DOES CEO TENURE INFLUENCE CORPORATE BOND RATING PROPERTIES?

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ABSTRACT

This study examines whether and how corporate bond rating quality varies with CEO tenure. Due to the expansive roles of credit ratings in capital market, managers have incentives to maintain or improve their ratings. Accumulated firm experience makes longer-tenured CEOs better at strategic communication with rating agencies and thereby more able to achieve the desired rating outcomes, leading to lower rating quality. Consistent with this prediction, I find that ratings are less accurate, less timely, and more volatile for issuers with longer-tenured CEOs. All these results hold after controlling for the impact of CEO tenure through public information sharing, suggesting that longer-tenured CEOs manage credit ratings through private information sharing with rating agencies. Moreover, investors do not understand such rating management by longer-tenured CEOs.