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Feature Articles

This month's focus: **Financial Reporting and Business Time Horizon**

This article reviews research into the policy evaluation of financial reporting frequency—prior literature shows that reporting frequency impacts investor and corporate behavior. Here, we synthesize such studies into a framework to enable understanding of the big picture of reporting frequency discussion. We also investigate the economic effect of financial reporting frequency in Japan on corporate investment by following Fujitani (forthcoming). It was found that the positive effects of frequent financial reporting on corporate investment would be larger for firms which face higher degree of information asymmetry.

This paper investigates the disclosure of medium-term management plans in the annual securities reports of the chemical industry after confirming the disclosure environment regarding such information. About 65% of companies in this industry disclose such information. The top three numerical targets are sales, operating income, and return on equity. It was found that the determinants of disclosure of such information are company size and foreign ownership ratio. As for issues concerning the disclosure of such information, lack of explanation of long-term management plans/vision and use of non-GAAP indicators should be pointed out.

This paper empirically examines the impact of integrated reporting on the disclosure of earnings information. The results show that both realized and forecast earnings disclosure change after the introduction of integrated reporting, and the probability of the issuance of an initial management forecast for the fiscal year ending March 2021 is higher for companies adopting integrated reporting than for companies not. These findings suggest that integrated reporting can facilitate long-term oriented dialog between companies and investors.

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We examine earnings propagation effects through the global supply chain by measuring the lead-lag structure of quarterly earnings. We find that propagation effects exist not only from direct trading partners, but also companies with less proximity, such as the customers of customers. We also discuss the effectiveness of using network centrality measures to estimate the impact of each company on other companies in the supply chain. Our results suggest that weighting by degree of network centrality can be effective for capturing the propagation effect from indirectly connected companies.

This paper investigates whether firm productivity has an influence on stock price fluctuations. We measure total factor productivity (TFP), labor productivity, and capital productivity of Japanese listed firms to analyze the effect of these productivity measures using Fama and French's three-factor model (1992) . The results show that all of them have a significant positive impact on stock returns. Although the predictive power of productivity declines gradually as the forecasting period of stock returns is extended into the future, the estimates are statistically significant even one year ahead, demonstrating their applicability to operational practice. Unlike previous studies, the results are statistically significant due to panel analysis. In recent years, the widespread use of stewardship codes has promoted dialog between companies and investors, and the results of this study could provide a basis for investors to demand productivity improvements from the perspective of increasing shareholder value.