regulation. In advancing the strengthening of legal liability, the response capacities and effects across various enterprise types should be pre-evaluated to avoid efficiency losses from "one-size-fits-all" policies, ensuring an effective match between regulatory intensity and firms' actual tolerance.

5.4 Research Limitations and Prospects

Although the study verifies the existence of the scale threshold effect through multiple methods, the specific formation mechanisms have not been explored in depth. Additionally, the research focuses solely on firm scale and industry attributes, without examining other real-world factors influencing enterprises' responses to external legal shocks, such as ownership structure and equity concentration. Looking ahead, future research could attempt to introduce more complex identification strategies to more precisely identify net policy effects; it could also extend the analysis to other institutional contexts for comparative studies to test the generalizability of the conclusions; furthermore, by integrating emerging topics such as digital transformation and ESG governance, it could explore the synergistic effects between strengthened legal liability and corporate governance innovations, providing richer theoretical support and empirical evidence for building a capital market governance system with Chinese characteristics.

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Conflicts of Interest

The authors declare no conflict of interest.

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