

Convergence in Corporate Governance: A Probit Analysis

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Abstract. In this paper the use of ratings as a measure of corporate governance of firms is explored to investigate the convergence of governance models. To study the evolution of such models in Europe, the proposed approach considers institutional-specific effects to analyse the determinants of the probability of a firm improving its rating, as well as the probabilities of transitioning between different levels of ratings. The methodology is based on binary and ordered choice probit models, and is illustrated using the official Deminor governance ratings for a sample of 198 European companies belonging to the FTSE Eurofirst 300 index, in 2000 and 2003. Results suggest that there is a tendency for convergence, despite country-specific characteristics, and that the probability of increasing ratings is higher for the Anglo-Saxon model.

Keywords: corporate governance; convergence; ordered probit model; rating.

JEL Classification: C25; F43; G30.

1. Introduction

The study of models of corporate governance has been undertaken by various researchers, based on the analysis of the effects of a wide range of phenomena on the main elements that characterise these models.

The different lines of research can be classified into three major classes: (i) theoretical approaches, centred on predominantly descriptive analysis (Carati and Rad, 2000; Jacoby, 2002; Plihon *et al.*, 2002; Aguilera and Jackson, 2002 and 2003), aiming at the development of a model for the issue (Zingales, 1997; Lombardo e Pagano, 2002, Enriques and Volpin, 2007); (ii) empirical approaches, which integrate in the generally multidisciplinary methodology various quantitative observations recorded along