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Female CFOs and loan contracting: Financial conservatism or gender discrimination? – An empirical test based on collateral clauses

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ABSTRACT

Based on signaling and gender discrimination theory, we examine whether chief financial officer (CFO) gender matters to bank–firm relationships and the designing of collateral clauses in bank loan contracting, and explore the potential path of influence. Data taken from Chinese listed companies between 2009 and 2012 indicate that (1) female-CFO-led firms are less likely to obtain credit loans than male-CFO-led firms; (2) female-CFO-led borrowers are more likely to be required to provide collateral for loans than male-CFO-led borrowers; and (3) banks are more inclined to claim mortgaging collateral when lending to female-CFO-led firms and prefer to guarantee collateral when lending to male-CFO-led firms. Female-CFO-led borrowers seem to be granted more unfavorable loan terms than male-CFO-led borrowers, supporting the hypothesis that female CFOs experience credit discrimination. Further analysis reveals that regional financial development helps to alleviate lending discrimination against female CFOs. Furthermore, female CFOs in SOEs are less likely than their non-SOE counterparts to experience gender discrimination in the credit market.

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1. Introduction

Many studies have shown that financial development plays an important role in promoting economic growth (Rajan and Zingales, 1996; Levine, 2005). However, compared with Western countries, the security market in China is less developed and the financial system is dominated by the banking sector (Chen et al., 2013; Gou et al., 2014). Under these conditions, bank loans are major sources of corporate financing, even for large public companies. For instance, the average ratio of the volume of bank loan financing to GDP from 1990 to 2008 in China was 82.4%, and the average ratios of equity volume and bond financing to GDP were only 0.81% and 0.76%, respectively.[1] In fact, even in the United States, the volume of bank loan financing is much larger than that of equity and bond financing combined. Given the economic significance of bank loans in allocating capital to corporations, considerable effort has been made to investigate the determinants of bank loan contracting (e.g., Qian and Strahan, 2007; Graham et al., 2008; Chava et al., 2009; Hasan et al., 2012; Ge et al., 2012). Different from the current literature, this study focuses on the effect of CFO gender on bank–firm relationships and attempts to explore whether and how female CFOs exert a significant influence on the designing of bank loan terms.

Over the past decade, the number of female executives (especially female CFOs) has increased dramatically.[2] As their education levels and social status improve, female executives are playing an increasingly important role in corporate decisions. The significant increase in female CFOs has also attracted considerable attention from academics. An emerging stream of literature is beginning to investigate the systematic differences between male and female CFOs in terms of their accounting, financing and investment decisions (Francis et al., 2013). For example, studies have indicated that firms with female CFOs adopt more conservative accounting policies (Francis et al., 2014), are less likely to manipulate earnings (Chava and Purnanandam, 2010; Liu et al., 2015) and are less likely to make significant acquisitions but more likely to decrease leverage levels than firms with male CFOs (Huang and Kisgen, 2013).

In the bank loan literature, accounting information is an important standard that banks rely on to assess borrowers' credit risk. Earlier studies find that when banks initiate private debt, they are very sensitive to various accounting information attributes, such as operating accruals (Bharath et al., 2008) and conservatism (Sunder et al., 2009; Zhang, 2008). Assuming that female CFOs are more likely to report high-quality and conservative earnings than male CFOs, as documented in earlier studies, banks should realize the benefits of female CFOs in providing more reliable and conservative accounting information to lenders (Francis et al., 2014) and thus reward borrowers under the control of female CFOs with favorable loan terms.

However, finance studies have long suggested the notion of credit discrimination, which indicates that discrimination in the credit market occurs when the decisions lenders make in relation to loan applications are influenced by personal characteristics that are not relevant to the transactions, such as the gender or race of the top executives of the borrowing firm. In the classical model adopted by Becker (1957), discrimination arises due to the taste-based preferences of the lender, who is willing to pay a price to avoid being associated with certain groups of borrowers. Alesina et al. (2013) provide evidence that female-managed firms are less likely than their male-managed counterparts to obtain bank loans and are charged higher interest rates when loan applications are approved. Similar results are presented by Bellucci et al. (2010), who find that female entrepreneurs face tighter credit availability. Thus, the presence of credit discrimination against women reveals that banks may charge higher loan prices and require stricter non-price terms when lending to female-CFO-led companies.

An important implication of the preceding discussion is that female CFOs may not necessarily obtain favorable or unfavorable loan contracts. Therefore, the direction of the relationship between the two remains an open empirical question. The main purpose of this study is to explore whether and how CFO gender influences the designing of collateral clauses in bank loan contracts. Examining this issue in the Chinese setting is interesting and important for several reasons. First, bank loans are a major source of external financing in

[1] *Data source*: http://www.pbc.gov.cn/publish/html/kuangjia.htm?id=2013s01.htm.

[2] For example, among the major U.S. corporations in 2005, 7.5% of chief financial officers (CFOs) and 1.5% of chief executive officer (CEOs) were women, versus 3.0% and 0.5% in 1994, respectively. According to Grant Thornton's "Report on International Business Questionnaire," the ratio of female executives in Chinese companies was about 25%, an amount larger than the global average (21%).

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