

Corporate globalization, industrial diversification, and the value relevance of earnings

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Using a sample of 14,498 firm-years between 1998 and 2005, this study examines the value relevance of both business and geographical segment information for firms listed in Japan. I find that the market values consolidated earnings and book value of equity, taking into account the scope of consolidated group, diversification of line-of-business, and activities of overseas operations. I also find that foreign and domestic earnings are significantly value-relevant. I show that the

large association coefficient for foreign earnings is related to relative growth opportunities of overseas operations to domestic ones. These results indicate that the market perceives the business and geographical segment information as value relevant, and provide the first empirical price-based evidences that consolidated financial statements provide more information about business strategies to the market, as the new Japan GAAP proposed.