Investor's Response to Corporate Name Changes – An Empirical Study on Taiwan Security Market

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DOI:10.26573/2008.2.1.3
Volume 2, *Number* 1
January 2008, *pp*. 29-44

Companies adopting new names are frequently reported in the business press, previous researches have studied the relationship between firms' new names and stock prices, but not considered whether the stock prices reflect corporate fundamental values. This paper uses a market signaling perspective to examine investor reactions to companies' name change on Taiwan Security market. A database of corporate name changes compiled from secondary sources is explored as a first step in searching for empirical insights on the name changes. This empirical research enables us to address investors' responses to corporate new names. There is sufficient evidence to conclude that investors have positive reaction to corporate new names regardless of whether a corporation has changed the business nature after adopting a new name. This irrational investment behavior causes increase of stock price and abnormal returns in security market when a corporation announces a new name.

Keywords: Corporate Name Change, Event, Abnormal Returns

1. Introduction

While there is growing interest in the topic of corporate brands, there is confusion about what this means and how to achieve brand coherence. There is an increasing realization that corporate brands serve as a powerful navigational tool for a variety of stakeholders for a miscellany of purposes, including employment, investment and, most importantly, consumer buying behavior. In its simplest sense a brand denotes a name, logotype or trademark denoting ownership (Barwise et al., 2000). In addition, branding is associated with corporate image building. Galbraith (1986) mirrors this view of branding: "By art and reiteration people are persuaded to believe in the peculiar conviviality associated with a particular brand." Brand is also considered from the consumer-end. As such, the consumption of brands by consumer defines who they are, wish to be and/or wish to be seen as (Kay, 1995; Elliot and Wattanasuwan, 1998, Newman, 2001). Simoes and Dibb (2001) conclude that our

post-modern consumer culture consumers realize that brands are vital in the construction of individual identities. The recent literature on corporate branding emphasizes the importance of brand values. A brand is an intangible asset, and because of its ethereal characteristics, different people find different ways to make sense of it (De Chernatony, 1999). A corporate name is one part of the corporate brand, and in the corporate context managers elevate the importance of the corporation's name (Siegel, 1994) rather than emphasize the coherently interacting components of vision, culture and competencies resulting in unique brand experiences.

A company name is a set of expectations and associations with a company or product evoked in the minds of investors. Kapferer (1995) implies that a name defines and represents both the corporate or product identity and its image. Corporate name changes are not unusual. The reasons for changing a company name range from acquisitions and mergers to modernization and new product directions. Once an evaluation has been made and the name change is found necessary, strategic questions must be addressed. Will a company lose an identity that took years to build in security market? Will its various publics understand its reasons for change? How long will the transition take?

At this early stage of research on corporation adopting new names, none of these techniques has so far been used to evaluate the impact of changing to a new name on a firm's performance. The only systematic studies available today indicate that a corporate name change may enhance market recognition and position (Morris and Reyes, 1991) and generate an increase in the stock market value of the name changes firms (Horsky and Swyngedouw, 1987; Dursun and Kilic, 2003).

There has been a marked increase in the number of high-profile companies adopting new names in the past few years. During "Internet Fever" (Browning, 1999), when investors view the internet as crucial to how business will be conducted in the future, firms want to be identified with the internet. Lee (2001) argues that firms announce name changes with ".com" which is associated with significant increases in stock prices and trading activity. The question then is: what exactly is driving this spate of name changes and what are the performance implications for the new name? This question would seem to provide a fertile ground for academic research, but as yet, very little consideration has been given to it in the academic literature. This paper represents a first attempt to explore the financing issues of relevance to the name changes phenomenon in Taiwan Security Market, which plays an important role in emerging markets as well as in Asia security markets.

2. Literature Review

2.1 Names and Communication

A firm's name is steeped in the history and context of the firm, often serving as a way in which legitimacy is granted by internal and external audiences (Glynn and Abzug, 1998, 2002). More generally, firm names are tied to certain qualities and past performance (Tadelis, 1999). Names like Disney and Coca-Cola embody history, culture, brand identity, specific businesses, reputation, and other characteristics that require resources and years to develop. (Fombrun and Shanley, 1990). Besides, signaling theory has been applied to firm-level announcements to which investors

may respond by buying or selling the stock (Asquith and Mullins, 1986). For example, firms can provide signals of future profitability by announcing proactive layoffs (Lee, 1997), or corporate social responsibility by withdrawing from South Africa (Meznar, *et al.* 1998). Such announcements can generate positive abnormal returns if investors foresee great potential in the firm's actions, or negative abnormal returns if investors disapprove of managerial decisions. (Asquith and Mullins, 1986; Cooper, Dimitrov and Rau, 2001). Similarly, announcements of name changes can be interpreted as signals to investors, or as active managerial involvement in changing the firm's image. Firms change their names to signal deviations from these characteristics, industries, business strategies, operations, and future prospects. The signaling perspective provides a method to asses how effective the name change strategy is for conveying these changes to investors.

2.2 The Impact on Investor Behavior

The subject of behavioral finance has brought together researchers from finance and cognitive psychology to study "irrational" human decision-making processes. According to Tvcrsky (1995), one of the pioneer researchers in this area, risk attitudes, mental accounting and overconfidence are three "cognitive illusions" commonly found in investors' decision making processes. Risk attitudes refer to the asymmetry of the way investor's value relative gains and losses. Mental accounting involves keeping track of gains and losses in separate mental accounts. An investor's overconfidence in skills or past outcomes may also contribute to sub-optimal investment decision or noise trading. Price variation unrelated to information has been attributed to the activities of noise traders by, among others, Shiller (1984), Glosten and Milgrom (1985), Kyle (1985), Black (1986), DeLong et al. (1990), and Campbell and Kyle (1993). Shiller (1981) and French and Roll (1986) provide evidence that the process of trading itself moves security prices.

In this paper, we sample numerous cases between 1994 and 2002 and investigate whether these companies have changed their business items after name changes. We attempt to get to the specifics of the behavioral rationality theme of this research by focusing on an area in the "cognitive illusions" of investors. Do investors change their cognition to a newly- named firm which may or may not change its nature of business? Does price variation relate to a firm's name change? Will price be justified to basic evaluation of company performance in long-term perspective? These are the questions which we want to find out in this research.

3. Data and Methodology

3.1 Data

Using the search engine on the Market Operation Post System of Taiwan Stock Exchange Corporation (www.tse.com.tw), one can retrieve articles on companies having changed their names. A search on "name changes" from January 1, 1994 to December 31, 2002 (a 96-month period) returned 73 articles. Due to redundancies and mergers/acquisitions of articles and/or companies, this number was reduced to 11 cases when companies were identified. These companies were complied into two groups showing their nature of business (see Table 1). As shown in Table 1, 55% the companies have not changed their business nature after name changes; whereas 45% have. This information was then analyzed to generate a first classification of the name change phenomenon and to provide some ground for further analysis.

Table 1: *Sample Firms*

A. Nature of Business Unchanged		
Company Name:	Security Code	
Sino –Japan International Industries Co., Ltd.	1212	
UPC Technology Corporation	1313	
First Copper Technology Co., Ltd.	2009	
King's Town Construction Co., Ltd.	2524	
Ezplace Co., Ltd	2537	
Ruentex Industries Ltd.	2915	
Number of Firms		6
Percentage		55%
B. Nature of Business Changed		
Company Name:	Security Code	
Chia Hsin Food and Synthetic Fiber Co., Ltd.	1207	
Sun Yad Technology Co., Ltd.	1316	
TSRC Corporation	2103	
Eastern Media International Corporation	2614	
Ruentex Development Co., Ltd.	9945	
Number of firms		5
Percentage		45%
Total number of firms		11
Percentage		100%

3.2 Research Method

Event study methodology has a long history, which was perhaps started by James Dolley's (1933) stock split study. Ray Ball and Phillip Brown (1968) and Eugene Fama et al. (1969) conducted seminal studies in the late 1960s. Ball and Brown (1968) considered information content in earnings, and Fama et al (1969) studied the effects of stock splits after removing the effects of simultaneous dividend increases.

In event studies, the objective is to examine the market's response through the observation of security prices around such events. Corporation name changes are related to the release of information to market participants through the financial press. Normal or predicted returns for an asset are those returns expected if no event occurs. To apply the event study methodology, the date of announcement of the new corporate name is treated as the event date. This quantity is defined as time zero (t=0). The analysis of each name-change firm's stock performance around its announcement date is based on the daily total returns obtained from the Taiwan Economic Journal Data Bank (TEJDB) running between 120 days and 21 days before the event date, which is defined as estimation period; 20 days pre-event to 30 days post-event is defined as examination period. The time line for a typical event study for corporation name changes is listed on Figure 1.

We use a market-adjusted model to estimate abnormal returns. Both De Bond and Thaler (1985) and Cox and Peterson (1994) find no differences between different methods of calculating abnormal return. Bradley, Jordan, and Ritter (2003) also use market-adjusted abnormal returns for their work with "quiet period" data. Hence, the abnormal returns are calculated as in (1), where AR_{iE} is the abnormal return for stock i in E, R_{iE} is the actual return for stock i in period E, and R_{mE} is the market return for stock i in period E.

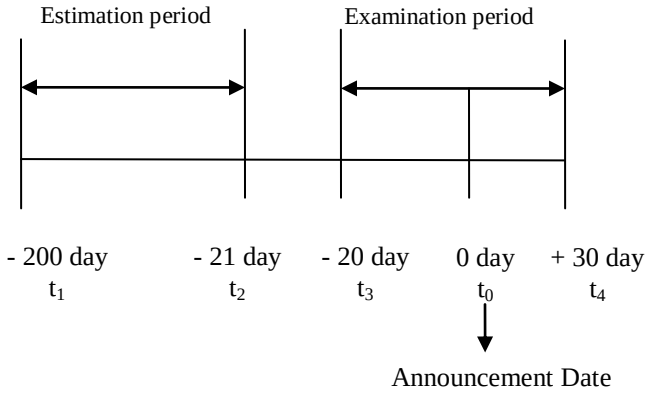


Figure 1: *Research Period*

$$AR_{iE} = R_{iE} - R_{mE} \quad , \quad E \in W = [t_3, t_4] \qquad (1)$$

To implement our test, we calculate cumulative abnormal returns as the sum of abnormal daily firm returns. To test for changes in stock price response around the new name announcement, we then run the following equation:

$$CAR(\tau_1, \tau_2) = \sum_{E=\tau_1}^{\tau_2} AR_E$$

$$= \frac{1}{N} \sum_{i=1}^{N} \sum_{E=\tau_1}^{\tau_2} (AR_{iE}) \quad , \quad [\tau_1, \tau_2] \subseteq [t_3, t_4] \qquad (2)$$

where $CAR(\tau_1, \tau_2)$ is sum of average cumulative abnormal returns from time τ_1 to τ_2 in examination period.

4. Research Results

4.1 Average Abnormal Returns of Firms with Unchanged Business Nature

Figure 2 shows the average ARs over the 51 days surrounding the announcement date. Of the 51 average ARs in the examination period, 12 are significant, with a continuous significance from 1 pre-event to 2 post-event date (t=-1, 0, 1, 2). Firms tend to have positive ARs after adopting new names and investor response to this event prior to firm's announcement.

4.2 Average Cumulative Abnormal Returns (ACARs) of Firms with Unchanged Business Nature

Table 2 summarizes the results for the ACAR tests for selected days. Of the 51 average ACARs in the examination period, 18 are positive which correspond to significance at the 10% level. Figure 3 presents tests of the differences between post- and pre-event ACARs. There is a short negative trend from about day -14 to day -9 followed by a strong uptrend through about day -4. Subsequently, there is a soft downtrend that wipes off the gains. It appears that investor response to corporate

name changes is positive significantly which causes stock price increase. However, ACARs will gradually decrease along with time increase, which means investment transactions also reduce as time extends. This may imply that investor's buying behavior becomes rational based on firm performance rather than its new name.

4.3 Average ARs of Firms with Changed Business Nature

For companies with changed on their business nature after adopting new names, Figure 4 presents the statistical significance of the average ARs as well as results of the tests. It shows significant ARs pre- and post-event day intermittently and those ARs correspond to significance at 5% and 10% level.

4.4 ACARs of Firms with Changed Business Nature

Table 3 presents significant continuous ACARs pre- and post-event day. There are 14 positive ACARs associated with the pre- and post-event time interval, which correspond to significance at the 10% level. Figure 5 also shows a strong upward trend of ACARs after firms adopting new names, which implies investors' positive reaction to the event which causes an increase on stock price. However, investors decrease transactions in security market after time extends, which indicates that investors have become rational in reviewing corporate performance as a basis for judging security value. In both Figure 3 and Figure 5, significant ACARs occur when firms announce new names regardless of the business nature. This finding reveals that investors' buying behavior is related to corporate name changes exclusively.

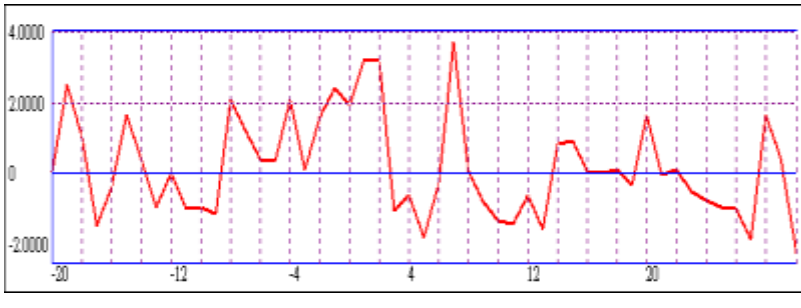


Figure 2: *Average Abnormal Returns of Firms (Business Nature Unchanged)*

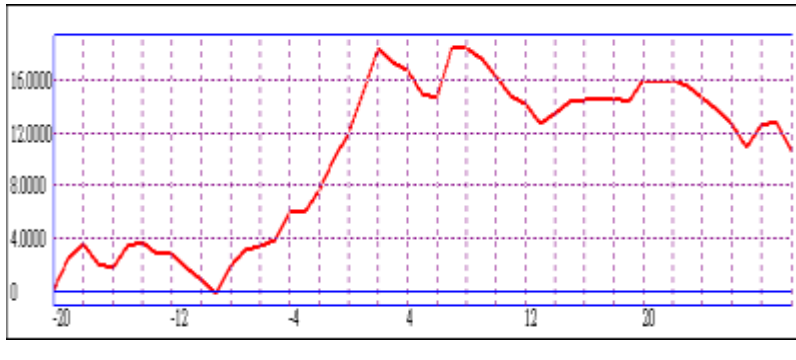


Figure 3: *ACARs of firms (business nature unchanged)*

Table 2: *ACARs of Firms (business nature unchanged)*

Event Date	Ratio of CARs	*t* value of Ordinary Cross-Sectional Method	*t* value of Sign Test Method
-20	0.05	0.0322	0
-19	2.5683	0.9545	0.8165
-18	3.5767	0.8719	0.8165
-17	2.0833	0.477	0
-16	1.695	0.3748	0
-15	3.3533	0.6057	0
-14	3.7633	0.5892	0
-13	2.81	0.4586	0
-12	2.8017	0.3752	0.8165
-11	1.8217	0.2599	0
-10	0.8867	0.1409	0
-9	-0.2367	-0.035	0.8165
-8	1.8483	0.2619	0.8165
-7	3.0617	0.3993	0
-6	3.4583	0.4545	0
-5	3.805	0.4811	0.8165
-4	5.885	0.7326	0.8165
-3	5.975	0.6833	0.8165
-2	7.5667	0.8114	0.8165
-1	9.9667	1.0294	0.8165
0	11.9117	1.157	0.8165
1	15.145	1.4073	0.8165
2	18.36	1.6294*	1.633
3	17.3233	1.6971*	1.633
4	16.7217	1.75*	1.633
5	14.89	1.6384*	0
6	14.6167	1.493*	0
7	18.3517	1.8032*	0.8165
8	18.4233	1.7624*	0.8165
9	17.63	1.7044*	0.8165
10	16.2683	1.631*	0.8165
11	14.8517	1.4532	0.8165
12	14.225	1.4562	1.633
13	12.6617	1.3079	0.8165
14	13.48	1.325	1.633
15	14.385	1.5678*	1.633
16	14.4683	1.4798*	1.633
17	14.495	1.5528*	1.633
18	14.6083	1.5296*	1.633
19	14.295	1.503*	1.633
20	15.94	1.6449*	1.633
21	15.9017	1.5605*	1.633
22	15.9983	1.521*	1.633
23	15.48	1.4797*	1.633
24	14.7	1.3461	1.633
25	13.735	1.2203	0.8165
26	12.7217	1.2776	0.8165
27	10.86	1.13	0.8165
28	12.49	1.1603	0.8165
29	12.9133	1.1354	0.8165
30	10.6467	0.9604	0.8165

Note. ***p<0.01; **p<0.05; *p<0.1

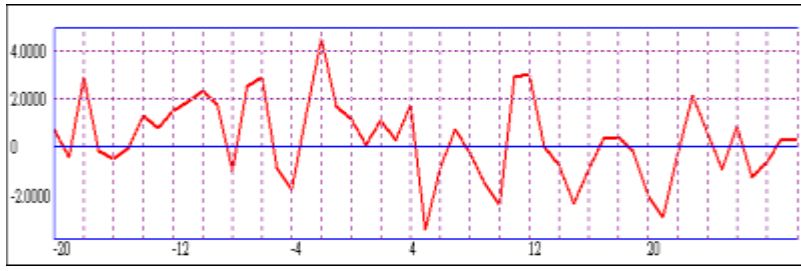


Figure 4: *Average ARs of Firms (business nature changed)*

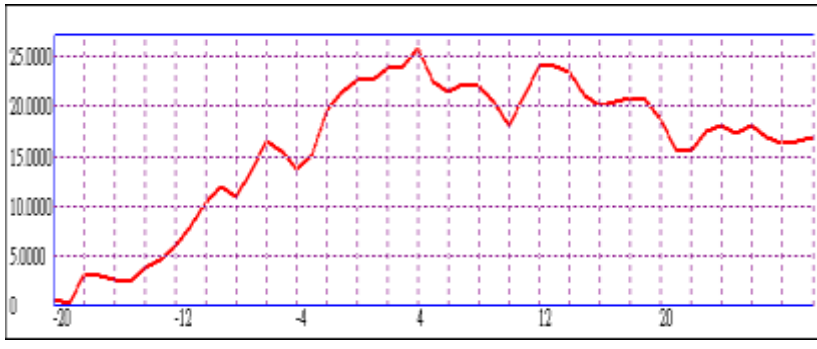


Figure 5 *ACARs of Firms (Business Nature Changed)*

Figure 3 and Figure 4 show that investors have positive reactions to corporate new names as reflected in the stock price regardless of any change in the corporate business nature. However, as time extends, the abnormal returns phenomenon becomes justified. This indicates that investor's investment behavior adjusts rationally and looks back to financial tools to measure a firm's performance. Many people would like to have more detailed information regarding the relationship of movements in stock prices to changes of other sorts in the economy. More work needs to be done on the relationships between earnings and prices and on the relevance of balance-sheet/income statement data in understanding and predicting the financial fate of corporations.

To fundamental analysts, it is important to investigate whether stock price movements are in tandem with its fundamental values. Researches (Smith, 1976; Michel & Shaked, 1984; Rockmore, 1991) have argued the need for multiple criteria measures since the success of an organization is not a unitary dimension. A common characteristic of management research is the use of accounting data from income statements and balance sheets to measure firm performance. The larger the difference between the stock price and the fundamental asset value, the stronger will be the restoring force of the movement of the stock price towards the fundamental value (Chiang *et al.*, 1995).

To examine the relationship between stock price and firm performance, return on assets (ROA), return on equity (ROE) and earning per share (EPS) were used to measure a firm's performance.

Table 3: *ACARs of Firms (Business Nature Changed)*

Event Date	Ratio of CARs	t value of Ordinary Cross-Sectional Method	t value of Sign Test Method
-20	0.742	0.3799	0.4472
-19	0.34	0.2256	0.4472
-18	3.212	1.7227*	0.4472
-17	3.056	1.7044*	1.3416
-16	2.574	0.8704	0.4472
-15	2.534	0.7554	0.4472
-14	3.828	1.0194	0.4472
-13	4.636	1.23	0.4472
-12	6.118	1.2507	0.4472
-11	7.974	1.4565	0.4472
-10	10.286	1.5489*	0.4472
-9	12.01	1.8518*	1.3416
-8	11.008	1.7193*	0.4472
-7	13.508	1.7747*	0.4472
-6	16.418	1.8718*	0.4472
-5	15.544	1.7061*	0.4472
-4	13.792	1.6266*	0.4472
-3	15.196	1.6097*	0.4472
-2	19.71	1.7594*	0.4472
-1	21.384	1.8472*	0.4472
0	22.572	1.8553*	0.4472
1	22.644	1.728*	0.4472
2	23.778	1.6545*	0.4472
3	24.044	1.5539*	0.4472
4	25.772	1.5119	1.3416
5	22.34	1.3564	1.3416
6	21.506	1.4217	1.3416
7	22.264	1.4249	1.3416
8	22.014	1.4937	1.3416
9	20.486	1.4556	1.3416
10	18.072	1.2424	0.4472
11	20.95	1.2815	0.4472
12	24.008	1.4228	0.4472
13	24.032	1.4787	1.3416
14	23.304	1.4983	1.3416
15	20.944	1.4092	1.3416
16	20.032	1.368	1.3416
17	20.384	1.34	1.3416
18	20.772	1.3862	1.3416
19	20.594	1.4052	0.4472
20	18.596	1.307	0.4472
21	15.67	1.1759	0.4472
22	15.402	1.2415	0.4472
23	17.542	1.4109	1.3416
24	18.154	1.3533	1.3416
25	17.222	1.2635	0.4472
26	18.07	1.2305	0.4472
27	16.806	1.1389	0.4472
28	16.19	1.1562	0.4472
29	16.53	1.1677	0.4472
30	16.808	1.0741	0.4472

Note ***p<0.01; **p<0.05; *p<0.1

4.5 Financial Performance

We analyze financial ratios for those companies from 2 years pre- to 2 years post-event year. For those companies not changing business nature, Table 4A, 4B and 4C show name changes firms' ROAs, ROEs and EPSs respectively. Table 4A shows that average ROAs are negative from -1 pre- to -2 post-event year except -2 year pre-event year which has positive ROAs (0.76%). It appears that ROAs do not change significantly after firms adopting new names. Table 4B presents that all average ROEs are negative (year -2 to +2) and show strong upward trend (-0.49% to -15.28%). This evidence shows that all these firms do not increase returns on equities after renaming; on the contrary, their performance has downward trend after adopting new names. EPS shows somewhat similar results as ROAs (see Table 4C). All average EPSs from -1 year to +2 year are negative, except -2 year which means firms do not make more profit after name changes. Actually, these firms have poor profitability after changing their corporate names.

For those companies changing their business nature after name changes, Table 5A shows that all companies have decreased ROAs from -1 year to event year; whereas most companies have upward trend on ROAs from +1 to +2 year post-event. Although there is an upward trend on average ROAs after post-event year, these average ROAs are still negative after post-event year (-7.94% to -1.80%). This evidence shows that firms have improved corporation operation but not remarkably. Table 5B shows somewhat similar results for ROEs. It appears that all companies have decreased ROEs from - 1 year to event year, which means operation capability has become weakness during this time interval. However, even though most companies have increased ROEs from +1 to +2 year post-event, these increases do not reach similar performance level before adopting new names. As a result, these companies do not obviously improve their operation capability after name changes. EPSs have similar results as ROAs and ROEs (see Table 5C), most companies have decreases on EPSs on the first year followed by announcement. Although there are slightly increases on EPSs in the post-event period, these increases are much less than those before the announcement of new names.

Table 4A: *ROA (%) of Firms not change Business Nature*

Security code	−2 Yr	−1 Yr	Event Year	+1Yr	+2 Yr
1212	2.37%	0.22%	-2.23%	-1.04%	-12.40%
1313	5.25%	1.71%	0.05%	4.31%	3.30%
2009	3.35%	6.33%	2.92%	-4.93%	2.49%
2524	0.07%	-6.68%	-5.21%	-6.10%	1.87%
2537	-4.73%	-17.78%	-2.86%	-17.64%	-14.81%
2915	-1.73%	3.49%	-1.63%	4.17%	0.85%
Average	0.76%	-2.12%	-1.49%	-3.54%	-3.12%

Furthermore, we conducted conventional t-Statistic test for these three financial measures (see Table 6). Table 6 shows that EPS increased significantly (t=0.01285) from -1 pre- to +1 post event year. It appears that companies changed new names with new business operation items which contributed more profit than previous

operation items before companies adopted new names. ROA (t=0.09359) and ROE (t=0.085648) have similar results as EPS (t=0.012895) at the 10% significant level. However, it seems that new business items contribute profit significantly on the first year and become flat by the following year. This concludes that firms making profit capability do not have obvious improvement after changing their business nature.

Table 4B: *ROE (%) of Firms not change Business Nature*

Security code	−2 Yr	−1 Yr	Event Year	+1Yr	+2 Yr
1212	5.01%	0.51%	-5.52%	-2.98%	-62.99%
1313	8.37%	2.77%	0.08%	5.93%	4.56%
2009	3.82%	8.15%	3.82%	-7.18%	3.28%
2524	0.19%	-19.68%	-20.42%	-27.44%	5.87%
2537	-14.78%	-53.82%	-7.94%	-46.04%	-44.20%
2915	-5.54%	9.17%	-5.03%	10.12%	1.83%
Average	-0.49%	-8.82%	-5.84%	-11.27%	-15.28%

Table 4C: *EPS ($) of Firms Not Change Business Nature*

Security code	−2 Yr	−1 Yr	Event Year	+1Yr	+2 Yr
1212	0.56	0.06	-0.58	-0.29	-2.9
1313	1.18	0.36	0.01	0.8	0.61
2009	0.42	0.89	0.36	-0.69	0.33
2524	0.02	-1.89	-1.63	-1.72	0.39
2537	-1.51	-3.56	-0.49	-1.94	-2.61
2915	-0.47	0.92	-0.44	1.03	0.19
Average	0.03	-0.54	-0.46	-0.47	-0.67

Table 5A: *ROA (%) of Firms Change Business Nature*

Security Code	−2 Yr	−1 Yr	Event Year	+1Yr	+2 Yr
1207	2.14%	2.00%	0.71%	0.61%	0.74%
1316	-4.44%	-3.57%	-23.80%	-15.65%	0.19%
2103	13.81%	1.30%	-1.18%	-2.13%	1.29%
2614	3.23%	1.97%	-15.82%	-1.71%	-12.16%
9945	-3.72%	1.28%	0.40%	0.03%	0.95%
Average	2.20%	0.60%	-7.94%	-3.77%	-1.80%

Table 5B: *ROE (%) of firms change business nature*

Security Code	−2 Yr	−1 Yr	Event Year	+1Yr	+2 Yr
1207	3.80%	3.90%	1.57%	1.31%	1.78%
1316	-6.06%	-4.94%	-45.00%	-28.56%	0.32%
2103	16.11%	1.86%	-1.62%	-3.37%	1.86%
2614	9.36%	5.59%	-29.61%	-3.58%	-34.20%
9945	-11.04%	3.47%	0.96%	0.08%	2.46%
Average	2.43%	1.98%	-14.74%	-6.82%	-5.56%

Table 5C: *EPS ($) of Firms Change Business Nature*

Security Code	−2 Yr	−1 Yr	Event Year	+1Yr	+2 Yr
1207	0.49	0.5	0.18	0.17	0.19
1316	-0.68	-0.53	-3.35	-1.68	0.02
2103	2.39	0.25	-0.2	-0.39	0.22
2614	1.12	0.53	-2.88	-0.33	-2.39
9945	-1.12	0.36	0.1	0.01	0.27
Average	0.44	0.222	-1.23	-0.444	-0.338

Table 6: *Pairwise t Test for ROA, ROE and EPS*

Conventional *t*-Statistic			
Year	**ROA**	**ROE**	**EPS**
(-1, +1)	0.09359**	0.085648**	0.012895*
(-2, +2)	0.39819	0.469909	0.440163

* Significant at the 0.05 level
**Significant at the 0.1 level

4.6 Sharp Ratio Analysis

The reward-to-variability ratio (more commonly known as the Sharpe ratio) was introduced by William Sharpe in 1966 (Sharpe, 1966). Sharpe ratio (SR) is a measure of volatility-adjusted performance. The SR defines excess return as the return above the risk free rate:

$$SR = \frac{k_p - k_{RF}}{\sigma_p} \qquad (3)$$

Where k_p is the portfolio return, k_{RF} is the resk-free rate and σ_p is the standard deviation of k_p. A higher SR is associated with higher portfolio efficiency. We analyze SR of sample companies before and after their name changes as shown in Table 7. Table 7 indicates that most companies have lower SRs after adopting new names but without changing business nature. For companies changed business nature have higher SRs after adopting new names. This evidence is consistent with results of financial analysis.

Table 7: *Sharpe Ratio Analysis*

0.1791-0.8488A. Nature of Business Unchanged	**SR (Before Name Changed)**	**SR (After Name Changed)**
13131212	0.7982	0.0084
2009	1.0969	-0.8534
2524	-9.0362	-8.2492
2637	-2.0730	-2.1577
2915	1.0991	1.0159
B. Nature of Business Changed		
1207	2.5801	2.7923
1316	-0.3510	-0.0376
2103	0.7354	1.2006
2614	0.2093	-0.1825
9945	1.9986	2.00514

*Average risk-free rate is 4.9% for research period.

5. Conclusion

The corporation name is the core indicator of the brand, which is the basis for awareness and communications. Kapferer (1995) implies that a name defines and represents both the corporate or product identity and its image. It is the medium by which a corporation sends signals to public. Name changes are therefore sometimes considered in order to send a strong signal to stakeholders that the company is shifting its strategy, refocusing its activity or changing ownership (Kapferer, 2002). More generally, the corporation is attempting to reposition itself.

This article used event study methodology to investigate investor response to corporate name changes in Taiwan Security Market. There is sufficient evidence to conclude that investors have positive reactions to and recognition of corporate name changes without considering whether the company would change its business nature after adopting new name. Investors would buy security when they get information, as a result, stock price increases after a firm adopts a new name, which would cause abnormal returns in security market. However, there are no strong financial indicators that demonstrate that corporations improve their operation performance after name changes. This occurrence implies that investors have irrational behavior influenced by psychological factors. As time extends, investors become rational and stock price would again be based upon a firm's financial performance. Investors finally recognize that name changes cannot bring profit to a corporation and that only operation performance has a meaningful impact on a firm's profit and earnings that affect stock price.

La Porta (1996) shows that investors overreact to past good performance of growth firms and become irrationally optimistic about the firm's future prospects. In our research findings, investors had a tendency to overact to information, leading to an anomaly returns in market. Investors neither analyzed financial data nor investigated business nature when firms announced corporate name changes due to positive reaction to new brand names. However, the farther the price of a stock moves away from value, the faster it will tend to move back. It suggests that with time increase, investors have become rational and abnormal returns are going to be adjusted.

Thus, regardless of whether investors have positive reactions to corporate new changes, they should refrain from making arbitrary decisions dictated by personal emotions. Instead, investors should rely heavily on professional portfolio advice and corporate performance to avoid irrational investment behavior. That we conducted empirical research on Taiwan Security Market in building our research subject is not because the subject is uninteresting but because it may be too interesting and thereby the identification of suitable measurement variables and the study of the performance of name changes companies over time will be a key objective for further research.

Acknowledment: *We are grateful for helpful comments from Professors Hsing-Chau Tseng and Yender Lee (the reviewer and the discussant), participants at the 2007 ICMIS Conference at Chung Jung Christian University, Taiwan. We would also like to thank two anonymous reviewers of the paper for their helpful comments.*

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