SHAREHOLDER WEALTH EFFECTS AND CORPORATE NAME CHANGE: EVIDENCE FROM MALAYSIA

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Abstract

This study seeks to evaluate the shareholder wealth effect of corporate name change by Malaysian listed companies. Our sample comprises both failed and non-failed Malaysian companies and standard event study methodology is employed. Our results indicate that corporate name changes have no impact on shareholder wealth unless the announcement is accompanied with news of approved corporate restructuring by Malaysian regulatory authorities. In addition, extraordinary abnormal returns were found on the announcement day for the failed companies group whilst, the sub-sample of non-failed companies experienced a significant low negative abnormal return around the announcement date indicating disapproval of cosmetic name changes. Investors in Malaysia are generally cautious about receiving news of a corporate name change. The study also suggests that the market cannot be fooled by mere name change, such a change must be backed by serious efforts towards recovery.

Keywords: corporate name change; event study; failed firms; KLSE; Malaysia; restructuring; wealth effects

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Introduction

An organisation's corporate name provides an identity for the organisation and can also prompt feelings of pride in business owners, shareholders, managers and employees. McNamara (1998) points out that a corporate name is the cornerstone of a company's relationship with its customers. Essentially, a name sets an attitude and tone and is the first step towards establishing a corporate identity. When a company decides to change its name, professional advice is usually sought and it is generally expected that a firm will not change its name unless it is beneficial to the firm's stakeholders. It is also likely that a corporate name change serves as a signal to convey favourable information about management strategy for the future direction of the firm (Karpoff and Rankine, 1994). For example, in the United Kingdom (UK), the Post Office changed its name to Consignia in 2001 to underline its determination to be a major player in the global distribution market due to its expansion into the fields of e-commerce, billing, customer management, logistics and warehousing. Corporate name changes could also reflect a change in a firm's business activities, or indicate a process of restructuring and reorganisation. Previous research also indicates that a name change signals an expected improvement in the profit performance of the firm through higher employee morale and/or an increase in consumer preference for the firm's products (Horsky and Swyngedouw, 1987). Therefore, in a fairly efficient market, name change announcements could have an effect on shareholder wealth. For example, the additional ".com" suffix to firms in the US was accepted enthusiastically by investors (see Lee, 2001 and Cooper et al. (2001)).

Many reasons are documented in the extant literature for corporate name changes and these ranges from a possible merger to a divestment exercise. In a Malaysian setting, an example of this would be Leader Cable Industries Bhd that merged with Universal Cable Malaysia Bhd to form Leader Universal Bhd. A change of name could also be initiated to avoid confusion with another company that has a similar name, (for example, Kamunting Industries

Bhd. that changed its name to KIB Textiles Bhd to avoid confusion with Kamunting Corporation Bhd).

A change to a shorter name made up of acronyms is usually caused by a need for greater ease of recognition, as in the cases of Arab Malaysian Merchant Bank Bhd which change its name to AMMB Holdings Bhd. Also, Ipoh Garden Bhd changed its ame to IGB Corporation Bhd whilst, First Allied Corporation Bhd changed to FACB Bhd. Similarly, a diversified company might change its name to signal a new image and reformed business activity. For example, in 1993, Far East Asset Bhd. began its new 'Sport Toto' business through acquiring Sport Toto (M) Bhd and thus changed its name to Berjaya Sport Toto Bhd.

Other reasons for a corporate name change include factors such as a firm's desire to foster a new corporate identity with a view to conveying current and future aspirations (Mishra, 2001), to show expanded product offerings and strategic direction (Balcerek, 2001; Roger, 2001). Other research highlight that it is to reflect company diversification and expansion, to provide a more universally representative name, to demonstrate corporate re-alignments (The Oil Daily, 1987; Corporate Board, 1996; Mulholland, 2001). In the case of a merger, choosing a new name prevents senior managers of both companies having to battle over whose former name will take precedence. Other reasons for name change could be globalisation, industry consolidation and continued corporate restructuring (Investor Relations Business, 1999; Agbana, 2001).

Horsky and Syngedouw (1987) argue that there are inherent risks in changing corporate name and identity, since firms (i.e., under the old name) have accumulated some goodwill in the form of name recognition, company image, and routine purchase behaviour by customers. A name change may well cause the firm to lose some of this goodwill. This would correspond to an inward shift in the demand curve and consequently lead to revenue reduction. However, it is arguable that if a company is in difficulty or is financially distressed, corporate name change supported by a serious effort to mitigate those problems might have a positive wealth effect. Such moves undertaken by failed companies may turn them around once their proposed restructuring scheme is approved by related regulatory authorities such as the Kuala Lumpur Stock Exchange (KLSE), Securities Commission (SC), Capital Issues Committee (CIC) etc (see endnote 1)**.** Investors will accept this type of information as a sign of a genuine move to create a better corporate identity and enhance earnings in the future that will benefit them. Therefore, it is expected that the stock price and trading volume will react subsequently to adjust itself to the information.

The main aim of this study is to investigate the effect on shareholder wealth of corporate name changes by observing the security price reaction on and around the announcement dates of the name changes of both failed and non-failed Malaysian firms. The study specifically seeks to explore the link between the announcement of a company's name change and investors' reactions to such information. Essentially, our study attempts to observe how investors accept information of a new corporate identity and whether investors are selective in making investment decisions when receiving such news. To date, there is both limited and conflicting evidence documented from developed markets on this issue (see Howe (1982), Horsky and Swyngedouw (1987), Bosch and Hirschey (1989), Harawa (1993), Karpoff and Rankine (1994), Koku (1997), Lee (2001), Cooper *et al.* (2001)). The findings of this study might therefore contribute to a further understanding of the impact of name change announcement on the share price from the perspective of an emerging market. Our findings could give some important insights to both policy makers and other stakeholders on how to identify the acceptance level of investors towards such information. To the best of our knowledge this is the first study of its kind that attempts to examine such an issue regarding failed and non-failed firms in the context of an emerging economy.

The remainder of the paper is organised as follows. The following section describes literature in which the shareholder wealth effects of corporate name change are considered. The investment in intangible assets from the Malaysian perspective is discussed in section three. The fourth section provides a framework on alternative actions available to revive failed firms in the Malaysian context. The fifth section discusses the hypotheses of the study and the sixth section describes data collection and the methodology adopted. The seventh section presents the research results and the final section concludes the paper by offering suggestions for further research and outlines the limitations of the study.

Review of literature

The literature on the impact of corporate name change is both scarce and inconclusive. In his seminal contribution, Howe (1982) investigates the change in corporate name of 121 firms listed on the New York Stock Exchange (NYSE) and the American Stock Exchange (ASE) for the period from 1962 to 1980. Howe (1982) used event study methodology with weekly stock returns obtained from the Centre for Research in Securities Prices (CRSP) to estimate stock returns surrounding the name change date. He found that no statistically significant share-price reaction was associated with corporate name changes. The reason for the non-significant market reaction was that the information being signalled through corporate name change was available to the market well before the formal announcement was made (i.e. information leakage). His findings indicated that the market started to react towards the information during the seven consecutive weeks around the announcement date. However, Koku (1997) argues that Howe's methodology of using weekly stock returns as a basis to evaluate the impact of corporate name change was excessively long, and offered the opportunity for several other confounding effects (see endnote 2).

In contrast, Horsky and Swyngedouw (1987) studied the effect of name change on profit performance of firms and the type of firms that have a positive effect. Their sample was based on 58 US corporations that had changed their names during the period from January 1981 to May 1985. The firms that had made an additional announcement on the event day such as that of an impending merger, introduction of a new product or organisational change for the purpose of measuring name change, were excluded. The authors tested seven hypotheses. Their findings suggested that only two hypotheses were accepted, nevertheless, the significant levels for both variables were very marginal. They rightly conclude that the act of name change per se does not enhance demand for the firm's products. However, it does serve, as a signal that other measures to improve performance, such as changes in product offerings and organisational changes, will be seriously and successfully undertaken.

In their 1989 study, Bosch and Hirschey examined the wealth effects of corporate name change on samples with name change announcements free from all concurrent announcements; plus other announcements that they considered may have been "contaminated" by concurrent reference to previously reported organisations (see endnote 3). Their study analysed 79 companies (including 20 cases with previously announced reorganizations) for the period from 1979 to 1986 using standard event study methodology. They found that a positive market reaction to name change announcements was statistically weak except for those firms that had previously undergone major corporate restructuring. For these firms, the announcement effect of name change was positive. However, the positive effects were cancelled by post announcement drift. They concluded that the valuation effects of name changes are only modest and transitory.

Harawa (1993) also undertook a study on the semi-strong-form efficiency with respect to the corporate name change announcements in the Wall Street Journal. The results support the semi-strong-form efficiency hypothesis of the stock market where a substantial amount of the information regarding the forthcoming announcement of corporate name-change is available to investors before the actual publication of the news in the Wall Street Journal. Stock prices were reported to have reacted at least four days before the announcement with no significant price response in the post-announcement period.

Karpoff and Rankine (1994) also studied the stock price reactions to corporate name change announcements of 147 announcements for the period from 1979 to 1987 that were made available to The Wall Street Journal (WSJ). They found a weak reaction to the announcement and suggest that findings are sensitive to sample selection. Essentially, the results cast doubt on two purported motives for name changes: that they convey information to the market about changes in a firm's line of business or that they signal management's private information about a firm's future performance. Finally, the conclusion suggests that though corporate name changes may serve a useful purpose, they only have small valuation effects or tend to be anticipated by investors.

Koku (1997) investigates the effectiveness of corporate name change signalling in the service industry. Koku's sample consisted of 28 firms taken from the Wall Street Journal during the period from 1980 to 1990. This study used a trend analysis method (i.e. the price earnings ratio) and not event study methodology. This method allows an examination of the firm's financial performance before and after adopting a new name. He found that firms which had announced the name change together with other managerial decisions and regularly released news about other firm specific activities fared much better than firms which did not release such information. He claimed that corporate name change signalling is an effective strategy for firms in the services industry to communicate improved standards or to signal a clean break from the past. Finally, five conclusions with managerial implications were drawn. First, the results indicated that in spite of the associated high cost, corporate name change signalling is an effective marketing strategy for firms in the services industry. Second, corporate name change signalling works better when the name change announcement is made together with news of other corporate events or managerial decisions. Third, in order to dissipate the "momentum" generated by the name change during the post-name-change period, it is useful to periodically release news of other activities of the firm, or managerial decisions that have been implemented to improve the firm. Fourth, it is imperative that the intent of the name change be fully explained to the firm's stakeholders. Finally, it is also important for organizations in the services industry to clearly communicate the steps that they have taken to improve their quality and performance to the public in general. In a more recent study, Lee (2001) focussed on investor reactions to firm announcements of name changes in relation to ".com" firms. Her study uses a market signalling perspective to link name changes to shareholders' reactions because it highlights mechanisms by which information about a firm's identity can be passed on to investors. The rationale for this approach is that it will provide a method of assessing how effective the name change strategy is in conveying the changes to investors. A total of 59 companies with name changes to internet-related dotcom names were analysed. The results show a substantial increase in stock prices and trading volume when firms add a ".com" suffix suggesting that the ".com" name change conveys important information to the investing public about the firm's group and social identity. Investors at the time appeared to respond enthusiastically to ".com" name changes because of the association with a growing and potentially lucrative sector of economy.

Cooper *et al.* (2001) also provides evidence regarding the valuation effects of a corporate name change of a company to an Internet-related dotcom name. The study analysed the average changes in firms' values across 95 firms that announced dotcom name changes during 1998 and 1999. They found companies that changed their name to a dotcom name earned significantly abnormal returns on the order of 53 percent for the five days around the announcement date. Surprisingly, these results were very much different to those of Bosch and Hirschey (1989) and Karpoff and Rankine (1984), where no reverse effect (i.e. negative drift in the post announcement period) was found. Cooper *et al.* claimed that their results were driven by a degree of investor mania. The investors seemed to be eager to be associated with the Internet at all costs. This argument was supported by the finding that announcement returns are similar across all categories of firms studied, regardless of the company's actual involvement with the Internet.

Background to corporate name changes in Malaysia

In general, a corporate name change can be considered as an asset and therefore has value just as any other asset of a company. The process of changing a corporate name is painstaking, risky, and costly (Bosch and Hirschey, 1989). Arguably, name changes and name change advertising could represent an investment in "intangible capital" designed to alter popular perceptions regarding corporate identity (Hirschey, 1985). Changing a business name incurs high costs in the form of consultants' fees, designing the logo and graphics, printing the company forms and stationery, changing staff uniforms, re-painting vehicles and of course building the reputation of the newly formed company. With an established and well-known company name, a firm is expected to gain future profit from new and repeat sales. Therefore, a company's name should be classified as an intangible asset and shown in a company's annual report.

The term, 'intangible asset' refers to a long-term asset that is non-monetary in nature and without physical substance, its value being dependent on the rights or benefits that possession confers upon the owners. It is usually an asset that brings benefits over several accounting periods. It differs from tangible assets, like plants and machinery, in that it lacks physical substance.

A major characteristic of intangible assets is the high degree of uncertainty associated with their future benefits to the enterprise. Despite the uncertain future benefits, it is an acknowledged fact that intangible assets are of growing importance to many modern-day enterprises. The growth in the corporate sector and the advancement of technology in the last two decades have seen the strengths of enterprises change from one of physical assets to intangible assets of various kinds. However, it is conceivable that all intangible assets do contribute to the future stream of economic benefits to the enterprise (Tan, 2000).

In Malaysia, there is no reported data on the costs of changing name. Previous literature, however, reports that in countries such as the US, many examples exist that demonstrate the cost of corporate name change. For instance, it cost Esso US$200 million to change its name to Exxon in 1972 (McQuade, 1984). A further example is that of Philip Morris changing its name to Altria Group costing it approximately $200 million in 1999 (New York Times, 2001). AT&T had to issue stationery and business cards to 120,000 employees, paint 11,000 trucks and replace signs on 1,100 buildings for its name change to Lucent (McNamara, 1998). The process took several years and cost the company over USD100 million (Brioness, 1998).

Strategies to revive failed firms in Malaysia

Corporate failure is a common occurrence among Malaysian corporations of all sizes and sectors (M-Sori, 2000). No business entity is immune to failure. Altman *et al.* (1979) mention that corporate failure problems are not restricted solely to developed countries but can be a relatively more serious problem in emerging economies.

In particular, firms can experience financial difficulties at various levels. At one extreme, a firm's financial difficulties may lead to bankruptcy and may result either in the liquidation of its assets or in re-organisation. However, in the case of Malaysian listed firms, it is very rare for failed firms listed on the KLSE to be liquidated. In less extreme cases, but still quite serious, are various financial arrangements outside the jurisdiction of the courts that permit continuity of the firm's operations and the satisfaction of the claims of creditors. In Malaysia, the insolvent company may be administered by: (1) being placed under receivership, (2) Members' voluntary winding up, (3) Creditors' voluntary winding up and (4), Winding up by the court.

To mitigate the negative effects of winding up and to give a time span for the insolvent company to take remedial action, restructuring alternatives may be considered. Normally, companies will formulate survival options including proposals of strategies for corporate rescues and reconstruction. One option which has increasingly served as a lifeline to Malaysian companies is a restructuring process based on a scheme of arrangement pursuant to section 176 of the Malaysian Companies Act 1965.

In Malaysia, corporate restructuring is the first step taken to rescue a problematic business entity before the company is put into receivership or liquidated. There are numbers of ways that corporate restructuring can take place and these are stated in Section 176 to 178 of the Malaysian Companies Act 1965. Using corporate restructuring, the failed companies can avert failure for a brief period from creditor action by rescheduling the debt payment scheme. The two alternatives available are (1) a compromise with the creditors and members (as stated in Section 176 to 177) and (2) the opportunity to facilitate the reconstruction and amalgamation (as per Section 178).

The scheme of compromise and arrangement is undertaken to resolve the financial difficulties between the company and its creditors or its members and any class of them. The compromise and arrangement action is undertaken with the aim of restraining creditor action or deferring payment of liabilities. The decision to restrain creditors is made by the High Court. A scheme of compromise is allowed only if the company is expected to have a better future (M-Sori, 2000). Some cases of corporate name changes were initiated as a result of attempts to revive failed firms. Normally, failed firms with an approved restructuring scheme changed their name with a view to creating a new corporate identity. It is perceived that the failed company will experience better earnings in the future and investors will accept the news positively and subsequent changes will be made to the share prices and trading volume.

Theory and hypotheses

Signalling Theory

This study utilised a market signalling perspective to investigate the effect of corporate name change on share price in two different scenarios: name change announcement with confounding restructuring news, and 'cosmetic' name change. Signalling theory has been used in various reports to explain information asymmetry (see Akerloff, 1970; Spence, 1973; Ross, 1977; Downes and Heinkel, 1982; Miller and Rock, 1985; Ambarish et al., 1987; Grinblatt and Hwang, 1989; Koku, 1997; Beutow and Buell, 1998; Lee, 2001). This theory was developed in both economic and financial literature to explicitly account for the fact that corporate insiders (officers and directors) generally are much better informed about current workings and future prospects of a firm than are outside investors (Megginson, 1997). There exists, therefore, an information asymmetry through which it is very difficult for investors to discern between high-quality and low-quality firms. From our perspective, firms that simply change their name for 'cosmetic' purposes without any announcement of strategies to improve value are low-quality firms, whereas firms that change their name due to a focus on new business strategy or efforts to mitigate financial distress problems are high quality firms.

The signalling literature suggests that a signal must meet two tests to be useful. First, the signal must be high cost to be credible (Koku, 1997). A firm will not use it except to convey information to investors that they are trying hard to improve the financial distress situation. Second, the signal must be more costly for low-quality firms to adopt than for high quality firms. Low-quality firms cannot simply announce the undertaking of such financial strategies unless they receive approval from regulatory authorities. This signal would be prohibitively costly for the non-distress firms to duplicate due to; (1) involvement of various government agencies such as KLSE, SC, ROC, CIC etc., (2) high costs to be forgone such as appointment of consultants, suspension from active trading from the stock exchange due to financial distress, and (3) other administrative costs. Furthermore, this exercise takes a long period of time and is highly regulated in the Malaysian context. A firm which proposes restructuring activities to turn around the business is signalling that it has expected future cash flows which are sufficiently large to meet debt payments and other financial commitments without increasing the probability of bankruptcy (or liquidation in a Malaysian context). The rationale from this exercise is that investors are able to assign separate, and economically rational, valuations to high- and low-quality firms (Megginson, 1977). High quality firms are able to achieve the higher valuations they desire and deserve, low quality firms receive the valuations they deserve (but do not desire) and investors are able to confidently invest in the firms with the most promising prospects (see Miller and Rock, 1985; Ambarish et al. 1987).

Development and Testing of Hypotheses

In this section two hypotheses related to share price reactions and the magnitude of abnormal returns as a response to the announcement of corporate name change are tested and discussed. The hypotheses are:

H01: Stock price reactions to announcements of corporate name change accompanied with news of an approved restructuring scheme will be positive

H02: Stock price reactions to announcements of corporate name change without any other news will be positive.

Since the news of an approved restructuring scheme is announced together with the name change, it is likely that the respective firms will attempt to revive their business to enable it to be more profitable in the near future. It is also assumed that announcement of corporate restructuring will be accepted more favourably by investors than the news of a name change only. The investor's acceptance will be reflected in an increment of share prices and trading volume. The direction (increase or decrease) of the share price will indicate whether investors approve or disapprove of the released news. If investors accept the announcement of name change accompanied by approved restructuring scheme news, the share price will increase. The same reaction will be experienced if investors solely agree with the name change news. The movement in trading volume will reveal the level of acceptance of investors towards the news released, and the difference in the magnitude of the abnormal returns of the two subsamples will indicate the preference between the two alternatives (i.e. corporate name change accompanied by approved restructuring scheme news vs. corporate name change only).

Data collection and methodology

Our sample consists of all publicly traded companies on the Kuala Lumpur Stock Exchange (KLSE) that changed their name between January 1, 1984 and December 31, 1996. The reason why December 1996 is the cut-off point is because of the financial crisis that affected South East Asia from 1997. Two samples of groups were formed: namely failed firms, and non-failed firms. The failed firms group was selected based on the following criteria: (1) the firms that were protected under section 176 of the Malaysian Companies Act 1965, and (2) the firms that were approved to undertake restructuring scheme to revive their financial conditions by the regulatory authorities (see endnote 4).

The matched non-failed firms were selected based on the following criteria: that (1) firms were from the same industry, (2) firms had failed in the same year, (3) firms that were similar in asset size and (4), firms that were of a similar age. Consequently, thirty-three failed firms were found between the period between 1984 and 1996 and, after checking the availability of the required data and freedom from any other major confounding announcements that could invalidate the findings; only 18 firms were available for analysis (see table 1). Eighteen non-failed firms were sampled as a control group for comparative analysis. The above criteria were set to minimize bias and as control to ensure that only suitable firms were used in the analysis of the valuation effects.

Table 1. Description of the Sample (Failed Firms Group)

Initial number of firms in sample	33
Deleted due to unavailability of data	15
Total number of remaining firms	18

Sixty percent of the sample is from the industrial sector and the balance is distributed evenly between the property, hotel and construction sectors. Data analysis could not be carried out on a sectorial basis due to the small number of companies in each sector.

More than 36 publicly traded firms changed their name during this period. However, this study observed the effect of corporate name change by failed companies that were accompanied with approved restructuring scheme news. An analysis of matched non-failed firms only served as the control sample. The sample announcements were evenly distributed over the thirteen-year observation period. The cut-off period (i.e., 1984 to 1996) was selected due to two main reasons: (1) The year 1984 is the earliest date with a recorded name change involving failed firms and (2), due to the Asian financial crisis in 1997 the stock markets in this region were badly affected. The daily share prices were gathered from the daily diary of the KLSE, which is the only source publicly available on a daily basis with a one-day lag. The KLSE requires each member company to comply with Chapter 9 (Part I: 9.19) of the listing requirements, where listed companies are required to announce immediately if there is a name change. The effective date of the name change was confirmed through the announcement made to the KLSE as documented in the statutory document filed with KLSE. The price reaction to the announcements was analysed for twenty-nine days surrounding the announcement day.

Some might argue that the sample size used in this study is small i.e. 18 failed firms matched with 18 non-failed firms. However, it should be noted that most of the time the number of firms sampled is the population as not many companies do change name in each share market. For example, Koku (1997) in his study of signalling effects in the services industry only used a sample of 28, whilst Pruit et al. (1988) used a sample size of 16.

Methodology

The standard even-study methodology employed in this study is similar to that of Brown and Warner (1985), and has been well accepted in the finance literature for examination valuation of the impact of various events such as the effects of ".com" name changes (Lee, 2001; Cooper et al., 2001), mergers (Dodd, 1980), advertising issues (Nelson, 1970, 1974), product quality differentiation (Akerlof, 1970) and a variety of corporate announcements (Asquith and Mullins, 1986). The abnormal return (AR) for the common stock of firm j on day t, was calculated as follows:

$$t = \frac{AV_t}{\sqrt{\frac{\sigma}{n}}}$$

$$AR = OR - ER \tag{1}$$

(see endnote 5)

The t- test statistics is used to test the significant impact of the name change on stock value. The null hypothesis suggests that the announcement of corporate name change have no significant effect on the shareholders wealth. The t-statistics for abnormal returns is calculated as follows (see endnote 6).

The significance of the period's cumulative abnormal returns was tested using the following test:

$$t(CAR_t) = \frac{CAR_{jt}}{SE(CAR_{jt})}$$

The significance of daily average abnormal returns was further tested using a non-parametric binomial statistic calculated as (see endnote 7):

$$Z = \left(\frac{A - E}{\sqrt{NP(1-P)}} \right)$$

Where A is the actual number of positive abnormal returns; E, equal to NP, is the expected number of positive abnormal returns; N is the number of observations; and P is the expected percentage of positive prediction errors. Under the null hypothesis of no effect, P=0.5, this binomial statistic is more conservative than the t-statistic test and does not require the assumption of normality.

Results and discussion

Table 2 outlines the daily abnormal return for day –10 (10 days before announcement date) to day +10 (10 days after announcement date) and cumulative abnormal returns for event periods (-10,0), (+1, +10) and (-10, +10) for the two groups of samples. Tables 3 and 5 report the frequency distribution and descriptive statistics for the abnormal return during the announcement period for both the failed and non-failed groups respectively.

The distribution of abnormal returns for the pre-announcement period (-10, 0), the post announcement period (+1, +10), and for day t=-3 (three working days before the announcement) for the failed firms group shows an initial positive market reaction. The distribution for day t=0 is shown in tables 2, 3 and 4.

Panel B (Part 1) of table 2 shows that over the 10-day pre-announcement period, the failed firms experienced insignificant cumulative abnormal returns at 127% (t statistics=0.95). Seventy-two percent of the failed firms experienced positive abnormal returns (Z=1.89 significant at the 10% level). Moreover, the share prices of the failed firms started reacting positively three days before the announcement and an extraordinarily significant positive abnormal return was documented for the failed firms on the actual day of announcement (AR = 129%, t=13.28 significant at 1% level). In the post announcement period the returns for failed firms were found to be normal. This result suggests a tendency towards positive stock reactions before the announcement date.

In the post-announcement period (day (+1, +10), only 44% of the failed firms recorded positive abnormal return (Z=-0.47) in this period. Overall (period (-10, +10)), 67% of the failed firms experienced positive cumulative abnormal returns, though not significant (Table 3). A large number of the failed firms recorded positive abnormal returns greater than 10%. For example, in the 10 days before the announcement date, 72% (10 firms) had abnormal returns greater than 10% (Z = 1.89). On average, the announcement of name change seems to have a significant effect on the market value of the failed firms with an extraordinarily positive abnormal return on the announcement day. The cumulative abnormal returns remain stable after the extraordinary adjustment on the announcement day, which is also the day on which most of the firms re-quoted their shares on the KLSE after being suspended due to financial difficulties.

Table 2. Summary of the Average Abnormal Return for the Failed and Non-failed Firms

Panel A: Time Series of Average Daily Abnormal Return											
Failed Firms						Non-Failed Firms					
Days	AR	t	CAR	% tve AR	Z-Stat	Days	AR	t	CAR	% tve AR	Z-Stat
-10	0.00	-0.04	0.00	33	-1.41	-10	0.01	0.42	-0.03	44	-0.47
-9	0.02	0.22	0.02	78	2.36	-9	-0.01	-0.51	-0.04	17	-2.83
-8	-0.03	-0.28	-0.01	33	-1.41	-8	-0.01	-0.31	-0.05	39	-0.94
-7	0.00	0.04	0.00	56	0.47	-7	0.00	-0.14	-0.06	61	0.94
-6	-0.04	-0.41	-0.04	28	-1.89	-6	-0.01	-0.21	-0.06	44	-0.47
-5	0.01	0.12	-0.03	39	-0.94	-5	-0.01	-0.34	-0.07	39	-0.94
-4	-0.07	-0.71	-0.10	22	-2.36	-4	0.00	-0.16	-0.08	39	-0.94
-3	0.04	0.38	-0.07	72	1.89	-3	0.00	-0.06	-0.08	44	-0.47
-2	0.00	0.05	-0.06	44	-0.47	-2	-0.01	-0.35	-0.09	39	-0.94

Table 2 continued

-1	0.04	0.43	-0.02	50	0.00	-1	-0.01	-0.19	-0.09	61	0.94
0	1.29	13.28	1.27	67	1.41	0	-0.02	-0.78	-0.11	39	-0.94
1	-0.02	-0.19	1.25	39	-0.94	1	0.00	0.00	-0.11	39	-0.94
2	-0.02	-0.21	1.23	39	-0.94	2	0.02	0.69	-0.10	39	-0.94
3	-0.01	-0.09	1.22	44	-0.47	3	0.00	-0.02	-0.10	44	-0.47
4	0.02	0.25	1.25	78	2.36	4	0.00	0.14	-0.09	78	2.36
5	-0.01	-0.05	1.24	44	-0.47	5	0.00	0.00	-0.09	44	-0.47
6	0.00	0.02	1.24	67	1.41	6	0.00	-0.05	-0.09	67	1.41
7	0.09	0.90	1.33	61	0.94	7	0.00	-0.12	-0.10	61	0.94
8	-0.03	-0.27	1.30	17	-2.83	8	0.00	-0.11	-0.10	17	-2.83
9	-0.01	-0.08	1.30	28	-1.89	9	-0.01	-0.33	-0.11	28	-1.89
10	-0.02	-0.23	1.27	33	-1.41	10	0.03	0.96	-0.08	33	-1.41

Panel B: Cumulative Abnormal Returns
Part 1: Failed Firms Group

Period	CAR	t-statistics	% Positive AR	Z-Statistics
(-10, 0)	1.27	0.95	72%	1.89
(+1, 10)	0.01	0.06	44%	-0.47
(-10, +10)	1.27	1.02	67%	1.41

Panel B: Cumulative Abnormal Returns
Part 2: Non-Failed Firms Group

Period	CAR	t-statistics	% Positive AR	Z-Statistics
(-10, 0)	-0.11	-5.27	28%	-1.88
(+1, 10)	0.03	1.18	61%	0.94
(-10, +10)	-0.08	-2.57	44%	-0.47

Note: % - Percentage; AR – Abnormal Return; t – t-test; CAR – Cumulative Abnormal Return; tve – Positive

The analysis of the three-day announcement period showed positive abnormal returns in support of the conjecture that the Malaysian stock market reacts positively towards the announcement of news of a corporate name change accompanied by an approved restructuring scheme by the failed companies group. Previous studies report that there is positive price reaction during this period (see for example, Bosch and Hirschey, 1989; Karpoff and Rankine, 1994). There is no significant reduction in CARs (i.e., cumulative abnormal returns) in the post-announcement period (day +1 to day +10) to suggest that the respective firms experience a permanent wealth increase in support of Hypothesis 1. This result is consistent with Lee (2001) and Cooper et al. (2001).

Panel B (Part 2) of table 2 shows that the non-failed firms recorded significantly low abnormal returns (i.e., no effect) 10 days before the announcement day with negative cumulative abnormal return at –11% (t=-5.27 significant at 1% level). Only 28% of the non-failed firms recorded a positive cumulative abnormal return (Z=-1.88 significant at 10% level) in this period. Positive but normal cumulative abnormal returns (3%) were observed 10 days after the announcement of name changes (t=1.18) and as many as 61% of the non-failed firms showed an insignificant positive abnormal return (Z=0.94) in the post announcement period. No significant results were detected 3 days before the announcement day and on the announcement day. This result reveals a tendency towards significant negative (low) stock reaction before the announcement date and an insignificant positive (small) stock reaction after the announcement date. Overall, low negative but ignifycant cumulative abnormal return were observed for this sample (CAR=-8%, t=-2.57), and 44% of these firms showed a positive cumulative abnormal return (t=-0.47).

Table 3. Frequency Distribution and Descriptive Statistics for Abnormal Returns during the Announcement Period for the Failed Group of 18 Name Change Observations

Range	Period (-10, 0)	Day t = -3	Day t = 0	Period (+1, +10)	Period (-10, +10)
Panel A: Frequency Distribution					
0.10 ≤ AR	10	3	9	4	10
0.08 ≤ AR < 0.10	2	0	0	1	0
0.06 ≤ AR < 0.08	0	0	0	2	0
0.04 ≤ AR < 0.06	1	3	0	0	1
0.02 ≤ AR < 0.04	0	3	3	0	0
0.00 ≤ AR < 0.02	0	4	0	1	1
-0.02≤ AR < 0.00	1	1	1	1	0
-0.04≤ AR < -0.02	2	0	2	2	0

Table 3 continued

-0.06≤ AR < -0.04	1	2	1	0	0
-0.08≤ AR < -0.06	1	0	0	1	1
-0.10≤ AR < -0.08	0	2	0	0	0
AR < -0.10	0	0	2	6	5
Panel B: Descriptive Statistics					
t-Statistics	0.95	0.38	13.28	0.06	1.02
Percentage Positive	72%	72%	67%	44%	67%
Z-Statistics	1.89	1.89	1.41	-0.47	1.41

Interestingly, the non-failed firms did not experience any significant positive abnormal return for the same period. In this sub-sample, our main attention is on the 3 days surrounding actual announcement date. In the pre-announcement period, a significant negative stock reaction (low) was evidenced implying that the investors were sceptical about the benefits of the company having a new corporate identity. The stock price reaction reveals that investors did not approve of the name change undertaken by the non-failed companies. Furthermore, in the post-announcement period, an insignificant positive stock reaction was observed. However, the overall results showed significant negative stock reactions implying that the shareholders disagreed with the name change investments for cosmetic purposes). Thus, Hypothesis 2 is rejected.

Table 4. Frequency Distribution and Descriptive Statistics for Abnormal Returns during the Announcement Period for the Non-Failed Group of 18 Name Change Observations

Range	Period (-10, 0)	Day t = -3	Day t = 0	Period (+1, +10)	Period (-10, +10)
Panel A: Frequency Distribution					
0.10 ≤ AR	3	1	0	6	5
0.08 ≤ AR < 0.10	0	0	0	0	1
0.06 ≤ AR < 0.08	0	0	0	0	0
0.04 ≤ AR < 0.06	0	1	0	1	0
0.02 ≤ AR < 0.04	0	2	2	2	1
0.00 ≤ AR < 0.02	2	4	5	2	1
-0.02≤ AR < 0.00	1	6	4	0	1
-0.04≤ AR < -0.02	3	2	2	2	1
-0.06≤ AR < -0.04	2	0	2	2	1
-0.08≤ AR < -0.06	0	1	1	0	0
-0.10≤ AR < -0.08	1	0	1	0	0
AR < -0.10	6	1	1	3	7
Panel B: Descriptive Statistics					
t-Statistics	-5.29	-0.06	-0.78	1.18	-2.57
Percentage Positive	28%	44%	39%	61%	44%
Z-Statistics	-1.88	-0.41	-0.94	0.94	-0.47

With regards to the individual firm's reaction to the name change, it is likely that each company's expected performance and future strategy influence the above results. The Malaysian regulatory authorities will not approve of such a scheme unless it has the potential to materialise in the near future and will benefit shareholders. One possible explanation for the above effect is that most of the failed firms were suspended from active trading on the KLSE for some time and the shares were being re-quoted together with announcement of management strategies for the future and name changes for a new corporate identity. The market value of these companies was revalued to reflect their current potential economic value based on the new information. This is further substantiated by the fact that those non-failed firms without any other business plans were not able to significantly increase their shareholder's wealth.

Summary and conclusions

This study investigates the impact of corporate name change and its effect on shareholder wealth through the behaviour of stock returns of both failed and non-failed Malaysian firms between 1984 and 1996 using event-study methodology on daily prices (i.e., twenty nine-days surrounding the announcement of corporate name change). Our study reveals that corporate name changes do not seem to have effected shareholder wealth unless the announcing firms have undertaken restructuring, or at least some form of reorganisation, coupled with a clear future management strategy. The results were selective to the favourable business strategy implemented where failed firms with a strong future business strategy recorded an extraordinary positive abnormal return. Nevertheless, in all instances, the post announcement period revealed no wealth effect. Overall, the valuation effects of name change are observed only for those failed firms that have plans to implement a viable future business plan. Investors in Malaysia are generally selective about accepting news of a corporate name change and only those that are perceived to benefit them in future are accepted enthusiastically. The study also suggests that the market cannot be fooled by just a mere name change and that such a change must be backed by serious efforts towards recovery.

The pattern of price reaction to name change announcements indicates that KLSE is fairly semi-strong efficient to name change announcements. There is however some indication of news leakage a few days prior to the announcement of name change. However, after the official announcement the market discounted quickly all new news and the returns after the announcement are normal. Nevertheless, the interpretation of the findings should discount the possibility of inaccurate announcement dates for some firms and the joint announcement of name change and re-quotation of the firms on the exchange.

Further studies concerning corporate name change can also be undertaken on other South East Asian countries such as Singapore, Thailand, Indonesia and the Philippines as they also shared the financial crisis of 1997. A systematic survey could also be undertaken which could examine the possibility of government intervention of cosmetic corporate name change practices. Such intervention could avoid negative repercussions for the company's cash flow and operations due to the large amounts of cash involved in corporate name change. Additional insights could also be obtained from examining investor perceptions into the effect of corporate name change.

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Endnotes

1. To mitigate the negative effects of winding up and to give a time span for the failed company to take remedial action in view of future improvements, restructuring alternatives may be considered. In Malaysia, corporate restructuring is the first step taken to rescue a problematic business entity before the company is put under receivership or liquidated. In the case of public listed companies, approval from related regulatory authorities such as Kuala Lumpur Stock Exchange (KLSE), Securities Commission (SC), Capital Issues Committee (CIC) is required before the scheme can be implemented. In the late 1980s, Universal Cables, MRCB, FACB and Innovest were among the companies that were granted protection by the court through section 176. Using this scheme, the failed companies can avert for a temporary period of time from the creditor action to reschedule the debt payment scheme.
2. According to Koku (1997), firms operate in a dynamic environment, and managers constantly make decisions that have an impact on the value of the firm in one way or the other. Hence, the one week event-window (associated with the weekly returns) used to evaluate the impact of a corporate name change is excessively long, and offers the opportunity for several other confounding effects.
3. Firms that announced name changes following organizational changes like mergers, acquisitions, sell-offs, spin-offs, or some other major corporate restructuring, which were previously announced, sometimes several months in advance of the name change announcement.
4. Most of the companies in our sample changed their name due to either a scheme of arrangement, a merger, acquisition, sell-off, spin-off or some other major corporate restructuring together with a profitable business strategy. It is important to note that the name change was initiated to reflect these changes.
5. Here, observed return (OR) is the rate of return on security j for day t. The observed return is calculated as,

$$OR = \left(\left(\frac{P_t}{P_{t-1}}\right) - 1\right)$$

Expected return (ER) is the rate of return on the composite index on day t. The expected return was calculated using the market regression model for the jth security. The expected return for the jth security is computed as,

$$ER = \alpha + \beta R_{mt}$$

Where,

α = The average returns on stock i when the market index equals zero.
β = The slope of the characteristic line and measures the stock systematic risk.

$$R_{mt} = \left(\frac{CI_t}{CI_{t-1}} - 1\right)$$

Rm,t = Return on market index in period t

6. Where,
AVt = Average risk adjusted return for the day –29 to +29.= The standard deviation.
n = The total number of sample.

7. Where,

$$SE(CAR_{jt}) = \sqrt{\left(\mathrm{T} \times \sigma^2_{AR} + 2(\mathrm{T}-1) \times \sigma_{t,t-1AR}\right)}$$

T = Number of days in the CAR statistics

$\sigma_{t,t-1AR}$ = The variance of the abnormal return over the cut-off point

σ^2_{AR} = The covariance between the current and lag period return