THREE ESSAYS ON CORPORATE GOVERNANCE AND FINANCIAL DISCLOSURE

by

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ABSTRACT

This dissertation consists of three distinct but related essays on corporate governance and financial disclosure quality. In the first essay, I examine whether banks value the quality of corporate boards when designing bank loan contracting. The second essay reexamines the relation between corporate boards and firm performance using the current financial crisis as a natural experiment. In the third essay, by focusing on conservative accounting, I test whether gender of CFOs affects financial reporting decision-making.

Corporate governance is an interdisciplinary topic, drawing on both finance and accounting areas. Basically, the study of corporate governance is concerned about how different mechanisms mitigate incentive problems created by the separation of the management and ownership. Among those governance mechanisms, corporate boards are widely believed to play a pivotal role in internal corporate governance, especially in monitoring management. However, whether and how different board characteristics facilitate effective monitoring, and in turns affect firm performance and cost of capital is still a debatable and unclear issue in the literature.

The first essay of my dissertation is to examine how corporate boards impact financial contracting in the context of bank loans. I find that when corporate boards are more independent, both price and non-price loan terms (e.g., interest rates, collateral, covenants and performance pricing provisions) are more favorable and syndicated loans comprise more lenders. In addition, board size, board diversity, audit committee structure and other director characteristics also influence bank loan price. However they do not consistently affect all non-price loan terms except for audit committee independence. My study provides strong evidence that banks tend to recognize the benefits of board monitoring in mitigating information risk ex-ante and controlling

agency risk ex-post, and reward borrowers with higher quality boards with more favorable loan contract terms.

In the second essay, I reexamine how different board characteristics affect firm performance using current financial crisis as a natural experiment. Using cumulative stock returns over the crisis to measure of firm performance, I find that board independence, as traditionally defined, does not significantly affect firm performance. However, when I re-define independent directors as outside directors who are less connected with current CEOs, a measure I call true independence, there is a positive and significant relation between this measure and firm performance. Second, outside financial experts are important for firm performance, especially for the performance of financial companies. Third, academics on boards, board meeting frequencies, director attendance behaviors, and director age also affect firm performance during the crisis. Overall, my results suggest that firm performance during a crisis is a function of firm-level differences in corporate boards.

Financial disclosure quality is also a key ingredient in the corporate governance process, as accounting provides the information required for most governance mechanisms to operate efficiently. Actually, many of financial accounting principles, such as historical cost, realization and conservatism, cannot be understood unless we interpret them from a corporate governance perspective.

In the third essay, I focus on the topic of accounting conservatism and test whether the gender of top executives impacts the degree of accounting conservatism. By focusing on firms that experience changes of CFO from male to female, I compare the firms' degree of reporting conservatism between pre- and post-transition period. Evidence reveals that female CFOs tend to report firm performance more conservatively, indicating that they are significantly more cautious

in recognizing gains compared to losses than their male counterparts. Similar results are observed when a difference-in-difference approach is used and a propensity score matching method is employed to alleviate the potential endogeneity concerns. The results are robust to control for the effect of corporate governance, CFO ownership, CFO age, CFO prior experience, and concurrent CEO turnover. Finally, the paper reports that the level of reporting conservatism declines for firms where the change is from female to male. Thus, the study provides a strong support for the notion that female CFOs are more risk-averse than male CFOs, and that female CFOs adopt more conservative financial reporting policies.