DO CORPORATE GOVERNANCE RATINGS CHANGE INVESTOR EXPECTATIONS? EVIDENCE FROM ANNOUNCEMENTS BY INSTITUTIONAL SHAREHOLDER SERVICES

Paul M. Guest *, Marco Nerino *

* Centre for Business Research, University of Cambridge, the U.K.

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Abstract

This paper examines empirically the announcement effect of commercial corporate governance ratings on share returns. Rating downgrades by Institutional Shareholder Services (ISS) are associated with negative returns of -1.14% over a 3-day announcement window. The returns are highly correlated with the proprietary analysis of ISS and are decreasing in agency costs, consistent with ratings providing independent information on underlying corporate governance quality. We thus show that the influence and impact of ISS extends beyond proxy recommendations and subsequent voting outcomes. Our findings contrast with the insignificant price impact of Daines, Gow, and Larcker (2010), whose analysis we replicate and successfully reconcile to ours by differentiating rating upgrades from downgrades.