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Management Forecasts in Japan: An Empirical Study of Forecasts that Are Effectively Mandated

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ABSTRACT: We study management forecasts in Japan, where forecasts are effectively mandated but managers have considerable latitude over the numbers they release. We find that managers' initial earnings forecasts for a fiscal year are systematically upward-biased but that they revise their forecasts downward during the fiscal year so that most earnings surprises are non-negative. Managers' initial forecast optimism is inversely related to firm performance, and is more pronounced for firms with higher levels of insider ownership, smaller firms, and firms with a history of forecast optimism. The fact that managers' forecasts tend to be consistently optimistic suggests that reputation effects are insufficient to ensure managerial forecast accuracy. We also find that the information content of managers' forecasts is related to proxies for whether market participants view the forecasts as credible.

Keywords: *management forecasts; Japan; forecast credibility; forecast optimism.*

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Is Japan Really a "Buy"? The Corporate Governance, Cash Holdings and Economic Performance of Japanese Companies

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Abstract: We investigate whether Japan's much-touted governance reforms improve its firms' management of cash, economic performance and valuation. Consistent with an improvement in governance since 2000, Japanese firms hold less cash and increase payouts to shareholders. Improvements in performance are associated with reductions in (excess) cash, reductions in the influence of the banks that traditionally sit at the center of horizontal *keiretsu*, and increases in the holdings of management and foreign investors. The market valuation of Japanese firms' cash holdings was lower than for US firms during the 1990s but increased to levels closer to those of US firms in the 2000s. Collectively, the evidence suggests that performance improves in those Japanese companies that reform their governance practices. These findings have implications for other Asian economies, such as China, India and Korea, where there are ongoing discussions of whether improved governance can increase firm performance and valuation.

Keywords: corporate governance, Japan, dividends, repurchases