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Corporate Governance Rating Changes at Borsa Istanbul

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ABSTRACT

This study investigates the market reaction to the increases and decreases in corporate governance ratings of public firms quoted at the Borsa Istanbul, as well as the market reaction to the increases and decreases in the scores for the subcomponents of the total ratings. The findings suggest that investors react negatively to the announcements of decreases in the overall corporate governance ratings and the scores for the four subcomponents. On the other hand, the findings surprisingly suggest that investors also react negatively to the announcements of increases in the overall corporate governance ratings and the scores for the subcomponents of these ratings. These findings contradict the expectation that investors would value improvements in governance ratings highly based on the assumption that increases in these ratings would imply improved corporate governance that would lead to decreased agency costs and therefore, increased firm value. The findings are robust to various econometric specifications and tests.

KEYWORDS Corporate Governance; Corporate Governance Ratings; Market Reaction

JEL G32, G34, G38