

# Dissertation Proposal

Hyun Hwang

## Corporate Disclosure: Intra-firm and Inter-firm Perspectives

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384 Posner Hall

A fundamental role of information is to help allocate capital efficiently in an economy, and accounting disclosure helps investors in making an informed decision about capital investment. Thus, both researchers and practitioners have shown much interest in understanding the roles of accounting in the communication between managers and investors. However, accounting disclosure may also have implications on stakeholders other than managers and investors. For example, accounting disclosure to outsiders can affect the incentives of employees within organizations, while the managers of other firms may also adjust their disclosure strategies. This dissertation investigates how an individual firm's accounting disclosure has nontrivial implications on stakeholders both within and outside of the organization, and these perspectives help explain certain features of disclosure practices.

### **1. Disclosure Policies, Internal Resource Allocation, and Investment Efficiency**

This paper investigates how firm disclosure made towards the investors affects the incentives of internal division managers using a two-tiered agency model. On the one hand, more disclosure helps the firm to fine-tune capital investment decision, resulting in a higher investment return when external financing can be arranged. On the other hand, more disclosure exposes division managers to more compensation risk, reducing their incentives to exert productive efforts, which lowers the chance of external financing. The analysis identifies conditions under which this tradeoff emerges. I extend the analysis to a firm with two divisions and show how disclosure policies are affected by the internal allocation of capital between the two divisions. The analysis shows why firms with multiple divisions often tend to withhold segment information and experience price discount on mandatory segment disclosures.

### **2. Economic Network Based on Accounting Data: Quadruple Entry Approach**

The accounting bookkeeping process converts transactions taking place in a firm into a set of accounts, the basis for summary financial statements. The bookkeeping process in a single firm follows double entry: every transaction affects two accounts by an equal amount. When there is a transaction between two firms, the double-entry accounting implies that four entries are required (two for each firm), leading to a quadruple-entry system at the aggregate level. As a result, the quadruple entry system becomes the basis for analyzing financial statements from multiple firms with the inter-firm transactions. This paper develops an accounting-based framework for analyzing the network of

multiple firms, taking advantage of the structure of quadruple entry bookkeeping accounting system among the interlinked firms. In particular, it shows the algebraic mechanism through which introducing account balances from other firms reduces the challenges when inferring transactions from financial statement of a given firm.

### **3. Disclosure Competition for Investors' Attention**

Past studies have shown that the disclosure of individual firms can be affected by its peer firms. However, the information gathering by investors may also affect the disclosure policies. This paper investigates the optimal disclosure policy of a firm when i) there are multiple firms and ii) the investors can acquire information about individual firms.

Although nondisclosure increases the uncertainty of a firm and therefore risk premium, nondisclosure attracts investors to acquire information about the company, lowering the risk premium. The interaction of these two forces determine the optimal disclosure policy. We show that a firm with low prior variance may choose to adopt disclosure, whereas a firm with high prior variance may not disclose information. The paper may explain why established firms continue adopting disclosure policy.

### **4. Optimal Disclosure Policy with Ambiguity-Averse Investors**

This paper studies the optimal disclosure policy with ambiguity-averse investors. The main tradeoff is that noisy information reduces the risk premium because it decreases investors' posterior variance of future payoffs, but it also increases the ambiguity premium because it increases the range of possible interpretations. Thus, ambiguity aversion creates a disclosure cost. When disclosure is voluntary, this risk-ambiguity tension creates a disclosure threshold, but when disclosure is mandatory, it creates an optimal precision level of the noisy signal. The paper also finds that when the ambiguity premium is high (low), a voluntary (mandatory) disclosure rule is ex ante value-maximizing.