Corporate disclosure is the study of the way firms make disclosure decisions. Thus, the way we understand about firms’ organizational structure, for example, may affect our understanding about firms’ disclosure behavior. For example, two firms may have the same set of assets, yet their respective organizational structures can lead to widely varied levels of performance, which could also result in two firms exhibiting different disclosure behaviors. This dissertation takes an analytical approach to understand firms’ incentives of disclosing information from the perspective of the theory of the firm. Specifically, my dissertation intends to jointly investigate firms’ disclosure behaviors and organizational structure in the context of investment efficiency, which is a key concern for any economy.

In the first chapter, I propose an analytical framework to jointly investigate firm’s disclosure behavior and organizational structure, based on the discussion about policy-related issues and related literatures. Specifically, I first discuss policy-related issues regarding segment reporting. The discussion shows that practitioners consider the allocation of capital as one of the most important tasks of the CEO, and I also discuss the archival literature on segment reporting in the context of internal capital allocation. Then, I discuss analytical literatures on voluntary disclosure and internal capital markets. I show that, unlike archival literature, analytical literatures lack framework to understanding the disclosure behavior of multi-segment firms. Therefore, I propose an analytical framework that enables us to jointly consider firms’ disclosure behavior and internal capital allocation. This becomes the basis for my analysis in chapter 2.

In the second chapter, I develop a model to explain the following empirical regularity. Evidence on diversified firms that operate in multiple industries suggests that they often withhold information and appear to trade at a discount compared to a group of stand-alone firms. This raises the question of why firms choose to be diversified in the first place. To answer this question, I develop a model of voluntary disclosure that incorporates a key feature of diversified firms: internal capital allocation. My analysis demonstrates two main points. First, the ability to allocate capital internally can make a diversified firm more valuable than a group of stand-alone firms. This result holds true despite the fact that the diversified firm chooses to disclose less private information to the investors than stand-alone firms. Second, the first result holds true under a certain information environment a firm faces. Specifically, when it is moderately likely that the firm privately knows the profitability of its projects, the value of forming a diversified firm is higher than forming individual stand-alone ones. These results potentially explain why firms choose to be diversified even if the structure appears to be suboptimal.

In the third chapter, I discuss a potential extension of the model in chapter 2, and I consider alternative approaches to understanding voluntary disclosure and organizational structure in the context of investment efficiency. First, I investigate a simple model in which external disclosure and internal information production interact with each other. I show that, under certain conditions, external disclosure encourages more production of information by divisional managers. This is mainly due to the unraveling argument in the voluntary disclosure literature. That is, the divisional managers exert more effort to generate information
so that the firm can avoid credit rationing upon no disclosure. Second, I consider an alternative disclosure friction, and I show that the main results in chapter 2 are robust to a particular form of disclosure friction. Third, instead of voluntary disclosure, I consider a contractual approach to mitigating the information asymmetry between firms and investors. I show conditions under which the first-best ex-ante outcome can be achieved with the contractual approach and discuss limitations of the proposed contract.