

# Online Appendix for “Learning and the Disappearing Association between Governance and Returns”

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## **I. Introduction**

This online appendix to our paper “Learning and the Disappearing Association between Governance and Returns” presents results and analysis that are reported but not included in our paper for space considerations. Section II below replicates the results on returns around earnings announcement in Core, Guay, and Rusticus (2006) (“CGR”) using our data, and reconciles what drives the differences between our and CGR’s results concerning the relations between governance and earnings announcement returns. Section III presents results concerning earnings announcement returns that are obtained by additionally controlling for the expected out-performance of good-governance firms relative to bad-governance firms. Finally, Section IV replicates the results on analyst surprises from in CGR and Giroud and Mueller (2011) (“GM”), and it reconciles the differences between our results concerning analysts surprises and the results provided concerning this issue in CGR and GM.

## **II. Replicating and Reconciling with CGR’s Results concerning Earnings Announcement Returns**

CGR Table VI finds no statistical significant differences between the earnings announcements of good-governance firms and bad-governance firms, using the G-index and examining the period from September 1990 to December 1999. In contrast, our paper finds that good-governance firms tend to have statistically higher earnings announcement returns from September 1990 to December 2001. This Section reconciles our results and those of CGR and explains what drives their differences.

We begin by noting that our analysis differs from those of CGR in terms of data construction and estimation specification in the following five ways:<sup>1</sup>

- (i) Our IRRC-CompuStat-IBES merged sample for the period from September 1990 to December 1999 is somewhat larger (by about 5%) than CGR. While their sample consists of 44,062 firm-quarterly-announcement observations, our data contains 46,403 observations.
- (ii) In the event that I/B/E/S and CompuStat have differing quarterly announcement dates, we adopt the approach developed by Della Vigna and Pollet (2009),<sup>2</sup>

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<sup>1</sup> We note that in this process we re-constructed our dataset in order to improve the merge between I/B/E/S, CompuStat, and IRRC. Therefore, while the results in our paper are similar to those in the first, they are not numerically identical.

subsequent to the work of CGR. In contrast, CGR take quarterly earnings announcement dates from I/B/E/S.

- (iii) Our overall sample contains more years, spanning from September 1990 to June 2008.
- (iv) Our estimation specification use as units of observation firm-quarter earnings announcement returns; in contrast, Core et al. construct value-weighted quarterly portfolios of earnings announcement returns.
- (v) We employ a data filter used in prior work which excludes REITs and dual-class firms following GIM, and exclude those firms followed by fewer than 5 analysts following GM. In contrast, CGR do not use these data filters in their analysis. As explained below, this fifth difference is the key driver of the difference between our results and those of CGR.

To analyze the source of the differences in our results on earnings announcement returns from those of CGR, we proceed in the following 3 steps, and report our findings from each step in Tables M-1 to M-3 accompanying this appendix.

*Step 1: Replicating and Extending CGR's Table VI, September 1990 to December 1999*

In Table M-1 Panel A, we replicate CGR's Table VI using our sample, but without applying the data filters mentioned in point 5 above. Following CGR's methodology, we create quarterly earnings announcement portfolios, weighted by the market capitalization of each firm. The presentation of the table follows exactly as in CGR, with the exception that we chose to denote statistical significance at the 1%, 5%, and 10% levels by \*\*\*, \*\*, and \*, respectively.<sup>3</sup>

It is worth making two observations about Table M-1 Panel A. First, the numbers of observations in each G-index category, reported in the last column of panel A, are close to those of CGR, but are generally larger. Second, in comparing the numbers in Panels A1 and A2, we are able to approximately replicate the results of CGR. To the extent that there are differences we attribute them to points 1 and 2 above, as well as to the fact that we chose to report statistical significance in a slightly different manner. In summary, we view our

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<sup>2</sup> Searching through Lexis-Nexis for the actual announcement date in the PR newswires, Della Vigna and Pollet (2009) find that the reported announcement date often reflects the date of publication in the *Wall Street Journal*, which may occur later than the actual announcement. In cases of disagreement among I/B/E/S and Compustat, the earlier date tends to be the correct one, while the latter date tends to reflect the *WSJ* publication date.

<sup>3</sup> In Table VI of CGR, statistical significance at the 1% and 5% are indicated by \*\* and \*, respectively.

earnings announcement returns data as being quite close to those of CGR and that our replication to be qualitatively identical to Table VI of CGR.

In Panel B, we replicate Panel A but apply the following data filters which we used in the paper: exclude all firms that are REITs, or dual-class, or are followed by fewer than five analysts. By comparing Panels A2 and B2, it is clear that the data filter generally increases the t-Statistics. For the 22-day window, returns become statistically larger for the Democracy portfolio than the Dictatorship portfolio at all conventional levels. However, introducing the data filter by itself does not increase the t-Statistics enough to achieve significance at the conventional levels for the other event windows considered.

Panels C and D compares earnings announcement returns using value-weighted E-Index portfolios, without and with data filters, respectively. In Panel C2, we see that even without the data filters the E-Index Democracy portfolios have statistically higher returns around earnings announcements compared to E-Index Dictatorship portfolios, in each of the event windows considered and at all conventional levels. Similar to the patterns observed going from Panel A2 to Panel B2, the application of data filters increases the t-Statistics going from Panel C2 to C3 in each of the event windows.

Next, we turn to replicate CGR's results but using equal-weighted, rather than value-weighted, portfolios. These equal-weighted portfolios are closer to the methodologies used in our paper, in which we use as units of observation firm-quarter earnings announcement returns. Panel E reports results using equal-weighted G-Index portfolios with no data filters. Generally, these results are weaker when compared to those using the value-weighted portfolios (e.g., Panel A2), both in terms of the magnitudes of the difference in announcement window returns between Democracy and Dictatorship portfolios and in terms of the t-Statistics of such differences. The application of the data filters in Panel F, in contrast, substantially increases both the magnitude and the t-Statistics of these differences. In most of the event windows examined, application of the data filters pushes the t-Statistics above the threshold for statistical significance at all conventional levels. Finally, we observe a similar pattern when examining equal-weighted E-Index portfolios in Panels G and H.

Putting together the results in the panels of Table M-1, we find that the following features of our analysis accentuate the differences in the returns around earnings announcements between Democracy and Dictatorship portfolios as well as the t-Statistics on such differences: (i) using the data filter, (ii) using the E-Index rather than the G-Index, and (iii) using equal-weighted portfolios. The analysis indicates that the reasons why Core et al. do

not obtain statistical significance for the positive differences between announcement returns for Democracy and Dictatorship firms during 1990-1999 was due to these authors (i) not using the above data filter, (ii) using only the G-Index and not also the E-Index, and (iii) value-weighting observations by using value-weighted portfolios. In particular, the positive but insignificant coefficients obtained by CGR become generally significant once the E-Index is used instead of the G-Index, and both the magnitude and significance of the coefficients increase when data filters and/or equal-weighted portfolios are used. Even when using the G-Index, the results are generally significant when both data filters and equal-weighted portfolios are used, and are significant for the long returns window when data filters are used in conjunction with value-weighted portfolios.

*Step 2: Extending CGR Methodology (Pooled OLS using Portfolio Returns, September 1990 to June 2008)*

We now proceed to reconcile the differences between CGR's earnings announcement returns results from those reported in our paper. We begin by extending CGR's portfolio methodology to our entire sample period, from September 1990 to June 2008, and applying our basic estimation (equation (4) of our paper).

In Table M-2 Panels A and B, we regress value-weighted quarterly announcement portfolio returns on an indicator for the DEMOCRACY portfolio, a Post-2002 indicator, and an interaction term between the DEMOCRACY and the Post-2002 indicators; Panel A uses the G-index in defining the DEMOCRACY (G) portfolio, and Panel B uses the E-index in defining the DEMOCRACY (E) portfolio. For ease of comparison, we have intentionally formatted the table in an identical manner to Table VI of our paper.

The coefficient on DEMOCRACY (G) in Panel A of Table M-2 represent differences in mean quarterly earnings announcement value-weighted portfolio returns for the entire pre-period of September 1990 to December of 2001. In both raw returns (columns (1)-(5)) and excess returns (columns (6)-(10)) our results are similar in magnitude to those of Panel A2 of Table M-1, with all coefficients being positive in sign and some statistical significance at the 10% level achieved at the longer returns windows. The interaction term, on the other hand, is not statistically significant in any of the specification, but the signs of the coefficients are negative (the direction consistent with our paper) for six of the ten specifications. Results using DEMOCRACY (E) in Panel B are similar to those of Panel C of Table M-1, both in terms of the magnitudes of the main coefficients as well as their statistical significance. All

coefficients on DEMOCRACY (E) are positive, with six of the ten statistically significant at the 10% level (and five at the 5% level); all interaction term coefficients are negative, with three of the ten statistically significant at the 10% level.

In Panels C and D of Table M-2 we repeat the same exercise, but consider instead equal-weighted quarterly earnings announcement portfolios. We are interested in these types of portfolios because they are conceptually closer to the empirical specification used in our paper, in which we use individual firm observations. Results using equal-weighted portfolios are generally similar to those using the value-weighted portfolio in Panels A and B. In Panel C, we see that the coefficient on DEMOCRACY (G) are positive in all 10 specifications, with statistical significance at the 10% level in three of the ten, while the interaction term coefficients are negative in all ten specifications, with statistical significance at the 10% level in one specification. In Panel D, we see that the coefficient on DEMOCRACY (E) are positive in all 10 specifications, with statistical significance at the 10% level in two of the ten, while the interaction term coefficients are negative in all ten specifications, with statistical significance at the 5% level in one specification.

Generally, Table M-2 results using CGR's portfolio methodology are qualitatively consistent with those reported in Tables VI of our paper. However, the magnitudes and statistical significance of the main coefficients are more pronounced in our paper. We show in the next step that the more pronounced magnitude and significance in our results are driven by three factors: i) our use of data filters; ii) our use of the E-Index; and iii) our methodological choice of using as units of observation firm-quarter earnings announcement returns, which we show below produce results that are very close to those using equal-weighted portfolios following CGR's portfolio approach.

*Step 3: Extending CGR Methodology (Pooled OLS using Portfolio Returns, September 1990 to June 2008, with data filter)*

The effects of our data filter on the portfolio-based earnings announcement returns results are reported in Table M-3, which is organized and formatted identically to Table M-2 for ease of comparison. Compared to those in Table M-2, main coefficients of Panels A and B of Table M-3 are stronger both in terms of magnitude and statistical significance. Moreover, in the equal-weighted portfolios results reported in Panels C and D, we obtain results that are very similar to those obtained in Table VI of our paper. In Panel C, the coefficients on DEMOCRACY (G) are positive in all ten specifications, with eight of the ten being

statistically significant at the 10% level (and seven significant at the 5% level); the interaction term is negative in all cases, with statistical significance at the 10% level for seven of the ten specifications. In nine of the ten specifications, an F-test of the null hypothesis that the post-period relation between DEMOCRACY (G) and earnings announcement returns is no different from zero cannot be rejected at the 10% level. In Panel D, the coefficients on DEMOCRACY (E) are positive in all ten specifications, with statistical significance at the 5% level for all ten; the interaction term coefficients are negative in all ten specifications, with statistical significance at the 10% level for all ten. On the whole, the equal-weighted portfolio results shown in Table M-3 panels C and D are virtually identical to those reported in Panels A and B, respectively, of Table VI in our paper, which uses individual firm-level observations instead of CGR's portfolio approach.

Thus, what explains the differences in the results on the relation between earnings announcement returns of CGR and our paper stems primarily from three factors: (i) our use of a data filter which excludes REITs and dual-class firms (following GIM) and excludes those firms followed by fewer than 5 analysts (following GM), (ii) our use of the E-Index and not only the G-Index, and (iii) our methodological choices of giving equal weights to all observations which more closely align with an equal-weighted portfolio approach as opposed to the value-weighted portfolio approach of CGR. Each of these factors accentuates the magnitude and significance of the differences in earning announcement between good-governance and poor-governance firms. The lack of statistical significance for the positive differences identified by CGR between announcement returns of for Democracy and Dictatorship firms during 1990-1999 was due to these authors (i) not using the above data filter, (ii) using only the G-Index and not also the E-Index, and (iii) value-weighting observations by using value-weighted portfolios.

### **III. Excess Announcement Returns Adjustments**

In Table M-4, we follow CGR to make adjustments to the excess returns of Democracy firms relative to Dictatorship firms to account for the expected over-performance of Democracy firms over Dictatorship firms in the pre-2001 period. We estimate the expected over-performance of Democracy firms relative to Dictatorship firms over our sample period in four ways: using value-weighted and equal-weighted portfolios, and defining Democracy/Dictatorship firms based on the G-index and the E-index. Applying the expected over-performance of Democracy firms

relative to Dictatorship firms to our estimates of excess returns to obtain an adjusted excess returns. We then re-estimate Table VI of our paper and report them in Table M-4.

In Panels A and B of Table M-4, we find that the primary earnings announcement returns results of our paper, whose portfolio-based analogs are reported in Panels C and D of Table M-3, are robust to both methodologies of accounting for “expected” differences in returns between the DEMOCRACY and DICTATORSHIP portfolios. In comparison to columns (6)-(10) in Panels A and B of Table VI in our paper, the coefficients on DEMOCRACY (G) and DEMOCRACY (E), as well as the coefficients on the interaction terms between DEMOCRACY and the POST period indicator, are attenuated in magnitude as well as statistical significance. Nevertheless, the inference from Table IV does not qualitatively change. Therefore, our results are robust to this methodology of adjusting for excess returns.

#### **IV. Replicating and Reconciling our Results on Analyst Surprises with GM and CGR**

In this Section, we replicate the results of GM and CGR on analyst surprises and reconcile the differences in our results from theirs. Unlike our results (and those of GM), CGR find that firms with poor governance tend to have more positive analyst surprises, although they do not find this difference to be statistically significant. GM find, as we do, that analyst surprises (as measured by FE scaled by total assets) are higher for Democracy (G) firms; however, unlike us, GM do not find such a difference to be statistically significant.

The analysis of CGR and GM differ from each other as well as differ from our analysis in terms of data construction and estimation specification, and we have therefore conducted an analysis of what drives the differences in results between these two papers as well as between each of them and ours. As our paper reports (pp. 26-27), our analysis indicates that the key reason why both GM and we obtain positive associations between good governance and analyst surprises, but CGR obtain a negative association, is the use of data filters. Unlike CGR, both GM and we exclude dual-class firms and firms followed by fewer than 5 analysts. In addition, our analysis indicates (see p. 27 of our paper) that the reason why the positive association between good governance and positive analyst surprises is significant in some of our specifications, but not in those of GM, is that they use only the G-Index and we use also the E-Index. Our results concerning analyst surprises (see Table VII of our paper) are statistically



significant when we use the E-Index, which excludes the “noise” introduced by governance provisions that do not matter.

We provide below the details and tables that reconcile our results on analyst surprises with those of CGR and GM. In particular, to analyze the differences in our results on analyst surprises from those of GM and CGR, we proceed in the following 6 steps, and report our findings from each step in Tables M-5 to M-10 accompanying this appendix.

### *Step 1: Replicating GM with Quarterly Surprise Data*

One difference between our analysis and that of CGR and GM, but not one that drives the difference in results is that we use a larger dataset based on quarterly earnings announcements, while both CGR and GM choose analyst surprises in annual earnings. As we explain in the paper (pp. 24-25), we chose to use quarterly earnings surprises because it provides us with a more comprehensive sample of observations, and because such a choice is more consistent with our earlier analysis on the returns around quarterly earnings announcements. In any event, this difference does not appear to drive the differences in results between our paper and those of CGR and GM. As we show below, using our data of quarterly earnings, we are able to replicate qualitatively similar results to the results concerning analyst surprises of GM (their Table VI) and CGR (their Table IV).

Table M-5 columns [1]-[3] replicates columns [1]-[3] of GM’s Table VI, using quarterly analyst surprise data from January 1991 to December 1999. We follow GM’s methodology: that is, we estimate by a pooled OLS regression with year and industry fixed effects (using Fama-French 48 industry definitions), and exclude dual-class firms and firms followed by fewer than 5 analysts. Our replication of GM using quarterly data finds that dictatorship firms on average have lower analyst forecast error; like GM, we do not find this difference to be statistically significant. In columns [4]-[6], we find that the results remain virtually unchanged when we exclude industry and year fixed effects. Therefore, the use of quarterly earnings surprises does not qualitatively change GM’s inferences.

### *Step 2: Replicating CGR with Quarterly Surprise Data*

We continue by replicating the results of CGR using our quarterly data. Table M-6 replicates Table IV of CGR, using quarterly analyst surprise data from January 1991 to December 1999. We follow CGR’s methodology using annual median regressions and make inferences based on the time-series mean and standard deviation of coefficients. For ease of

comparison we have formatted the Table similar to CGR. In comparing Table M-6 to Table IV of CGR, we find qualitatively similar results to those of CGR: the time-series means on the coefficient on the *G-index* are statistically no different from zero. Therefore, the use of quarterly earnings surprises does not qualitatively change CGR's inferences.

*Step 3: Summarizing the Distribution of Analyst Surprise Measures*

We now proceed to reconcile the differences in our results from those of CGR and GM and those in Table VII of our paper. To begin, in Table M-7 we report summary statistics on the four analyst surprise variables that we analyze. We point out in Panel A that all four variables are significantly negatively skewed. This is a problem that is recognized by both CGR and GM, but the two papers took different approaches: while CGR opted to estimate median regressions, GM chose to truncate all those observations for which the forecast error is larger than 10% of the share price. However, as we pointed out in pp. 25-26 of the paper, and as shown in Panel B, while such a truncation resolves the skewness issue for FE Scaled by Assets (the primary analyst surprise variable investigated by GM), it does not fully resolve the problem for the remaining three surprise variables, which remain highly skewed.<sup>4</sup> Therefore, we argue that a median regression technique is more appropriate in our analysis.

*Step 4: Extending GM/CGR Methodologies (Pooled Median Regressions, September 1990 to December 1999)*

A methodological difference between our work and that of CGR, and between CGR and GM, is that of pooled versus annual cross-sectional regressions. While GM pools their observations, CGR estimates annual median regressions and makes inferences from the time-series means and standard deviations of the coefficients on the *G-index*. In Table M-8, we take the sample used to estimate M-6 (the CGR sample), and estimate pooled median regressions using all four analyst surprise measures; to control for cross-sectional and time-series correlation, we employ bootstrapped two-way cluster robust standard errors (Peterson, 2009; Gow et al., 2010). In comparing the results using FE Scaled by Price and FE Scaled by Assets (columns (1) and (2), respectively) in Table M-8 to those of Table M-6, we find that the coefficients on the *G-index* and on *Dict (G)* and the inferences on these coefficients are

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<sup>4</sup> The rule of thumb is that that a skewness coefficient greater than 1 in absolute value indicates a highly skewed distribution. (Bulmer, 1979)

very close to those of Table M-6.<sup>5</sup> Therefore, the pooling methodology does not appear to drive differences in results between our paper and CGR (or between CGR and GM).

*Step 5: Extending GM/CGR Methodologies (Pooled Median Regressions, September 1990 to December 1999, with data filter)*

Here we show that the primary drivers of the differences in our results and inferences from those of GM and CGR are a) our data filters and b) the use of the *E-index*. Our data filters, the exclusion of dual-class firms and REITs, and the exclusion of firms followed by fewer than 5 analysts, are similar to those of GM (who have the same filters with the exception of REITs) but, as we pointed out earlier, an important difference with CGR.

To illustrate the impact of the data filter, in Table M-9 we re-estimate Table M-8 (using analyst surprise data from January 1991 to December 1999) but impose our data filter. In columns (1)-(5) of Panels A and B, we find that the coefficients on the *G-index* and *Dict (G)*, respectively, tend to become more negative; that is, they become closer to our results. Moreover, we point out that all the results are sharpened when we use the *E-index*. In columns (5)-(8) of Table M-8 Panels A and B, we see that the coefficients on *E-index* and *Dict (E)* are all negative, indicating that firms with poorer governance tend to have more negative analyst surprises. However, none of these coefficients are statistically significant at the 10% level. As we see in columns (5)-(8) of Table M-9 Panels A and B, when we apply the data filter, not only do the coefficients on *E-index* and *Dict (E)* become more negative, they also become statistically more significant. In two (four) of the four specifications using the *E-index (Dict (E))* in Table M-9, the coefficient is statistically significant at the 10% level. Therefore, the combination of the data filter and the use of the *E-index* drive the differences in our results and differences from those of CGR and GM.

*Step 6: Extending GM/CGR Methodologies (Pooled Median Regressions, September 1990 to June 2008, with data filter)*

Finally, we extend the above methodology to our full sample of observations, from September of 1990 to June of 2008. These results are identical to those of our paper's Table VII, except that in Panel B we use *Dict (G)* and *Dict (E)* to be consistent with earlier tables in

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<sup>5</sup> We note that these results are not directly comparable to those of Table M-5 for the following two reasons. First, these results do not apply the data filters of GM: excluding dual-class firms and firms followed by fewer than 5 analysts. Second, GM controls for "size," defined as the log of the lag total book value of assets per share, we follow CGR and control for the log of the market capitalization of the firm.

this appendix; in our paper, *DEMOCRACY (G)* and *DEMOCRACY (E)* are used. We note that our results on the pre-period expand on CGR and GM's samples by including earnings surprises from 2000 and 2001. As we argue in the text of the paper, the evidence presented in M-10 is consistent with the hypothesis that, prior from 1990 to 2001, analysts tend to be more positively surprised by well-governed firm, but by the end of 2001, analysts had internalized the difference between good-governance and poor-governance firms.

These results using quarterly analyst earnings surprises are consistent with our earlier results using returns around earnings announcements. However, we believe that tests based on market reactions are likely to be more telling for three reasons. First, there is evidence indicating that I/B/E/S on analysts may not be fully reliable (see, e.g., Ljungqvist et al., 2009). Second, stock prices are determined by market participants in the aggregate rather than analysts alone. Finally, the market learns a substantial amount of non-earnings specific information around earnings announcements (see, for e.g., Francis, Schipper, and Vincent, 2002; Hutton, 2005).

**Table M-1: Returns around Earnings Announcements: Replicating and Extending CGR**

Table M-1 shows the returns around earnings announcements during the period from September 1990 through December 1999. We report eight panels (A-H), where each panel differs based on whether the G-index or the E-index is used, whether value-weighted or equal-weighted portfolios are formed, and whether data filters are applied. Those panels which apply data filters exclude all firms that are dual-class, REITs, and are followed by fewer than five analysts. Each panel is divided into two subpanels, where Panel 1 shows the returns for each G-index or E-index portfolio for the 3-day window around the earnings announcement. All announcement returns are value- or equal-weighted within quarter and then averaged over the quarters. The  $t$ -statistics are based on the time-series of quarterly returns and clustered by year. Column 1 shows the cumulative raw return over the 3-day window and Column 2 shows the accompanying  $t$ -statistic. Column 3 shows the cumulative excess return (based on a Fama-French three-factor model for daily returns estimated from day  $t = -250$  till  $t = -21$ ) for the same period, and Column 4 shows the accompanying  $t$ -statistic. Panel 2 shows a test on the difference between the Democracy portfolio and the Dictatorship portfolio for both raw returns and excess returns over various event windows. Returns are calculated as in Panel 1.

**Panel A: Value-Weighted Portfolios, No Data Filters**

Panel A1: Returns for Decile Portfolios of the Core et al. Sample over (-1,1) Window 1990-1999					
<i>G-index</i>	Raw Return	$t$ -Statistic	Excess Return	$t$ -Statistic	Number of Observations
G $\leq$ 5 (Democracy)	0.91%	5.4***	0.63%	3.45***	4,898
G=6	0.66%	5.95***	0.39%	3.66***	3,971
G=7	0.51%	3.85***	0.32%	2.4**	4,561
G=8	0.53%	3.68***	0.41%	3.1***	5,254
G=9	0.45%	3.96***	0.28%	3.72***	5,512
G=10	0.72%	6.55***	0.48%	5.99***	5,694
G=11	0.66%	3.39***	0.43%	2.64***	5,308
G=12	0.29%	1.67*	0.05%	0.33	4,068
G=13	0.66%	2.78***	0.42%	2.27**	3,220
G $\geq$ 14 (Dictatorship)	0.71%	2.20**	0.45%	1.71*	2,689

Panel A2: Returns for the Restricted Sample over Various Event Windows								
Window	Raw Returns				Excess Returns			
	<i>Demo</i>	<i>Dict</i>	Difference	$t$ -Statistic	<i>Demo</i>	<i>Dict</i>	Difference	$t$ -Statistic
car (-1,1)	0.91%	0.70%	0.21%	0.66	0.63%	0.44%	0.19%	0.69
car (-3,1)	1.08%	1.02%	0.06%	0.21	0.72%	0.50%	0.22%	0.82
car (-5,1)	1.31%	0.99%	0.32%	1.05	0.80%	0.47%	0.33%	1.09
car (-10,1)	1.52%	1.10%	0.42%	1.02	0.67%	0.34%	0.33%	0.92
car (-20,1)	2.06%	1.05%	1.01%	1.65	0.67%	0.10%	0.57%	1.39

\*Significant at 0.10 level; \*\*significant at the 0.05 level; \*\*\*significant at the 0.01 level.

## Panel B: Value-Weighted G-Index Portfolios, With Data Filters

Panel B1: Returns for Decile Portfolios of the Core et al. Sample over (-1,1) Window  
1990-1999

<i>G-index</i>	Raw Return	<i>t</i> -Statistic	Excess Return	<i>t</i> -Statistic	Number of Observations
G <sub>≤5</sub> (Democracy)	1.08%	5.310***	0.74%	3.48***	2,362
G=6	0.74%	5.47***	0.46%	3.70***	2,247
G=7	0.49%	3.35***	0.30%	2.11**	2,474
G=8	0.58%	3.66***	0.44%	3.00***	2,995
G=9	0.42%	3.45***	0.25%	3.16***	3,346
G=10	0.69%	5.05***	0.46%	4.37***	3,439
G=11	0.65%	3.14***	0.41%	2.39***	3,688
G=12	0.31%	1.67*	0.07%	0.39	2,874
G=13	0.64%	2.81***	0.43%	2.41**	2,240
G <sub>≥14</sub> (Dictatorship)	0.72%	2.44***	0.45%	1.69*	1,793

Panel B2: Returns for the Restricted Sample over Various Event Windows

Window	Raw Returns				Excess Returns			
	<i>Demo</i>	<i>Dict</i>	Difference	<i>t</i> -Statistic	<i>Demo</i>	<i>Dict</i>	Difference	<i>t</i> -Statistic
car (-1,1)	1.08%	0.72%	0.36%	1.13	0.74%	0.45%	0.29%	1.03
car (-3,1)	1.26%	1.05%	0.21%	0.71	0.86%	0.52%	0.34%	1.26
car (-5,1)	1.47%	1.05%	0.42%	1.40	0.96%	0.49%	0.47%	1.46
car (-10,1)	1.56%	1.15%	0.41%	1.07	0.82%	0.38%	0.44%	1.30
car (-20,1)	2.14%	1.13%	1.01%	1.88	0.88%	0.07%	0.81%	2.00

\*Significant at 0.10 level; \*\*significant at the 0.05 level; \*\*\*significant at the 0.01 level.

### Panel C: Value-Weighted E-Index Portfolios, No Data Filters

Panel C1: Returns for Decile Portfolios of the Core et al. Sample over (-1,1) Window 1990-1999					
<i>E-index</i>	Raw Return	<i>t</i> -Statistic	Excess Return	<i>t</i> -Statistic	Number of Observations
E=0 (Democracy)	0.78%	7.23***	0.59%	5.04***	5,702
E=1	0.63%	5.52***	0.33%	2.98***	8,600
E=2	0.47%	5.63***	0.28%	3.83***	11,115
E=3	0.57%	3.62***	0.31%	2.38**	10,952
E=4	0.62%	5.16***	0.41%	3.82***	7,111
E $\geq$ 5 (Dictatorship)	0.22%	0.96	0.08%	0.39	1,695

Panel C2: Returns for the Restricted Sample over Various Event Windows								
Window	Raw Returns				Excess Returns			
	<i>Demo</i>	<i>Dict</i>	Difference	<i>t</i> -Statistic	<i>Demo</i>	<i>Dict</i>	Difference	<i>t</i> -Statistic
car (-1,1)	0.78%	0.22%	0.56%	2.20	0.59%	0.09%	0.50%	2.12
car (-3,1)	1.15%	0.44%	0.71%	2.46	0.79%	0.02%	0.77%	3.04
car (-5,1)	1.35%	0.61%	0.74%	2.07	0.89%	0.02%	0.87%	3.09
car (-10,1)	1.78%	0.67%	1.11%	2.33	0.97%	-0.06%	1.03%	2.47
car (-20,1)	2.42%	1.01%	1.41%	2.51	1.23%	-0.08%	1.31%	2.48

\*Significant at 0.10 level; \*\*significant at the 0.05 level; \*\*\*significant at the 0.01 level.

## Panel D: Value-Weighted E-Index Portfolios, With Data Filters

Panel D1: Returns for Decile Portfolios of the Core et al. Sample over (-1,1) Window 1990-1999					
<i>E-index</i>	Raw Return	<i>t</i> -Statistic	Excess Return	<i>t</i> -Statistic	Number of Observations
E=0 (Democracy)	0.86%	6.22***	0.64%	4.96***	2,878
E=1	0.64%	5.12***	0.32%	2.57**	4,836
E=2	0.48%	4.96***	0.29%	3.56***	6,987
E=3	0.56%	3.26***	0.30%	2.15**	6,970
E=4	0.65%	4.79***	0.44%	3.71***	4,674
E $\geq$ 5 (Dictatorship)	0.13%	0.47	-0.01%	0.05	1,103

Panel D2: Returns for the Restricted Sample over Various Event Windows								
Window	Raw Returns				Excess Returns			
	<i>Demo</i>	<i>Dict</i>	Difference	<i>t</i> -Statistic	<i>Demo</i>	<i>Dict</i>	Difference	<i>t</i> -Statistic
car (-1,1)	0.86%	0.13%	0.73%	2.62	0.64%	-0.02%	0.66%	2.56
car (-3,1)	1.25%	0.41%	0.84%	2.74	0.87%	-0.06%	0.93%	3.41
car (-5,1)	1.43%	0.55%	0.88%	2.37	0.97%	-0.11%	1.08%	3.80
car (-10,1)	1.80%	0.57%	1.23%	2.37	1.09%	-0.16%	1.25%	2.93
car (-20,1)	2.44%	0.82%	1.62%	2.87	1.41%	-0.28%	1.69%	3.16

\*Significant at 0.10 level; \*\*significant at the 0.05 level; \*\*\*significant at the 0.01 level.



## Panel E: Equal-Weighted G-Index Portfolios, No Data Filters

Panel E1: Returns for Decile Portfolios of the Core et al. Sample over (-1,1) Window 1990-1999					
<i>G-index</i>	Raw Return	<i>t</i> -Statistic	Excess Return	<i>t</i> -Statistic	Number of Observations
G <sub>≤5</sub> (Democracy)	0.61%	5.61***	0.40%	4.17***	4,898
G=6	0.58%	4.57***	0.40%	3.42***	3,971
G=7	0.42%	4.22***	0.27%	2.91***	4,561
G=8	0.55%	3.72***	0.43%	3.32***	5,254
G=9	0.56%	5.99***	0.38%	4.89***	5,512
G=10	0.72%	6.03***	0.55%	6.48***	5,694
G=11	0.70%	6.18***	0.54%	6.35***	5,308
G=12	0.53%	4.40***	0.36%	3.74***	4,068
G=13	0.60%	5.91***	0.42%	4.76***	3,220
G <sub>≥14</sub> (Dictatorship)	0.65%	4.87***	0.45%	4.20***	2,689

Panel E2: Returns for the Restricted Sample over Various Event Windows								
Window	Raw Returns				Excess Returns			
	<i>Demo</i>	<i>Dict</i>	Difference	<i>t</i> -Statistic	<i>Demo</i>	<i>Dict</i>	Difference	<i>t</i> -Statistic
car (-1,1)	0.61%	0.65%	-0.04%	0.25	0.40%	0.45%	-0.05%	0.42
car (-3,1)	0.91%	0.76%	0.15%	0.82	0.53%	0.43%	0.10%	0.75
car (-5,1)	1.07%	0.81%	0.26%	1.03	0.56%	0.39%	0.17%	0.89
car (-10,1)	1.38%	1.12%	0.26%	0.70	0.61%	0.37%	0.24%	0.99
car (-20,1)	1.82%	1.27%	0.55%	1.04	0.56%	0.14%	0.42%	1.40

\*Significant at 0.10 level; \*\*significant at the 0.05 level; \*\*\*significant at the 0.01 level.

## Panel F: Equal-Weighted G-Index Portfolios, With Data Filters

Panel A: Returns for Decile Portfolios of the Core et al. Sample over (-1,1) Window  
1990-1999

<i>G-index</i>	Raw Return	<i>t</i> -Statistic	Excess Return	<i>t</i> -Statistic	Number of Observations
G <sub>≤5</sub> (Democracy)	0.89%	4.83***	0.60%	3.45***	2,362
G=6	0.84%	4.88***	0.62%	4.26***	2,247
G=7	0.45%	3.20***	0.28%	1.91*	2,474
G=8	0.57%	3.74***	0.42%	3.01***	2,995
G=9	0.54%	4.37***	0.36%	3.82***	3,346
G=10	0.69%	5.18***	0.52%	5.76***	3,439
G=11	0.67%	6.30***	0.51%	6.20***	3,688
G=12	0.51%	3.61***	0.34%	3.13***	2,874
G=13	0.56%	4.49***	0.39%	3.17***	2,240
G <sub>≥14</sub> (Dictatorship)	0.73%	6.59***	0.53%	5.25***	1,793

Panel B: Returns for the Restricted Sample over Various Event Windows

Window	Raw Returns				Excess Returns			
	<i>Demo</i>	<i>Dict</i>	Difference	<i>t</i> -Statistic	<i>Demo</i>	<i>Dict</i>	Difference	<i>t</i> -Statistic
car (-1,1)	1.08%	0.91%	0.17%	0.81	0.60%	0.54%	0.06%	0.33
car (-3,1)	1.26%	0.85%	0.41%	1.67	0.82%	0.55%	0.27%	1.28
car (-5,1)	1.47%	0.84%	0.63%	2.18	0.93%	0.49%	0.44%	1.85
car (-10,1)	1.56%	0.92%	0.64%	1.67	0.94%	0.39%	0.55%	2.07
car (-20,1)	2.14%	1.01%	1.13%	2.06	0.01%	-0.96%	0.97%	3.06

\*Significant at 0.10 level; \*\*significant at the 0.05 level; \*\*\*significant at the 0.01 level.

## Panel G: Equal-Weighted E-Index Portfolios, No Data Filters

Panel G1: Returns for Decile Portfolios of the Core et al. Sample over (-1,1) Window  
1990-1999

<i>E-index</i>	Raw Return	<i>t</i> -Statistic	Excess Return	<i>t</i> -Statistic	Number of Observations
E=0 (Democracy)	0.61%	5.21***	0.43%	4.37***	5,702
E=1	0.63%	6.20***	0.44%	5.38***	8,600
E=2	0.50%	5.32***	0.36%	5.05***	11,115
E=3	0.61%	6.09***	0.43%	5.11***	10,952
E=4	0.70%	6.95***	0.54%	7.71***	7,111
E <sub>≥</sub> 5 (Dictatorship)	0.45%	3.00***	0.26%	2.20**	1,695

Panel G2: Returns for the Restricted Sample over Various Event Windows

Window	Raw Returns				Excess Returns			
	<i>Demo</i>	<i>Dict</i>	Difference	<i>t</i> -Statistic	<i>Demo</i>	<i>Dict</i>	Difference	<i>t</i> -Statistic
car (-1,1)	0.61%	0.44%	0.17%	0.90	0.43%	0.26%	0.17%	1.10
car (-3,1)	0.91%	0.65%	0.26%	1.16	0.55%	0.29%	0.26%	1.45
car (-5,1)	1.13%	0.69%	0.44%	1.59	0.62%	0.23%	0.39%	1.90
car (-10,1)	1.46%	1.12%	0.34%	1.02	0.67%	0.39%	0.28%	1.19
car (-20,1)	1.99%	1.37%	0.62%	1.23	0.79%	0.24%	0.55%	1.76

\*Significant at 0.10 level; \*\*significant at the 0.05 level; \*\*\*significant at the 0.01 level.

## Panel H: Equal-Weighted E-Index Portfolios, No Data Filters

Panel H1: Returns for Decile Portfolios of the Core et al. Sample over (-1,1) Window  
1990-1999

<i>E-index</i>	Raw Return	<i>t</i> -Statistic	Excess Return	<i>t</i> -Statistic	Number of Observations
E=0 (Democracy)	0.93%	6.02***	0.67%	5.00***	2,878
E=1	0.71%	5.64***	0.49%	4.67***	4,836
E=2	0.47%	3.86***	0.30%	3.27***	6,987
E=3	0.64%	6.47***	0.46%	5.56***	6,970
E=4	0.69%	6.34***	0.53%	7.11***	4,674
E <sub>≥</sub> 5 (Dictatorship)	0.41%	3.38***	0.25%	2.15**	1,103

Panel H2: Returns for the Restricted Sample over Various Event Windows

Window	Raw Returns				Excess Returns			
	<i>Demo</i>	<i>Dict</i>	Difference	<i>t</i> -Statistic	<i>Demo</i>	<i>Dict</i>	Difference	<i>t</i> -Statistic
car (-1,1)	0.93%	0.41%	0.52%	3.17	0.67%	0.25%	0.42%	2.65
car (-3,1)	1.34%	0.60%	0.74%	2.62	0.90%	0.25%	0.65%	2.61
car (-5,1)	1.63%	0.60%	1.03%	3.69	1.05%	0.12%	0.93%	4.30
car (-10,1)	1.97%	0.97%	1.00%	2.73	1.14%	0.22%	0.92%	3.21
car (-20,1)	2.50%	1.16%	1.34%	2.80	1.33%	-0.01%	1.34%	3.92

\*Significant at 0.10 level; \*\*significant at the 0.05 level; \*\*\*significant at the 0.01 level.

**Table M-2: Returns around Earnings Announcements: Extending CGR Methodology**  
*September 1990 to June 2008 (Pooled)*

Table M-2 reports the relationship between earnings announcement returns and democracy/dictatorship portfolios in the period before and after the end of 2001, where the announcement return windows range from 1, 3, 5, 10, and 20 trading days prior to the earnings announcement date until 1 trading day after the announcement. We define a post (and not including) 2001 dummy to indicate the earnings announcement occurred in calendar year 2002 or later. Market-value weighted and equal weighted earnings announcement portfolios are constructed on a quarterly basis. Panel A reports coefficients from an OLS regression of the value-weighted quarterly announcement portfolio returns in a particular window on a democracy portfolio dummy (where DEMOCRACY (G) = 1 if  $G \leq 5$  and DEMOCRACY (G) = 0 if  $G \geq 14$ ), a post 2001 period dummy, and an interaction of the two terms; Panel B is identical to Panel A but uses the E-index to define the democracy portfolio dummy (where DEMOCRACY (E) = 1 if  $E = 0$  and DEMOCRACY (E) = 9 if  $E \geq 5$ ); Panel C is identical to Panel A but uses returns from equal-weighted quarterly announcement portfolios; and Panel D is identical to Panel C but uses the E-index to define the democracy portfolio dummy. Each panel is divided into two parts; the left hand side panel uses raw stock returns around the announcement window as the dependent variable, whereas the right hand side panel's specifications use returns in excess of the Fama-French (1992) three factors over the relevant time window, using betas estimated from 20 to 210 trading days prior to the earnings announcement. Cluster robust standard errors are used throughout, clustering by year, and appear immediately below the coefficient estimate in parentheses. F statistics and p-value testing the null hypothesis of no relation between earnings announcement returns and governance in the post-2001 period ( $\beta_1 + \beta_3 = 0$ ) are reported in the last two rows of each panel. Levels of significance are indicated by \*, \*\*, and \*\*\* for 10%, 5%, and 1%, respectively.

**Panel A: Value-Weighted G-Index Portfolios, No Data Filters**

	Raw Returns					Excess Returns				
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Variables	(T-1,T+1)	(T-3,T+1)	(T-5,T+1)	(T-10,T+1)	(T-20,T+1)	(T-1,T+1)	(T-3,T+1)	(T-5,T+1)	(T-10,T+1)	(T-20,T+1)
DEMOCRACY (G) ( $\beta_1$ )	0.0015 (0.003)	0.0015 (0.003)	0.0042 (0.003)	0.0044 (0.004)	0.0087* (0.005)	0.0017 (0.003)	0.0033 (0.003)	0.0057* (0.003)	0.0059* (0.004)	0.0086** (0.004)
POST2002 ( $\beta_2$ )	-0.0032 (0.003)	-0.0068* (0.004)	-0.0054 (0.003)	-0.0040 (0.005)	-0.0058 (0.008)	-0.0007 (0.003)	-0.0018 (0.003)	0.0000 (0.003)	0.0050 (0.004)	0.0054 (0.004)
DEMOCRACY (G) x POST ( $\beta_3$ )	0.0012 (0.005)	0.0038 (0.004)	-0.0001 (0.004)	-0.0002 (0.005)	-0.007 (0.008)	0.0014 (0.005)	0.0024 (0.004)	-0.001 (0.004)	-0.0032 (0.005)	-0.0044 (0.006)
Cons ( $\beta_0$ )	0.0052* (0.003)	0.0070** (0.003)	0.0071*** (0.003)	0.0072* (0.004)	0.0098** (0.004)	0.0026 (0.003)	0.0023 (0.003)	0.0018 (0.003)	-0.0006 (0.003)	-0.0026 (0.003)
Observations	144	144	144	144	144	144	144	144	144	144
Adj. Rsq	0.0096	0.0075	0.0117	0.0073	0.0069	0.0142	0.0029	0.0121	0.0111	0.0153
F Stat ( $\beta_1+\beta_3 = 0$ )	0.4397	3.3552	2.1270	1.2986	0.0814	0.4698	2.8501	1.9961	0.8386	1.0715
P-Val	0.5101	0.0725	0.1505	0.2595	0.7765	0.4960	0.0971	0.1634	0.3639	0.3052

**Panel B: Value-Weighted E-Index Portfolios, No Data Filters**

	Raw Returns					Excess Returns				
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Variables	(T-1,T+1)	(T-3,T+1)	(T-5,T+1)	(T-10,T+1)	(T-20,T+1)	(T-1,T+1)	(T-3,T+1)	(T-5,T+1)	(T-10,T+1)	(T-20,T+1)
DEMOCRACY (E) ( $\beta_1$ )	0.0037 (0.003)	0.0061** (0.003)	0.0064* (0.003)	0.0084 (0.005)	0.0054 (0.007)	0.0034 (0.002)	0.0064*** (0.002)	0.0079*** (0.003)	0.0098** (0.004)	0.0096** (0.005)
POST2002 ( $\beta_2$ )	-0.0005 (0.003)	-0.0030 (0.003)	-0.0026 (0.004)	-0.0087 (0.006)	-0.012 (0.010)	0.0008 (0.003)	0.0012 (0.003)	0.0038 (0.003)	0.0017 (0.004)	0.0028 (0.005)
DEMOCRACY (E) x POST ( $\beta_3$ )	-0.0058 (0.005)	-0.0062 (0.005)	-0.0084 (0.005)	-0.0038 (0.008)	-0.0054 (0.011)	-0.0062 (0.004)	-0.0079** (0.003)	-0.0108*** (0.004)	-0.0090* (0.005)	-0.0097 (0.006)
Cons ( $\beta_0$ )	0.0033 (0.002)	0.0050** (0.002)	0.0064** (0.002)	0.0080** (0.004)	0.0149*** (0.004)	0.0017 (0.002)	0.0008 (0.002)	0.0004 (0.002)	0.0000 (0.003)	0.0012 (0.004)
Observations	144	144	144	144	144	144	144	144	144	144
Adj. Rsq	0.0131	0.0327	0.0191	0.0299	0.0182	0.0131	0.0461	0.0442	0.0450	0.0187
F Stat ( $\beta_1+\beta_3 = 0$ )	0.2895	0.0007	0.2674	0.7012	0.0000	0.7208	0.4186	1.2348	0.0702	0.0016
P-Val	0.5927	0.9784	0.6072	0.4061	0.9978	0.3996	0.5204	0.2714	0.7921	0.9681

**Panel C: Equal-Weighted G-Index Portfolios, No Data Filters**

	Raw Returns					Excess Returns				
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Variables	(T-1,T+1)	(T-3,T+1)	(T-5,T+1)	(T-10,T+1)	(T-20,T+1)	(T-1,T+1)	(T-3,T+1)	(T-5,T+1)	(T-10,T+1)	(T-20,T+1)
DEMOCRACY (G) ( $\beta_1$ )	0.0001 (0.001)	0.0026 (0.002)	0.0040* (0.002)	0.0051 (0.004)	0.0053 (0.005)	0.0001 (0.001)	0.0023 (0.002)	0.0034 (0.002)	0.0057* (0.003)	0.0060** (0.003)
POST2002 ( $\beta_2$ )	-0.0019 (0.003)	-0.0036 (0.004)	-0.0032 (0.004)	-0.0061 (0.006)	-0.0071 (0.008)	-0.0006 (0.002)	-0.0003 (0.003)	0.0013 (0.003)	0.0028 (0.004)	0.0038 (0.004)
DEMOCRACY (G) x POST ( $\beta_3$ )	-0.0001 (0.003)	-0.0012 (0.005)	-0.0036 (0.005)	-0.0047 (0.006)	-0.0053 (0.008)	-0.0005 (0.003)	-0.0014 (0.004)	-0.003 (0.004)	-0.0063 (0.004)	-0.0077* (0.004)
Cons ( $\beta_0$ )	0.0060*** (0.001)	0.0062*** (0.002)	0.0074*** (0.002)	0.0094*** (0.003)	0.0125** (0.005)	0.0041*** (0.001)	0.0030** (0.001)	0.0028* (0.002)	0.0015 (0.002)	-0.0005 (0.003)
Observations	144	144	144	144	144	144	144	144	144	144
Adj. Rsq	0.0126	0.0034	0.0013	0.0052	0.0023	0.0187	0.0068	0.0024	0.0099	0.0071
F Stat ( $\beta_1+\beta_3 = 0$ )	0.0000	0.1110	0.0072	0.0109	0.0001	0.0233	0.0755	0.0138	0.0263	0.3134
P-Val	0.9954	0.7403	0.9326	0.9172	0.9918	0.8793	0.7845	0.9071	0.8717	0.5779

**Panel D: Equal-Weighted E-Index Portfolios, No Data Filters**

	Raw Returns					Excess Returns				
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Variables	(T-1,T+1)	(T-3,T+1)	(T-5,T+1)	(T-10,T+1)	(T-20,T+1)	(T-1,T+1)	(T-3,T+1)	(T-5,T+1)	(T-10,T+1)	(T-20,T+1)
DEMOCRACY (E) ( $\beta_1$ )	0.0013 (0.002)	0.0025 (0.002)	0.0049* (0.003)	0.0037 (0.003)	0.003 (0.004)	0.0013 (0.001)	0.0027 (0.002)	0.0047** (0.002)	0.0042 (0.003)	0.0049 (0.004)
POST2002 ( $\beta_2$ )	-0.002 (0.004)	-0.0039 (0.005)	-0.0031 (0.005)	-0.0079 (0.007)	-0.0081 (0.009)	-0.0006 (0.003)	-0.0004 (0.004)	0.0019 (0.004)	0.0013 (0.004)	0.0029 (0.003)
DEMOCRACY (E) x POST ( $\beta_3$ )	-0.002 (0.004)	-0.0023 (0.005)	-0.0053 (0.005)	-0.004 (0.006)	-0.0065 (0.006)	-0.0029 (0.003)	-0.0031 (0.004)	-0.0056 (0.004)	-0.0067 (0.005)	-0.0094** (0.004)
Cons ( $\beta_0$ )	0.0048*** (0.001)	0.0060*** (0.002)	0.0064*** (0.002)	0.0112*** (0.003)	0.0149*** (0.005)	0.0030*** (0.001)	0.0027** (0.001)	0.0019 (0.001)	0.0036** (0.002)	0.002 (0.003)
Observations	144	144	144	144	144	144	144	144	144	144
Adj. Rsq	0.0024	0.0030	0.0075	0.0106	0.0032	0.0010	0.0032	0.0103	0.0009	0.0067
F Stat ( $\beta_1+\beta_3 = 0$ )	0.0357	0.0019	0.0051	0.0036	0.5825	0.2500	0.0116	0.0583	0.4285	3.1294
P-Val	0.8509	0.9651	0.9432	0.9524	0.4486	0.6191	0.9148	0.8101	0.5155	0.0825

### **Table M-3: Returns Around Earnings Announcements – Extending CGR Methodology**

*September 1990 to June 2008 (Pooled), with data filter*

Table M-3 reports for all firms that are not dual-class, are not REITs, and are not followed by fewer than five analysts the relationship between earnings announcement returns and democracy/dictatorship portfolios in the period before and after the end of 2001, where the announcement return windows range from 1, 3, 5, 10, and 20 trading days prior to the earnings announcement date until 1 trading day after the announcement. We define a post (and not including) 2001 dummy to indicate the earnings announcement occurred in calendar year 2002 or later. Market-value weighted and equal weighted earnings announcement portfolios are constructed on a quarterly basis. Panel A reports coefficients from an OLS regression of the value-weighted quarterly announcement portfolio returns in a particular window on a democracy portfolio dummy (where DEMOCRACY (G) = 1 if  $G \leq 5$  and DEMOCRACY (G) = 0 if  $G \geq 14$ ), a post 2001 period dummy, and an interaction of the two terms; Panel B is identical to Panel A but uses the E-index to define the democracy portfolio dummy (where DEMOCRACY (E) = 1 if  $E = 0$  and DEMOCRACY (E) = 9 if  $E \geq 5$ ); Panel C is identical to Panel A but uses returns from equal-weighted quarterly announcement portfolios; and Panel D is identical to Panel C but uses the E-index to define the democracy portfolio dummy. Each panel is divided into two parts; the left hand side panel uses raw stock returns around the announcement window as the dependent variable, whereas the right hand side panel's specifications use returns in excess of the Fama-French (1992) three factors over the relevant time window, using betas estimated from 20 to 210 trading days prior to the earnings announcement. Cluster robust standard errors are used throughout, clustering by year, and appear immediately below the coefficient estimate in parentheses. F statistics and p-value testing the null hypothesis of no relation between earnings announcement returns and governance in the post-2001 period ( $\beta_1 + \beta_3 = 0$ ) are reported in the last two rows of each panel. Levels of significance are indicated by \*, \*\*, and \*\*\* for 10%, 5%, and 1%, respectively.

**Panel A: Value-Weighted G-Index Portfolios, With Data Filters**

Variables	Raw Returns					Excess Returns				
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	(T-1,T+1)	(T-3,T+1)	(T-5,T+1)	(T-10,T+1)	(T-20,T+1)	(T-1,T+1)	(T-3,T+1)	(T-5,T+1)	(T-10,T+1)	(T-20,T+1)
DEMOCRACY (G) ( $\beta_1$ )	0.0027 (0.003)	0.0030 (0.004)	0.0053* (0.003)	0.0044 (0.004)	0.0103** (0.005)	0.0022 (0.003)	0.0043 (0.003)	0.0069** (0.003)	0.0070** (0.003)	0.0113*** (0.004)
POST2002 ( $\beta_2$ )	-0.0039 (0.003)	-0.0073* (0.004)	-0.0059* (0.003)	-0.0048 (0.005)	-0.0053 (0.009)	-0.0017 (0.003)	-0.0030 (0.003)	-0.0012 (0.003)	0.0037 (0.004)	0.0050 (0.004)
DEMOCRACY (G) x POST ( $\beta_3$ )	-0.0001 (0.005)	0.0023 (0.005)	-0.0015 (0.004)	-0.0004 (0.005)	-0.0104 (0.008)	0.0014 (0.006)	0.0024 (0.005)	-0.0014 (0.005)	-0.0037 (0.005)	-0.0077 (0.007)
Cons ( $\beta_0$ )	0.0055** (0.003)	0.0072** (0.003)	0.0073*** (0.003)	0.0075** (0.004)	0.0093** (0.004)	0.0028 (0.003)	0.0024 (0.003)	0.0020 (0.003)	-0.0003 (0.004)	-0.0031 (0.004)
Observations	144	144	144	144	144	144	144	144	144	144
Adj. Rsq	0.0003	0.0173	0.0198	0.0069	0.0125	0.0108	0.0130	0.0229	0.0095	0.0206
F Stat ( $\beta_1+\beta_3 = 0$ )	0.3527	2.9943	1.8150	0.9493	0.0007	0.5243	3.2828	2.2450	0.8781	0.5271
P-Val	0.5551	0.0893	0.1835	0.3343	0.9797	0.4721	0.0756	0.1399	0.3529	0.4710

**Panel B: Value-Weighted E-Index Portfolios, With Data Filters**

Variables	Raw Returns					Excess Returns				
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	(T-1,T+1)	(T-3,T+1)	(T-5,T+1)	(T-10,T+1)	(T-20,T+1)	(T-1,T+1)	(T-3,T+1)	(T-5,T+1)	(T-10,T+1)	(T-20,T+1)
DEMOCRACY (E) ( $\beta_1$ )	0.0051 (0.003)	0.0070** (0.003)	0.0075** (0.004)	0.0092 (0.006)	0.0066 (0.007)	0.0045* (0.003)	0.0075*** (0.003)	0.0096*** (0.003)	0.0117*** (0.004)	0.0126** (0.005)
POST2002 ( $\beta_2$ )	0.0003 (0.003)	-0.0026 (0.004)	-0.0017 (0.004)	-0.0079 (0.006)	-0.0102 (0.010)	0.0016 (0.003)	0.0019 (0.003)	0.0052 (0.004)	0.0029 (0.004)	0.0049 (0.005)
DEMOCRACY (E) x POST ( $\beta_3$ )	-0.0071 (0.005)	-0.0075 (0.005)	-0.0100* (0.006)	-0.0046 (0.008)	-0.007 (0.011)	-0.0072 (0.005)	-0.0092** (0.004)	-0.0129*** (0.004)	-0.0113** (0.005)	-0.0128* (0.006)
Cons ( $\beta_0$ )	0.0027 (0.002)	0.0050** (0.002)	0.0060** (0.003)	0.0073* (0.004)	0.0133*** (0.005)	0.0011 (0.002)	0.0003 (0.002)	-0.0006 (0.002)	-0.0009 (0.003)	-0.0006 (0.004)
Observations	144	144	144	144	144	144	144	144	144	144
Adj. Rsq	0.0138	0.0324	0.0183	0.0255	0.0121	0.0130	0.0464	0.0540	0.0567	0.0348
F Stat ( $\beta_1+\beta_3 = 0$ )	0.2222	0.0150	0.3644	0.7556	0.0026	0.4995	0.4120	1.0401	0.0230	0.0026
P-Val	0.6393	0.9030	0.5486	0.3886	0.9598	0.4828	0.5237	0.3123	0.8801	0.9593



**Panel C: Equal-Weighted G-Index Portfolios, With Data Filters**

	Raw Returns					Excess Returns				
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Variables	(T-1,T+1)	(T-3,T+1)	(T-5,T+1)	(T-10,T+1)	(T-20,T+1)	(T-1,T+1)	(T-3,T+1)	(T-5,T+1)	(T-10,T+1)	(T-20,T+1)
DEMOCRACY (G) ( $\beta_1$ )	0.0022 (0.002)	0.0052** (0.002)	0.0079*** (0.003)	0.0090** (0.004)	0.0097** (0.005)	0.0013 (0.002)	0.0040* (0.002)	0.0062** (0.002)	0.0088*** (0.003)	0.0100*** (0.003)
POST2002 ( $\beta_2$ )	-0.0032 (0.002)	-0.0048* (0.003)	-0.0029 (0.003)	-0.0047 (0.006)	-0.004 (0.009)	-0.0023 (0.002)	-0.0022 (0.002)	0.0005 (0.003)	0.0038 (0.004)	0.0054 (0.004)
DEMOCRACY (G) x POST ( $\beta_3$ )	-0.0048* (0.003)	-0.0058 (0.004)	-0.0103** (0.004)	-0.0124** (0.006)	-0.0183** (0.008)	-0.0033 (0.003)	-0.004 (0.003)	-0.0072** (0.003)	-0.0124** (0.005)	-0.0181*** (0.005)
Cons ( $\beta_0$ )	0.0068*** (0.001)	0.0073*** (0.002)	0.0080*** (0.002)	0.0093*** (0.003)	0.0111** (0.004)	0.0048*** (0.001)	0.0040*** (0.001)	0.0035** (0.002)	0.0017 (0.002)	-0.0015 (0.002)
Observations	144	144	144	144	144	144	144	144	144	144
Adj. Rsq	0.0366	0.0485	0.0352	0.0255	0.0187	0.0231	0.0419	0.0399	0.0400	0.0535
F Stat ( $\beta_1+\beta_3 = 0$ )	1.5621	0.0489	0.7063	0.6239	1.6321	1.0065	0.0000	0.1786	1.0463	5.3390
P-Val	0.2168	0.8258	0.4044	0.4331	0.2069	0.3202	0.9953	0.6743	0.3109	0.0247

**Panel D: Equal-Weighted E-Index Portfolios, With Data Filters**

	Raw Returns					Excess Returns				
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Variables	(T-1,T+1)	(T-3,T+1)	(T-5,T+1)	(T-10,T+1)	(T-20,T+1)	(T-1,T+1)	(T-3,T+1)	(T-5,T+1)	(T-10,T+1)	(T-20,T+1)
DEMOCRACY (E) ( $\beta_1$ )	0.0043*** (0.001)	0.0062** (0.002)	0.0097*** (0.002)	0.0089*** (0.003)	0.0083* (0.005)	0.0033** (0.001)	0.0057** (0.002)	0.0092*** (0.002)	0.0100*** (0.003)	0.0117*** (0.004)
POST2002 ( $\beta_2$ )	-0.0012 (0.003)	-0.0022 (0.004)	-0.0004 (0.004)	-0.006 (0.005)	-0.0049 (0.010)	-0.0002 (0.002)	0.0004 (0.003)	0.0041 (0.003)	0.0038 (0.003)	0.0066 (0.005)
DEMOCRACY (E) x POST ( $\beta_3$ )	-0.0075** (0.004)	-0.0089* (0.005)	-0.0133*** (0.005)	-0.0112* (0.006)	-0.0182** (0.008)	-0.0070** (0.003)	-0.0077** (0.004)	-0.0117*** (0.004)	-0.0147*** (0.004)	-0.0219*** (0.006)
Cons ( $\beta_0$ )	0.0047*** (0.001)	0.0060*** (0.002)	0.0059*** (0.002)	0.0101*** (0.003)	0.0138*** (0.004)	0.0031*** (0.001)	0.0027** (0.001)	0.0013 (0.001)	0.0021 (0.002)	0.0002 (0.002)
Observations	144	144	144	144	144	144	144	144	144	144
Adj. Rsq	0.0442	0.0352	0.0370	0.0287	0.0202	0.0504	0.0545	0.0825	0.0667	0.0703
F Stat ( $\beta_1+\beta_3 = 0$ )	0.9138	0.4904	0.7405	0.1968	2.1880	1.4676	0.4172	0.6498	1.7998	4.3752
P-Val	0.3434	0.4867	0.3933	0.6591	0.1449	0.2310	0.5211	0.4237	0.1854	0.0412

**Table M-4: Alpha Adjustments to Earnings Announcements Analysis**

Table M-4 reports for all firms that are not dual-class, are not REITs, and are not followed by fewer than five analysts the relationship between earnings announcement excess returns and democracy/dictatorship portfolios in the period before and after the end of 2001, where the announcement return windows range from 1, 3, 5, 10, and 20 trading days prior to the earnings announcement date until 1 trading day after the announcement. Excess returns are defined as in Table M-2 and M-3 but with the following two types of modifications: in Panels A and B (C and D), we subtract from the quarterly earnings announcement portfolios the normalized average excess returns for the entire sample period, from September 1990 to June 2008, produced by the strategy of going long an equal-weighted (value-weighted) portfolio of DEMOCRACY firms and short an equal-weighted (value-weighted) portfolio of DICTATORSHIP firms. Normalization is done in order to translate average annual excess returns into average excess three-day, five-day, seven-day, twelve-day, and twenty-two day excess returns to be applied to the (T-1,T+1), (T-3,T+1), (T-5,T+1), (T-10,T+1), and (T-20,T+1) quarterly earnings announcement portfolios, respectively. We define a post (and not including) 2001 dummy to indicate the earnings announcement occurred in calendar year 2002 or later. Equal weighted earnings announcement portfolios are constructed on a quarterly basis. Panel A reports coefficients from an OLS regression of the equal-weighted quarterly announcement portfolio excess returns in a particular window on a democracy portfolio dummy (where DEMOCRACY (G) = 1 if  $G \leq 5$  and DEMOCRACY (G) = 0 if  $G \geq 14$ ), a post 2001 period dummy, and an interaction of the two terms; Panel B is identical to Panel A but uses the E-index to define the democracy portfolio dummy (where DEMOCRACY (E) = 1 if  $E = 0$  and DEMOCRACY (E) = 9 if  $E \geq 5$ ). Cluster robust standard errors are used throughout, clustering by year, and appear immediately below the coefficient estimate in parentheses. F statistics and p-value testing the null hypothesis of no relation between earnings announcement returns and governance in the post-2001 period ( $\beta_1 + \beta_3 = 0$ ) are reported in the last two rows of each panel. Levels of significance are indicated by \*, \*\*, and \*\*\* for 10%, 5%, and 1%, respectively.

**Panel A: G-Index (Adjustments using EW G-Index Portfolios)**

Variables	Excess Returns				
	(1)	(2)	(3)	(4)	(5)
	(T-1,T+1)	(T-3,T+1)	(T-5,T+1)	(T-10,T+1)	(T-20,T+1)
DEMOCRACY (G) ( $\beta_1$ )	0.0013 (0.002)	0.004 (0.002)	0.0059** (0.003)	0.0082** (0.003)	0.0081* (0.004)
POST2002 ( $\beta_2$ )	-0.0022 (0.002)	-0.0010 (0.002)	0.0007 (0.002)	0.0030 (0.004)	0.0030 (0.004)
DEMOCRACY (G) x POST ( $\beta_3$ )	-0.0031 (0.004)	-0.0055 (0.004)	-0.0077* (0.004)	-0.0121** (0.006)	-0.0163*** (0.006)
Cons ( $\beta_0$ )	0.0046*** (0.001)	0.0039*** (0.001)	0.0033** (0.002)	0.0014 (0.002)	-0.0016 (0.003)
Observations	8,408	8,408	8,408	8,408	8,408
Adj. Rsq	0.0005	0.0008	0.0009	0.0012	0.0015
F Stat ( $\beta_1+\beta_3 = 0$ )	0.4012	0.2646	0.2820	0.7397	2.7314
P-Val	0.5265	0.6070	0.5954	0.3898	0.0984

**Panel B: E-Index (Adjustments using EW E-Index Portfolios)**

Variables	Excess Returns				
	(1)	(2)	(3)	(4)	(5)
	(T-1,T+1)	(T-3,T+1)	(T-5,T+1)	(T-10,T+1)	(T-20,T+1)
DEMOCRACY (E) ( $\beta_1$ )	0.0028* (0.002)	0.0050** (0.002)	0.0083*** (0.002)	0.0084*** (0.003)	0.0089** (0.004)
POST2002 ( $\beta_2$ )	-0.0001 (0.002)	0.0011 (0.002)	0.0043 (0.003)	0.0034 (0.003)	0.0035 (0.004)
DEMOCRACY (E) x POST ( $\beta_3$ )	-0.0066** (0.003)	-0.0080** (0.004)	-0.0113*** (0.004)	-0.0138** (0.006)	-0.0206*** (0.006)
Cons ( $\beta_0$ )	0.0032** (0.001)	0.0026* (0.001)	0.0009 (0.001)	0.0015 (0.002)	-0.0006 (0.003)
Observations	8,022	8,022	8,022	8,022	8,022
Adj. Rsq	0.0009	0.0010	0.0014	0.0017	0.0029
F Stat ( $\beta_1+\beta_3 = 0$ )	1.8310	0.8911	0.6156	1.1136	5.0349
P-Val	0.1760	0.3452	0.4327	0.2913	0.0249

**Panel C: G-Index (Adjustments using VW G-Index Portfolios)**

Variables	Excess Returns				
	(1)	(2)	(3)	(4)	(5)
	(T-1,T+1)	(T-3,T+1)	(T-5,T+1)	(T-10,T+1)	(T-20,T+1)
DEMOCRACY (G) ( $\beta_1$ )	0.0015 (0.002)	0.0043* (0.002)	0.0063** (0.003)	0.0090*** (0.003)	0.0096** (0.004)
POST2002 ( $\beta_2$ )	-0.0022 (0.002)	-0.0010 (0.002)	0.0007 (0.002)	0.0030 (0.004)	0.0030 (0.004)
DEMOCRACY (G) x POST ( $\beta_3$ )	-0.0031 (0.004)	-0.0055 (0.004)	-0.0077* (0.004)	-0.0121** (0.006)	-0.0163*** (0.006)
Cons ( $\beta_0$ )	0.0046*** (0.001)	0.0039*** (0.001)	0.0033** (0.002)	0.0014 (0.002)	-0.0016 (0.003)
Observations	8,408	8,408	8,408	8,408	8,408
Adj. Rsq	0.0005	0.0008	0.0010	0.0014	0.0017
F Stat ( $\beta_1+\beta_3 = 0$ )	0.3186	0.1622	0.1565	0.4662	1.8422
P-Val	0.5725	0.6872	0.6924	0.4948	0.1747

**Panel D: E-Index (Adjustments using VW E-Index Portfolios)**

Variables	Excess Returns				
	(1)	(2)	(3)	(4)	(5)
	(T-1,T+1)	(T-3,T+1)	(T-5,T+1)	(T-10,T+1)	(T-20,T+1)
DEMOCRACY (E) ( $\beta_1$ )	0.0024 (0.002)	0.0044** (0.002)	0.0073*** (0.002)	0.0068** (0.003)	0.006 (0.004)
POST2002 ( $\beta_2$ )	-0.0001 (0.002)	0.0011 (0.002)	0.0043 (0.003)	0.0034 (0.003)	0.0035 (0.004)
DEMOCRACY (E) x POST ( $\beta_3$ )	-0.0066** (0.003)	-0.0080** (0.004)	-0.0113*** (0.004)	-0.0138** (0.006)	-0.0206*** (0.006)
Cons ( $\beta_0$ )	0.0032** (0.001)	0.0026* (0.001)	0.0009 (0.001)	0.0015 (0.002)	-0.0006 (0.003)
Observations	8,022	8,022	8,022	8,022	8,022
Adj. Rsq	0.0009	0.0009	0.0012	0.0015	0.0029
F Stat ( $\beta_1+\beta_3 = 0$ )	2.2421	1.3470	1.0638	1.8795	7.9084
P-Val	0.1343	0.2458	0.3024	0.1704	0.0049

**Table M-5: Differences in Quarterly Analysts' Forecast Errors – Replicating GM**

This table reports the coefficients from pane OLS regressions of either the actual I/B/E/S quarterly earnings per share (EPS) (column 1), the mean I/B/E/S consensus forecast of annual EPS (column 2), or the forecast error (actual I/B/E/S quarterly EPS minus the mean I/B/E/S consensus forecast of annual EPS; column 3), all scaled down by lagged total assets per share, on an intercept, year and industry fixed effects, a Dictatorship dummy, the book-to-market ratio, and firm size. Lagged total assets per share is the book value of assets in the previous quarter divided by the number of shares in the month of the forecast. Firm size is the logarithm of the book value of assets. The log book-to-market ratio is computed as the logarithm of the ratio of the book value of equity divided by the market value of equity. The sample is restricted to Democracy ( $Dict = 0$ ) and Dictatorship firms ( $Dict = 1$ ).  $Dict$  is a dichotomous variable that takes the value of 1 if the firm is in the decile with the weakest shareholder rights ( $G-index \geq 14$ ), and 0 if the firm is in the decile with the strongest shareholder rights ( $G-index \leq 5$ ). All dual class firm, firms with fewer than five analysts following, and all observations for which the forecast error is larger than 10% of the share price in the month of the forecast are excluded. The coefficients on the intercept and other control variables are not reported for brevity. All coefficients are multiplied by 100. Standard errors are two-way cluster robust, clustered by firm and by year. The sample period is from 1991 to 1999.  $t$ -statistics are in parentheses. \*, \*\*, and \*\*\* denotes significance at the 10%, 5%, and 1% level, respectively.

	Actual	Forecast	Error	Actual	Forecast	Error
	[1]	[2]	[3]	[4]	[5]	[6]
Dictatorship	-0.17 (1.42)	-0.15 (1.38)	-0.02 (0.79)	-0.26 (0.79)	-0.25* (0.79)	-0.02 (0.79)
Size	-0.52*** (5.25)	-0.55*** (5.95)	0.03* (1.66)	-0.41*** (1.66)	-0.45*** (1.66)	0.03** (1.66)
Log(Book-to-Market)	-2.85*** (6.51)	-2.65*** (6.81)	-0.21** (2.50)	-2.39*** (2.50)	-2.20*** (2.50)	-0.19** (2.50)
Year fixed effects	Yes	Yes	Yes	No	No	No
Industry fixed effects	Yes	Yes	Yes	No	No	No
Number of observations	4,106	4,106	4,106	4,106	4,106	4,106
Adj. Rsq	0.30	0.36	0.02	0.23	0.28	0.00

**Table M-6: Differences in Quarterly Analysts' Forecast Errors – Replicating CGR**

Panel A presents the coefficients on *G-index* in the regression of quarterly analysts' forecast errors on *G-index*, log(market value of equity), and log(book-to-market equity) (coefficients on control variables are not reported). Forecast errors are defined as I/B/E/S actual earnings per share minus I/B/E/S forecasted quarterly earnings per share, and are deflated either by price or by assets per share. Panel B presents the coefficient on the *Dict* indicator variable in the regression of quarterly analysts' forecast errors on *Dict*, log(market value of equity), and log(book-to-market equity). *Dict* is a dichotomous variable that takes the value of 1 if the firm is in the decile with the weakest shareholder rights (*G-index*  $\geq 14$ ), and 0 if the firm is in the decile with the strongest shareholder rights (*G-index*  $\leq 5$ ). The sample in Panel B is restricted to firms in the highest and lowest deciles of *G-index*. Results are based on median regressions by year, and stars are estimated using bootstrapped standard errors based on 100 draws. The time-series mean of coefficients and standard deviation and the *t*-statistics for the average of the coefficients are calculated. All coefficients are multiplied by 100 for expositional convenience. The regressions for each of the panels are as follows:

Panel A: Analysts' forecast error <sub>it</sub> = $\alpha + \beta_1 G\text{-index}_{i,t-1} + \beta_2 \log MVE_{i,t-1} + \beta_3 \log BME_{i,t-1}$ (2a)							
Panel B: Analysts' forecast error <sub>it</sub> = $\alpha + \beta_1 Dict_{i,t-1} + \beta_2 \log MVE_{i,t-1} + \beta_3 \log BME_{i,t-1}$ (2b)							
Dependent Variable	Panel A: Full Sample			Panel B: Restricted Sample			
	Coefficient on <i>G-index</i>			Coefficient on <i>Dict</i>			
	FE Scaled by Price (1)	FE Scaled by Assets (2)	Obs	FE Scaled by Price (1)	FE Scaled by Assets (2)	Obs	
1991	-0.0017	-0.0002	4,328	-0.0305	-0.0261	727	
1992	0.0010	0.0002	4,223	-0.0105	-0.0121	704	
1993	0.0000	0.0000	4,403	0.0071	0.0006	734	
1994	0.0014*	0.0006	4,660	0.0321**	0.0239**	778	
1995	0.0014*	0.0006	4,713	0.0314*	0.0122	773	
1996	0.0009	0.0003	4,843	0.0051	-0.0007	735	
1997	0.0012*	0.0006	4,608	0.0052	-0.0043	696	
1998	0.0000	0.0000	6,135	0.0000	0.0000	1,089	
1999	-0.0002	-0.0015**	5,940	-0.0076	-0.0108	1,052	
Time-series mean	0.0006	0.0001	9	0.0036	-0.0019	9	
Time-series std	0.0018	0.0007		0.0197	0.0143		
<i>t</i> -statistic	0.328	0.092		0.182	0.135		

\*Significant at 0.10 level; \*\*significant at the 0.05 level; \*\*\*significant at the 0.01 level.

**Table M-7: Summary Statistics on Analyst Surprises**

Panel A presents the summary statistics on four analyst surprises measures: forecast error scaled by price measured at the forecast date; forecast error scaled by total assets per share from the previous quarter end; forecast error scaled by the standard deviation of analyst forecasts (SUE); forecast error scaled by the absolute value of mean analyst forecast. Forecast error is defined as the I/B/E/S actual quarterly earnings per share (EPS) minus the mean analyst forecast measured on the date closest to but prior to the announcement date. Forecast errors are defined as I/B/E/S actual earnings per share minus I/B/E/S forecasted quarterly earnings per share, and are deflated either by price or by assets per share. Panel B presents the same summary statistics as Panel A but for the sub-sample of observations for which the forecast error is larger than 10% of the share price.

**Panel A: Summary Statistics**

Variables	N	Mean	Median	Std Dev	Skewness
FE Scaled by Price	100,298	-0.1669	0.0245	8.5882	-139.6821
FE Scaled by Assets	99,182	-0.0016	0.0144	1.0596	-22.3267
Analyst SUE	86,689	29.8765	43.3333	659.6666	-11.2225
FE (%)	99,625	-6.3604	1.7544	281.8551	-20.7434

**Panel B: Summary Statistics with Giroud and Mueller Filter**

Variables	N	Mean	Median	Std Dev	Skewness
FE Scaled by Price	99,658	-0.0168	0.0250	0.8618	-2.3761
FE Scaled by Assets	98,550	0.0178	0.0151	0.6495	0.0217
Analyst SUE	86,274	37.0744	47.5595	533.3987	-3.4459
FE (%)	98,999	-1.3189	1.7857	188.6670	21.6797

**Table M-8: Differences in Quarterly Analysts' Surprise – Extending GM / CGR Methodology**  
*January 1991 to December 1999 (Pooled)*

Table M-8 reports the pooled quantile regression results of analyst surprise on corporate governance measures and controls using earnings announcements from 1991~1999. Four measures of surprise are used as dependent variables: forecast error scaled by price measured at the forecast date; forecast error scaled by total assets per share from the previous quarter end; forecast error scaled by the standard deviation of analyst forecasts (SUE); forecast error scaled by the absolute value of mean analyst forecast. Forecast error is defined as the I/B/E/S actual quarterly earnings per share (EPS) minus the mean analyst forecast measured on the date closest to but prior to the announcement date. Panel A columns (1)-(4) (columns (5)-(8)) uses the *G-index* (*E-index*) as the measure of corporate governance; Panel B columns (1)-(4) (columns (5)-(8)) uses the *Dict (G)* (*Dict (E)*) as the measure of corporate governance. *Dict (G)* is a dichotomous variable that takes the value of 1 if the firm is in the decile with the weakest shareholder rights as measured by the *G-index* ( $G-index \geq 14$ ), and 0 if the firm is in the decile with the strongest shareholder rights as measured by the *G-index* ( $G-index \leq 5$ ); *Dict (E)* is a dichotomous variable that takes the value of 1 if the firm has the weakest shareholder rights as measured by the *E-index* ( $G-index \geq 5$ ), and 0 if the firm has the strongest shareholder rights as measured by the *E-index* ( $E-index = 0$ ). All regressions include log of market capitalization and log of book-to-market ratio as controls, where market capitalization is measured at the end of the previous fiscal quarter and the book-to-market ratio is defined as the ratio of the book value of equity divided by the market value of equity measured at the end of the last fiscal quarter. Two-way cluster robust standard errors are used throughout, clustering by year and by firm, and appear immediately below the coefficient estimate in parentheses. Levels of significance are indicated by \*, \*\*, and \*\*\* for 10%, 5%, and 1%, respectively.



**Panel A: Pooled**

	FE Scaled by Price	FE Scaled by Assets	SUE	FE (%)	FE Scaled by Price	FE Scaled by Assets	SUE	FE (%)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Variables	<i>G-index</i>	<i>G-index</i>	<i>G-index</i>	<i>G-index</i>	<i>E-Index</i>	<i>E-Index</i>	<i>E-Index</i>	<i>E-Index</i>
Gov.Var	0.00042 (0.000)	0.00020 (0.000)	0.25070 (0.611)	0.02938 (0.027)	-0.0003 (0.001)	-0.0001 (0.000)	-1.1464 (0.965)	-0.0272 (0.053)
Log(Market Cap)	0.0014 * (0.001)	0.0007 * (0.000)	5.2159 ** (2.038)	0.1289 ** (0.065)	0.0014 (0.001)	0.0007 (0.000)	5.0732 *** (1.924)	0.1278 ** (0.060)
Log(Book-to-Market)	-0.0174 * (0.009)	-0.0100 (0.007)	-24.7710 ** (12.126)	-1.2596 (0.859)	-0.0172 * (0.010)	-0.0097 (0.008)	-25.3902 ** (12.114)	-1.2460 (0.831)
Cons	-0.0021 (0.008)	-0.0004 (0.005)	-19.2825 (12.078)	-0.3145 (0.668)	0.0018 (0.009)	0.0015 (0.006)	-12.7920 (12.390)	0.0107 (0.698)
Obs	43,853	43,853	38,004	43,609	43,853	43,853	38,004	43,609
Adj Rsq	0.015	0.004	0.001	0.006	0.015	0.004	0.001	0.006

**Panel B: Pooled, Dictatorship vs Democracy**

	FE Scaled by Price	FE Scaled by Assets	SUE	FE (%)	FE Scaled by Price	FE Scaled by Assets	SUE	FE (%)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Variables	<i>Dict (G)</i>	<i>Dict (G)</i>	<i>Dict (G)</i>	<i>Dict (G)</i>	<i>Dict (E)</i>	<i>Dict (E)</i>	<i>Dict (E)</i>	<i>Dict (E)</i>
Gov.Var	0.0059 (0.008)	0.0017 (0.003)	7.61939 (10.992)	0.36203 (0.477)	-0.0025 (0.004)	-0.0033 (0.005)	-9.6405 (8.519)	-0.2465 (0.411)
Log(Market Cap)	0.0006 (0.001)	0.0001 (0.001)	2.5643 (3.704)	0.0517 (0.109)	0.0007 (0.001)	0.0005 (0.001)	7.1591 *** (2.708)	0.0737 (0.119)
Log(Book-to-Market)	-0.0217 (0.025)	-0.0065 (0.012)	-41.7984 * (24.700)	-1.7647 (1.994)	-0.0368 * (0.019)	-0.0437 * (0.023)	-60.1743 *** (17.947)	-3.8828 ** (1.649)
Cons	0.0068 (0.017)	0.0023 (0.010)	5.0725 (23.448)	0.5326 (1.365)	0.0137 (0.015)	0.0197 (0.018)	-12.6208 (21.588)	1.4527 (1.266)
Obs	7,288	7,288	6,105	7,248	7,118	7,118	6,039	7,086
Adj Rsq	0.009	0.004	0.002	0.008	0.015	0.012	0.004	0.007

**Table M-9: Differences in Quarterly Analysts' Surprises – Extending GM / CGR Methodology**

*January 1991 to December 1999 (Pooled), with data filter*

Table M-9 reports for all firms that are not dual-class, are not REITs, and are not followed by fewer than five analysts the pooled quantile regression results of analyst surprise on corporate governance measures and controls using earnings announcements from 1991~1999. Four measures of surprise are used as dependent variables: forecast error scaled by price measured at the forecast date; forecast error scaled by total assets per share from the previous quarter end; forecast error scaled by the standard deviation of analyst forecasts (SUE); forecast error scaled by the mean analyst forecast. Forecast error is defined as the I/B/E/S actual quarterly earnings per share (EPS) minus the mean analyst forecast measured on the date closest to but prior to the announcement date. Panel A columns (1)-(4) (columns (5)-(8)) uses the *G-index* (*E-index*) as the measure of corporate governance; Panel B columns (1)-(4) (columns (5)-(8)) uses the *Dict* (*G*) (*Dict* (*E*)) as the measure of corporate governance. *Dict* (*G*) is a dichotomous variable that takes the value of 1 if the firm is in the decile with the weakest shareholder rights as measured by the *G-index* ( $G\text{-index} \geq 14$ ), and 0 if the firm is in the decile with the strongest shareholder rights as measured by the *G-index* ( $G\text{-index} \leq 5$ ); *Dict* (*E*) is a dichotomous variable that takes the value of 1 if the firm has the weakest shareholder rights as measured by the *E-index* ( $E\text{-index} \geq 5$ ), and 0 if the firm has the strongest shareholder rights as measured by the *E-index* ( $E\text{-index} = 0$ ). All regressions include log of market capitalization and log of book-to-market ratio as controls, where market capitalization is measured at the end of the previous fiscal quarter and the book-to-market ratio is defined as the ratio of the book value of equity divided by the market value of equity measured at the end of the last fiscal quarter. Two-way cluster robust standard errors are used throughout, clustering by year and by firm, and appear immediately below the coefficient estimate in parentheses. Levels of significance are indicated by \*, \*\*, and \*\*\* for 10%, 5%, and 1%, respectively.

**Panel A: Pooled with data filter**

	FE Scaled by Price	FE Scaled by Assets	SUE	FE (%)	FE Scaled by Price	FE Scaled by Assets	SUE	FE (%)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Variables	<i>G-index</i>	<i>G-index</i>	<i>G-index</i>	<i>G-index</i>	<i>E-Index</i>	<i>E-Index</i>	<i>E-Index</i>	<i>E-Index</i>
Gov.Var	-0.00001 (0.001)	0.00001 (0.000)	-0.63516 (0.892)	-0.00436 (0.036)	-0.0019 (0.001)	-0.0008 (0.001)	-4.1135 (1.763) **	-0.1508 (0.090) *
Log(Market Cap)	0.0016 (0.001)	0.0007 (0.001)	4.8774 (2.517) *	0.1422 (0.099)	0.0008 (0.001)	0.0004 (0.001)	3.9315 (2.264) *	0.0955 (0.093)
Log(Book-to-Market)	-0.0096 (0.010)	-0.0053 (0.008)	-19.0651 (14.091)	-0.6515 (0.854)	-0.0125 (0.010)	-0.0067 (0.007)	-21.2740 (13.463)	-0.7792 (0.694)
Cons	-0.0041 (0.014)	-0.0012 (0.010)	-12.3715 (20.470)	-0.4453 (1.102)	0.0085 (0.015)	0.0042 (0.010)	0.7211 (18.421)	0.3508 (1.116)
Obs	26,922	26,922	25,927	26,835	26,922	26,922	25,927	26,835
Adj Rsq	0.013	0.002	0.001	0.010	0.013	0.002	0.001	0.010

**Panel B: Pooled with data filter, Dictatorship vs Democracy**

	FE Scaled by Price	FE Scaled by Assets	SUE	FE (%)	FE Scaled by Price	FE Scaled by Assets	SUE	FE (%)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Variables	<i>Dict (G)</i>	<i>Dict (G)</i>	<i>Dict (G)</i>	<i>Dict (G)</i>	<i>Dict (E)</i>	<i>Dict (E)</i>	<i>Dict (E)</i>	<i>Dict (E)</i>
Gov.Var	0.0050 (0.009)	-0.0017 (0.005)	4.47194 (12.882)	0.12754 (0.603)	-0.0131 (0.006) **	-0.0215 (0.008) ***	-27.5647 (12.569) **	-1.0667 (0.446) **
Log(Market Cap)	-0.0050 (0.003) **	-0.0044 (0.003)	-5.4614 (5.123)	-0.3852 (0.182) **	-0.0020 (0.002)	-0.0064 (0.003) ***	3.6457 (3.492)	-0.1980 (0.175)
Log(Book-to-Market)	-0.0381 (0.034)	-0.0355 (0.023)	-61.9304 (27.888) **	-3.4026 (2.174)	-0.0336 (0.024)	-0.1055 (0.037) ***	-109.0000 (27.613) ***	-4.8783 (1.814) ***
Cons	0.0643 (0.026) **	0.0572 (0.035)	83.3993 (42.524) **	5.2073 (2.269) **	0.0423 (0.017) **	0.1132 (0.037) ***	46.5924 (34.729)	4.5251 (1.892) **
Obs	4,079	4,079	3,899	4,069	3,930	3,930	3,747	3,924
Adj Rsq	0.013	0.003	0.002	0.014	0.015	0.016	0.003	0.010

**Table M-10: Differences in Quarterly Analysts' Forecast Errors – Extending GM / CGR Methodology**

*September 1990 to June 2008, with data filter*

Table M-10 reports for all firms that are not dual-class, are not REITs, and are not followed by fewer than five analysts the pooled quantile regression results of analyst surprise on corporate governance measures and controls using earnings announcements in the period before and after the end of 2001. The sample of earnings announcements span from September 1990~June 2008, where we define a post (and not including) 2001 dummy to indicate the earnings announcement occurred in calendar year 2002 or later. Four measures of surprise are used as dependent variables: forecast error scaled by price measured at the forecast date; forecast error scaled by total assets per share from the previous quarter end; forecast error scaled by the standard deviation of analyst forecasts (SUE); forecast error scaled by the mean analyst forecast. Forecast error is defined as the I/B/E/S actual quarterly earnings per share (EPS) minus the mean analyst forecast measured on the date closest to but prior to the announcement date. Panel A columns (1)-(4) (columns (5)-(8)) uses the *G-index* (*E-index*) as the measure of corporate governance; Panel B columns (1)-(4) (columns (5)-(8)) uses the *Dict* (*G*) (*Dict* (*E*)) as the measure of corporate governance. *Dict* (*G*) is a dichotomous variable that takes the value of 1 if the firm is in the decile with the weakest shareholder rights as measured by the *G-index* ( $G\text{-index} \geq 14$ ), and 0 if the firm is in the decile with the strongest shareholder rights as measured by the *G-index* ( $G\text{-index} \leq 5$ ); *Dict* (*E*) is a dichotomous variable that takes the value of 1 if the firm has the weakest shareholder rights as measured by the *E-index* ( $G\text{-index} \geq 5$ ), and 0 if the firm has the strongest shareholder rights as measured by the *E-index* ( $E\text{-index} = 0$ ). All regressions include log of market capitalization and log of book-to-market ratio as controls, where market capitalization is measured at the end of the previous fiscal quarter and the book-to-market ratio is defined as the ratio of the book value of equity divided by the market value of equity measured at the end of the last fiscal quarter. Two-way cluster robust standard errors are used throughout, clustering by year and by firm, and appear immediately below the coefficient estimate in parentheses. F statistics and p-value testing the null hypothesis of no relation between earnings announcement returns and governance in the post-2001 period ( $\beta_1 + \beta_3 = 0$ ) are reported in the last two rows of each panel. Levels of significance are indicated by \*, \*\*, and \*\*\* for 10%, 5%, and 1%, respectively.

**Panel A: Pre and Post Period - Dictatorship vs. Democracy**

Variables	FE Scaled by Price	FE Scaled by Assets	SUE	FE (%)	FE Scaled by Price	FE Scaled by Assets	SUE	FE (%)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	<i>G-index</i>	<i>G-index</i>	<i>G-index</i>	<i>G-index</i>	<i>E-Index</i>	<i>E-Index</i>	<i>E-Index</i>	<i>E-Index</i>
Gov.Var	-0.0002 (0.001)	-0.0005 (0.001)	-1.2198 (0.954)	-0.0375 (0.051)	-0.0034 ** (0.002)	-0.0025 ** (0.001)	-4.5251 *** (1.635)	-0.2332 *** (0.078)
Post	0.0225 * (0.012)	0.0481 *** (0.011)	57.0660 *** (17.922)	2.3103 *** (0.817)	0.0179 ** (0.008)	0.0330 *** (0.007)	52.9640 *** (13.263)	1.6530 *** (0.491)
Gov.Var X Post	0.0004 (0.001)	-0.0019 ** (0.001)	0.3556 (1.113)	-0.0285 (0.063)	0.0044 *** (0.002)	-0.0011 (0.002)	3.5154 * (2.339)	0.1902 * (0.108)
Log(Market Cap)	-0.0017 (0.002)	-0.0037 ** (0.002)	3.4094 ** (1.577)	-0.1299 (0.105)	-0.0017 (0.001)	-0.0043 ** (0.002)	2.7336 (1.296)	-0.1632 (0.115)
Log(Book-to-Market)	-0.0093 (0.013)	-0.0593 *** (0.015)	-54.2112 *** (13.182)	-2.2616 *** (0.729)	-0.0078 (0.012)	-0.0599 *** (0.018)	-54.4252 *** (14.644)	-2.1860 *** (0.635)
Cons	0.0328 (0.021)	0.0681 *** (0.022)	28.4566 (22.836)	3.1743 ** (1.582)	0.0366 ** (0.018)	0.0740 *** (0.024)	32.9790 ** (17.755)	3.5767 ** (1.398)
Obs	62,464	62,464	59,043	62,171	62,464	62,464	59,043	62,171
Adj Rsq	0.009	0.008	0.006	0.007	0.009	0.009	0.006	0.006
F-Statistic	0.146	11.661	1.591	2.509	0.933	4.443	0.333	0.200
P-Value	0.703	0.001	0.207	0.113	0.334	0.035	0.564	0.655

**Panel B: Pre and Post Period - Dictatorship vs. Democracy**

Variables	FE Scaled by Price	FE Scaled by Assets	SUE	FE (%)	FE Scaled by Price	FE Scaled by Assets	SUE	FE (%)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	<i>Dict( G)</i>	<i>Dict( G)</i>	<i>Dict( G)</i>	<i>Dict( G)</i>	<i>Dict( E)</i>	<i>Dict( E)</i>	<i>Dict( E)</i>	<i>Dict( E)</i>
Gov. Var	0.0025 (0.007)	-0.0012 (0.005)	2.7652 (10.162)	0.0693 (0.513)	-0.0160 ** (0.007)	-0.0145 ** (0.006)	-26.3055 * (9.538)	-0.9908 * (0.518)
Post	0.0124 (0.009)	0.0166 ** (0.008)	41.7513 * (22.003)	1.3805 * (0.772)	0.0125 ** (0.006)	0.0188 ** (0.009)	31.5405 ** (16.473)	1.0392 ** (0.519)
Gov. Var X Post	0.0045 (0.012)	-0.0058 (0.009)	-4.7093 (21.203)	-0.1215 (0.770)	0.0292 ** (0.011)	0.0030 (0.011)	29.1201 * (23.927)	1.2992 * (0.682)
Log(Market Cap)	-0.0035 (0.002)	-0.0052 ** (0.002)	-2.5501 (4.102)	-0.2921 * (0.163)	-0.0008 (0.002)	-0.0031 (0.003)	4.6804 (2.996)	-0.1003 (0.122)
Log(Book-to-Market)	0.0056 (0.024)	-0.0509 ** (0.020)	-80.3010 *** (26.705)	-2.2728 * (1.330)	-0.0112 (0.019)	-0.0753 *** (0.020)	-65.4090 *** (24.275)	-3.3174 *** (1.092)
Cons	0.0455 * (0.024)	0.0729 ** (0.030)	77.6976 * (39.733)	4.3096 *** (1.660)	0.0274 * (0.016)	0.0730 ** (0.030)	25.5631 ** (28.664)	3.3515 ** (1.332)
Obs	8,323	8,323	7,763	8,288	7,948	7,948	7,429	7,923
Adj Rsq	0.016	0.006	0.003	0.010	0.013	0.013	0.004	0.008
F-Statistic	0.876	0.506	0.011	0.007	2.058	1.299	0.016	0.201
P-Value	0.349	0.477	0.917	0.936	0.151	0.255	0.900	0.654