

What is in a name?
Evidence from Chinese firms during the Technology Boom

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October 2006

(Draft Version)

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1. Introduction

Cooper et al. (2001) document increases in firm value of more than fifty percent in reaction to announcements of name changes to Internet-related dotcom names. The authors suggest their evidence is consistent with several articles in the popular press that attributed these high returns to a speculative mania fuelled by retail traders. We investigate the valuation effects of similar name changes for Chinese firms in the period from 1998 through 2002.

Analysis of name changes for Chinese firms is of interest because the Chinese market is dominated by retail investors and short selling is prohibited. As a result, price effects because of speculative pressure might be expected to be stronger in the Chinese market. Furthermore, since our sample firms are all listed on the Chinese stock exchanges, we are able to obtain reliable financial information for our sample firms. Therefore, in contrast to Cooper et al. (2001), we can analyze CEO-turnover, changes in return-on-assets and asset restructuring for our sample firms to provide additional insight into the question whether the valuation effects are driven by speculative ‘mania’.

We find an average increase in firm value for our sample firms of almost 30 percent. In contrast to Cooper et al. (2001), who find that the value increase is realized in the 10 days around the announcement of the name change, we find most of the value increase is realized in the year before the announcement. This result suggests information leakage or trading by insiders long before the first public announcement, which is consistent with general opinion in China. We repeat our tests for a sample of non-IT name changes and find a similar, albeit significantly lower, pre-announcement price increase. Finally, we

show that our sample firms experience more frequent CEO-turnover, more frequent asset restructuring and an increase in ROA around the name change event, which suggest that real improvements in our sample of name-change firms where at least partially responsible for the observed increases in firm value.

The remainder of this paper is structured as follows. In section 2, we discuss our sample selection and provide descriptive statistics. Section 3 presents our empirical results, and section 4 concludes our paper.

2. Data and methodology

2.1. Data

We include in our sample all SHSE and SZSE firms that announced name changes during the 1998-2002 period. For each name change, we are able to identify three event dates: preliminary announcement date, actual announcement date, and effective date. We are using two different sources to identify those name changes, the changing dates, and other relevant information. The first source is the official website for the Shanghai and the Shenzhen Stock Exchanges: which are www.sse.com.cn and www.szse.cn. The second source is from China Finance Online (www.jrj.com). China Finance Online (CFO) was founded by American IDG and VERTEX from Singapore in August 1999. It is the leading online Chinese financial information provider. It was listed at NASDAQ on 15th October 2004 (Code: JRJC).

In total, there are 81 name changes that we classify as IT-name changes and 134 name changes that we classify as non-IT name changes. To qualify for an IT name change, the new name had to include words such as ‘science & technology’, ‘sci-tech’, ‘high-tech’,

‘Gaoxin’, ‘hi-tech’, ‘internet’, ‘.net or network’, and ‘.com’ that do not appear in the old name. Any name change that is not classified as IT-name change belongs to the non-IT name change group. We also gathered information on ‘restructuring’ for the two groups. We classify a firm as being ‘restructured’ if the firm has the word ‘restructure’ in their annual reports, or relevant corporate announcements before name changes. All relevant information was cross-checked using different sources in order to eliminate errors. We obtain firm financial and ownership data from CSMAR/GTA, one of the main information providers in China. Daily share price information is also from GTA.

Table 1 presents descriptive statistics for the pre-name change firm characteristics in our sample. We present both unadjusted and industry-adjusted firm size, return-on assets, and leverage. Firm size is defined as the total number of shares outstanding times the share price 250 days before the name change, and adjusted for the RMB/USD exchange rate on that day. The leverage ratio for each firm is defined as its book value of total liabilities divided by its book value of total assets, and ROA is defined as net income divided by book value of total assets. Both leverage and ROA are of one year before the actual announcement of the name change.

Our sample firms range in size from US\$46 million to US\$1,878 million. Note that the average size of US\$290 million of our sample is larger than that of US\$54 million in Cooper et al. (2001).² Compared to a median firm in their industry, our sample firms are generally smaller, especially those in the IT-name change group. Industry-adjusted size for this group is also significantly smaller than those in the non-IT name change group. One year before the name change announcement, our sample firms are generally profitable.

² The average market value of a listed Chinese firm during the 1998-2002 period is US\$454 million.

Table 1: This table presents some descriptive statistics of the name change sample from 1998 to 2002. IT-name change refers to cases where the new name includes such words as 'science & technology', 'sci-tech', 'high'tech', 'hi-tech', 'internet', '.net', and '.com'. Non-IT name change includes all cases that are not in the IT-name change group. Market values are computed as the product of total number of shares outstanding and share price of 250 days before the actual announcement date, and adjusted for the RMB/USD exchange rate on that date. Leverage, defined as total liabilities divided by total assets, and ROA, defined as net income divided by total assets, are of one year before the announcement date, and expressed in percentage. P-values are in parentheses.

	Raw values					Industry-adjusted values			
	N	Min	Max	Mean	Median	Min	Max	Mean	Median
Firm size (mil. USD):									
All name change	194	46	1878	290	214	-302	1484	-18 (0.313)	-65
IT_name change (1)	72	79	1149	255	196	-289	678	-54 (0.004)	-78
Non-IT name change (2)	122	46	1878	311	240	-302	1484	4 (0.873)	-55
T-test (1) - (2)				(0.102)				(0.065)	
ROA:									
All name change	187	-18.05	10.36	2.52 (0.000)	4.61	-22.12	4.63	-2.61 (0.000)	-0.55
IT_name change (1)	70	-10.14	10.36	3.83 (0.000)	5.29	-15.22	4.63	-1.51 (0.023)	-0.01
Non-IT name change (2)	117	-18.05	9.29	1.74 (0.010)	4.16	-22.12	4.37	-3.27 (0.000)	-0.79
T-test (1) - (2)				(0.030)				(0.058)	
Leverage:									
All name change	187	14.52	93.29	47.21	45.03	-31.23	51.32	3.18 (0.024)	1.28
IT-name change (1)	70	14.52	68.55	41.85	41.65	-31.23	26.51	-0.78 (0.686)	0.35
Non-IT name change (2)	117	18.30	93.29	50.41	48.98	-29.86	51.32	5.55 (0.004)	3.46
T-test (1) - (2)				(0.002)				(0.021)	

However, they under-perform their industry peers, especially those in the non-IT name change group with an industry-adjusted ROA of -3.27% significant at the 1% level. Our sample firms' average leverage is around 47%, significantly 3.18% higher than their industry median. The result is driven by firms in the non-IT name change group.

2.2. Methodology

We use standard event-study methodology to analyse the share-price response to announcements of changes in company names. We calculate the abnormal return as the difference between the firm's realized return and its associated market index return.³ We present the cumulative returns for a long window from day -300 to + 100. We choose to analyse a relatively long event window motivated by concerns that market information leakage and insider trading are not unusual in the Chinese markets. We select our event date as the actual announcement date. A robustness check with preliminary announcement date and effective date as the event date provides similar results, which is not surprising because our event window is long, and that the average distances of the preliminary date and the effective date from the actual announcement date are 47 and 27 days, respectively.

3. Empirical results

In this section, we analyse the share price response around the name change announcement date for the portfolio of stocks with IT-related name changes and the portfolio of stocks with non-IT related name changes. Next, we examine changes in the return-on-assets, changes in top management and asset restructurings during the 12 months around the name change.

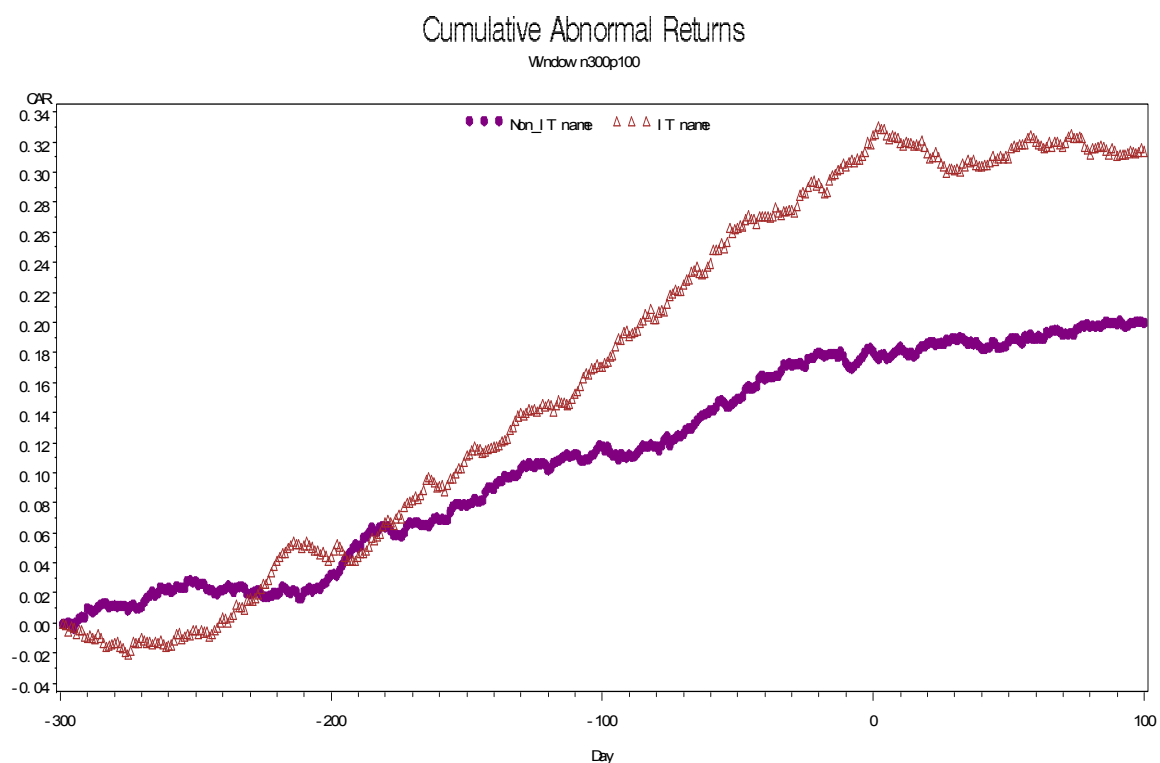
3.1 Event study results

Figure 1 graphs the cumulative abnormal returns from day t-300 to day t+100 for both the IT-name change sample and the non-IT name change sample. Clearly evident in the graph is the share-price run-up from day t-250 through day t-0, suggestion of information

³ That is, a firm listed on the Shanghai stock exchange will have its realized returns adjusted for the Shanghai A-share index returns.

leakage and insider trading. Table 2 presents cumulative abnormal returns for several alternative time periods for both samples, and the difference between the two samples. Over the event window from day -250 through day 5, the total price increase for the IT-name change sample is a significant 28.4 percent. For the non-IT sample, the CAR is significantly lower at 15.1 percent. The CAR for the IT-name change sample is significantly positive for most windows considered in Table 2, which is not the case for the non-IT name change group. Table 2 also shows that the CAR difference between the two samples is typically significant in all windows.

Figure 1 Cumulative abnormal return for both the IT-name and the non-IT name change samples



In comparison to the results in Cooper et al. (2001), we observe that the CAR for the Chinese name-change firms is generally lower. For example, over the window from day -2 through day +2, Cooper et al. (2001) report a CAR of 63 percent, whereas for our IT-name change sample the CAR is barely 1.6 percent. It should be noted, however, that the size of

our sample firms is substantially larger than in Cooper et al. (US\$290 million versus US\$54 million). Another interesting difference is that most of the CAR for US-based name change firms is realized in 5 days surrounding the announcement date, whereas for the Chinese firms the value change is realized from day -250 to day +5.

Table 2: This table reports mean market-adjusted cumulative abnormal returns, expressed in percent. The CARs are computed for various event windows for companies that change their names between 1998 and 2002. IT-name change refers to cases where the new name includes such words as 'science & technology', 'sci-tech', 'high-tech', 'hi-tech', 'internet', '.net', and '.com'. Non-IT name change includes all cases that are not in the IT-name change group. T-statistics are reported in parentheses. ***, **, * indicate significant at the 1%, 5%, and 10% levels, respectively. We also report p-values for tests of the null hypothesis of equality of means between the two groups using the normal t-test and the Mann-Whitney-Wilcoxon test, respectively.

	N	-200 to +5	-100 to +5	-30 to +5	-2 to +2	0 to +1	-200 to +50
All name change	215	20.1 (7.77) ***	9.6 (5.76) ***	2.1 (2.36) **	0.4 (0.92)	-0.1 (-0.28)	20.3 (7.50) ***
IT-name change (1)	81	28.4 (6.78) ***	15.8 (5.54) ***	5.0 (3.27) ***	1.6 (2.45) **	0.7 (1.42)	26.9 (6.29) ***
Non-IT name change (2)	134	15.1 (4.68) ***	5.8 (2.94) **	0.3 (0.31)	-0.4 (-0.93)	-0.5 (-1.84) *	16.2 (4.71) ***
T-test (1)-(2)		0.01	0.00	0.01	0.01	0.03	0.05
Wilcoxon test (1)-(2)		0.01	0.01	0.02	0.01	0.05	0.06

3.2 Changes in operational characteristics

In this section we investigate whether there are operational changes in our samples of IT-name changes and non-IT name changes. If the value increases documented in the previous section are only based on speculative pressure by retail investors, we would not expect to see any change in operational characteristics of our sample firms. We analyze three characteristics that are likely to be affected if the name-change truly indicates a change in strategy. Firstly, we expect to see more frequent changes of the CEO for firms that have a change in strategy. Second, given the increase in value documented in the previous section, we expect firms with name changes to have a higher return-on-assets after the name change. Finally, if the name change reflects a change in strategy of the firm, we expect to observe an asset restructuring.

The results of our analysis are in Table 3. Panel A presents the results of the industry-adjusted ROA and panel B for the percentage of CEO change. For the IT name change sample we find that the ROA is significantly lower than its industry median in the year before the name change. In the year after the name change, the industry-adjusted ROA increases significantly resulting in a 1.42% higher than the industry median. Analyzing the 3-year average ROA before and after the name change, we find no differences from the industry median. However, we do find a significant increase in the industry-adjusted 3-year average ROA from the period before the name change to the period following the name change.

We find similar results for the non-IT name change sample. Our sample firms significantly under-perform their industry peers 1 (3) year(s) before the name change. However, after the name change they almost match their industry performance, which result in a significant increase in the adjusted ROA. The increase in 3-year average ROA for this group is significantly larger than that of the IT-name change group.

In panel B of table 3, we examine whether there is a significant difference in the proportion of firms that change their CEOs between the name change samples, and between these samples and those without name changes. We compute the CEO turnover for the group of no name changes by first calculating the number of CEO changes in each year as a percentage of all firms in the group, and then averaging those percentages across the 1998-2002 period. Out of an average of 1043 firms without name changes, 22.23 percent change their CEO per year. This proportion is significantly lower than that of either the IT-name change or the non-IT name change group for both 1 year before and 1

Table 3: This table reports the industry-adjusted ROA, CEO turnover and restructuring. IT-name change refers to cases where the new name includes such words as 'science & technology', 'sci-tech', 'high'tech', 'hi-tech', 'internet', '.net', and '.com'. Non-IT name change includes all cases that are not in the IT-name change group. No name change group includes all listed firms in China that do not change their name from 1998 to 2002. The CEO turnover for the group of no name changes is computed as first calculating the number of CEO changes in each year as a percentage of all firms in the group, and then averaging those percentages across the 1998-2002 period. The CEO turnover for our name change samples is the number of CEO changes as a percentage of firms in the relevant group. Restructuring is the percentage of firms that restructure their assets. T-statistics are reported in parentheses. ***, **, * indicate significant at the 1%, 5%, and 10% levels, respectively. We also report p-values for tests of the hypothesis of mean equality between the two groups using the t-test and the Mann-Whitney-Wilcoxon test, respectively.

	Panel A: Industry-adjusted ROA (%)						
	N	1yr before	1yr after	Difference	Ave. 3yr before	Ave. 3yr after	Difference
		(1)	(2)	(2)-(1)	(3)	(4)	(4)-(3)
IT-name change (a)	73	-1.51 (-2.33) **	1.42 (3.63) ***	2.85 (3.64) ***	-0.56 (-1.29)	0.38 (1.06)	0.92 (1.77) *
Non-IT name change (b)	123	-3.27 (-5.01) ***	-0.30 (-0.71)	2.86 (3.64) ***	-3.60 (-6.19) ***	-0.26 (-0.69)	3.23 (4.90) ***
T-test (a)-(b)		0.06	0.00	0.99	0.00	0.22	0.01
Wilcoxon test (a)-(b)		0.08	0.05	0.96	0.00	0.42	0.05
	Panel B: CEO turnover			Panel C: Restructuring percentage			
	N	1yr before	1yr after	N	1yr before		
IT-name change (a)	73	46.91	34.57	73	40.74		
Non-IT name change (b)	123	44.78	30.60	123	3.05		
No name change (c)	1043	22.23	22.23				
Chi-square p-value (a)-(c)		0.00	0.01	Chi-square p-value (a)-(b)	0.00		
(b)-(c)		0.00	0.03				

year after the name change announcement. Yet, we do not find a significant difference in the CEO turnover between our name change samples (p-values are not reported).

Finally, in panel C we find that 40.74% of the IT-name change firms restructure their assets one year before the name change announcement whereas only 3.05% of the firms in

the non-IT name change group do the restructuring. The restructuring difference is statistically significant at the 1% level.

4. Conclusion

In this study, we analyze the impact of name changes by a sample of Chinese firms on shareholders' wealth from 1998 to 2002. Unlike Karpoff and Rankine (1994), we find that name changes increase shareholders' wealth by 20%. Our analysis suggests that name changes appear to be a credible signal by the firm management to change the firm's direction and/or improve its performance. That signal is supported by changes in the top management, CEO, and asset restructuring 12 months before the name change announcement. The signal is credible since there is a significant improvement in the firm ROA 3 years after the announced name change. Our analysis also show that the increase in shareholders' wealth surrounding the name change is more pronounced for firms in the IT-name change group than in the non-IT name change group. The result is not necessarily due to investor mania as argued by Cooper et al. (2001) but probably a clearer signal of committed changes by the management, i.e. asset restructuring.⁴ Finally, our results show evidence of information leakage and possible insider trading long before the actual announcement date.

References

Cooper, Dimitrov, O. and Rau, P., 2001, A Rose.com by Any Other Name, *Journal of Finance*, Vol. LVI, No., 6, 2371-2387.

⁴ We investigate whether there are significant increases in trading volume around the announcement date, which might be a proxy for retail investor mania. The unreported results do not show significant increases in volume for both of our samples.

Karpoff, Jonathan M., and Graeme R., 1994, In search of a signalling effect: The wealth effects of corporate name changes, *Journal of Banking and Finance* 18, 1027-1045.

Appendix: Pearson correlation between variables. CAR251 is the cumulative abnormal returns from day -200 to day +50. IT-name is a dummy that equals 1 if the new name is IT-related, and zero otherwise. dROA is the difference in industry-adjusted ROA between the year before and the year after the name change announcement. CEO is a dummy that has a value of 1 if the firm change its CEO 1 year before the announcement, and zero otherwise. Restructuring is a dummy that is equal 1 if the firm restructure its assets the year before the announcement, and zero otherwise. P-values are in parentheses.

	CAR251	IT-name	dROA	CEO
IT-name	0.14 (0.05)			
dROA	0.18 (0.01)	0.00 (0.99)		
CEO	0.00 (1.00)	0.02 (0.76)	0.15 (0.03)	
Restructuring	0.13 (0.06)	0.48 (0.00)	-0.01 (0.91)	0.00 (0.96)
