Rating or no rating? That is the question: an empirical examination of UK companies

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The aim of this paper is to examine the main determinants of the rating likelihood of UK companies. We use a binary probit specification to model the main drivers of a firm’s propensity to be rated. Using a sample of 245 non-financial UK companies over the period 1995–2006, representing up to 2872 firm years, the study establishes important differences in the financial profiles of rated and non-rated firms. The results of the rating likelihood models indicate that the decision to obtain a rating is driven by a company’s financial risk, solvency, default risk, public debt issuance, R&D, and institutional ownership, thus identifying a wider range of determinants and extending the current literature. The study also finds that the rating decision can be modelled by means of a contemporaneous or predictive specification without any loss of efficiency or classification accuracy. This offers support to the argument that the rating process is fundamentally forward-looking.

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