Abstract

Our study in this paper deals with investigating the relationship between corporate governance and credit ratings. We wish to learn whether firms with strong corporate governance benefit higher credit ratings compared to firms with weaker governance. We find that after controlling for firm specific characteristics credit ratings are negatively associated with CEO power and positively related to percentage of stock owned by institutional investors, board independence and timeliness of earnings. We observe that one of our corporate governance variable, the percentage of shares held by insiders is positively related to credit ratings when theory suggests otherwise. This may be because insiders holding shares would want to increase the value of their share holdings by working towards improving firm performance rather than engaging in opportunistic behavior.