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Does the change in the company's name affect the share price? The case study of the Polish capital market

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Abstract

Aim/purpose – The paper was aimed to find out if abnormal returns occur before and after changes in the names of companies listed on the Warsaw Stock Exchange.

Design/methodology/approach – Due to the fact that this was an early stage of the research, an appropriate methodology was used in the research which took into account indexes of relative force of quotations of some selected companies in relation to the wide Warsaw Stock Exchange WIG index.

Findings – The research findings proved the existence of positive abnormal returns before the name changes and negative trends after the name changes in companies in the long term. Comparing the average volume of share trading before and after the name changes in companies, no positive effect was noticed in this scope.

Research implications/limitations – The clear and unambiguous results appear to be significant for investors while taking investment decisions. Therefore, the conclusions from the findings of the pilot research need to be confirmed and verified in further studies on the problem, with the use of a more advanced methods.

Originality/value/contribution – The paper represents one of the few empirical studies on the impact of the name changes of listed companies on the share prices in relation to the emerging markets, and the first ones concerning the Polish share market. The findings of the study may give grounds to discuss and identify practical causes of market behaviors as a result of changes in companies' names.

Keywords: name changes, abnormal returns, Warsaw Stock Exchange.

JEL Classification: G11, G12, G14.

1. Introduction

Every year thousands of companies in the world change their names. On many occasions, a contributing factor to this are mergers and acquisitions, creating a new capital group, marketing activities, etc. (cf. Horsky & Swyngedouw, 1987; Karpoff & Rankine, 1994; Muzellec & Lambkin, 2006; Smith & Park, 1992). However, did these changes, per se, have any effect on shareholder value? Do changes in names bring any price effect and are they essential for the owners of public companies?

The studies on the impact of changes in listed companies' names are not undertaken too often in the subject literature. Most of them deals with developed markets where financial systems are oriented towards the capital market, i.e., in the US (e.g., Bosch & Hirschey, 1989; Cooper, Khorana, Osobov, Patel, & Rau, 2005; Kashmiri & Mahajan, 2015; Mayo, 2013), the UK (e.g., Andrikopoulos, Daynes, & Pagas, 2007; Mase, 2009) and Australia (Josev, Chan, & Faff, 2004). There are noticeably fewer studies on emerging markets (e.g., Agnihotri & Bhattacharya, 2017; Karbhari, Sori, & Mohamad, 2004; Kot, 2011). Such research was done, in particular, in relation to publications on planned changes of the names and less frequently on changes themselves in the company's quoting. This kind of research is a part of analyses of capital market efficiency and achieving abnormal returns by investors due to market developments (Fama, Fisher, Jensen, & Roll, 1969). Its findings, however, do not give clear indications.

The aim of the paper was to provide an answer to the above questions and to identify the existence of abnormal returns before and after the change of the names of companies listed on the Warsaw Stock Exchange (WSE). The research was pilot in nature and its main focus was on the price effect of the change in the company's name, setting aside the motives which would make companies carry out such an operation. Due to the fact that this was an early stage of the research, an appropriate research methodology was used which took into account indexes of relative force of quotations of some selected companies in relation to the wide Warsaw Stock Exchange WIG index. To the author's knowledge, this is the first research on the problem of changes in the company names as well as their impact on share prices on the Polish capital market. This publication is meant to fill in the gap in the subject literature and to point at further research directions for the discussed issue.

The article structure is created in accordance with the following order: literature review, research sample and research methodology, research findings with discussion and conclusions. The results of research conducted globally are presented in relation to developed Anglo-Saxon markets and emerging markets. In the methodological section, the stages of selection leading to the formation of

the final research sample were characterized and justified. It was followed by the description of methodology. The fourth part includes the results of research and further discussion. In the last part, apart from the conclusions, the limitations resulting from the applied research methodology and the directions of further research on the problem were discussed.

2. Literature review

One of the first studies on the problem was the publication by Bosch & Hirschey (1989). The authors recorded positive abnormal rates of return one week before publishing information in Wall Street Journal. Yet, for the subsequent three weeks, they showed almost the same high and negative returns. Consequently, they stated that for shareholders the value of information on the name change is not big and the effect of assessment is transient. These observations were not completely supported by the research conducted later. Mayo (2013), on the base of stock price movements listed on the NYSE, showed a slight positive effect of the name change on the quotations in a thirty-day perspective. Green & Jame (2013), while investigating several thousands of changes in the names of companies on the US markets, proved that in general name changes increase the average liquidity of shares. The change of the name into more fluent and easier to pronounce results in the extension of shareholding and the company's value. As for liquidity, similar results, were confirmed by Wu (2010) who analyzed changes of 1959 tickers of listed companies. Kashmiri & Mahajan (2015), having analyzed the American market, stated that factors connected with marketing are crucial in creating the company's value in terms of the change in its name. Those companies which make substantial marketing investments in re-naming are better perceived by investors.

Some interesting results were shown by the research conducted on NASDAQ before and after 2000, i.e., the burst of speculative bubble on this market. The research done before the crunch (Cooper, Dimitrov, & Rau, 2001) indicated a strong positive effect of dot.com. Associating the name with the Internet was sufficient to guarantee companies and their owners considerable and steady increase in the company's value. The analyses done after the fall in prices (Cooper et al., 2005) showed that the changes of IT companies have a positive impact on the share price, but it refers only to companies which removed from their names the words. Particularly high abnormal returns were concentrated within 60 days around the date of announcement.

The studies of the problem with reference to other markets deviated slightly from the studies carried out on the American market and in many cases they even contradicted each other, Andrikopoulos et al. (2007) investigated more than 800 cases of companies with their registered offices in the UK after the substantial change in the name within the next 36 months. The authors claim that re-naming the company is a negative signal in itself for the market and that a downward trend occurs regardless the company's financial performance before the change. In three-year time frames markets respond slowly to the information on the change of the name. Mase (2009) also on the basis of his research on the British market, claimed that the information on the name change should be essential for investors, as it results in abnormal returns after the announcement. He stated that there is reliance between shortening or extending the name and the direction of the price change. Removing an element from the name is viewed as negative, contrary to adding an element to the name which brings about positive price effects. In this context, removing or inserting the word group turned out to be essential. According to Mase (2009), such a decision may be crucial for share prices in the short and long term. Josev et al. (2004), in the study limited to Australian companies recorded substantially negative results within 21 days following the name change. Unfavorable trends were limited, however, to enterprises introducing name changes classified as substantial. Karbhari et al. (2004) claimed that in the case of listed companies in Malesia, the changes, not accompanied by formal reconstructions which would be subject to formal regulations, have no big impact on the share price. Kot (2011), basing on the observations of the Hong Kong market, proved that investors respond positively to the change of the name as a result of mergers or acquisition, restructuring or the shift of the company's business. Changes which aim at improving the company's reputation do not cause price reactions. The findings suggest that as a rule the effect of the name change is short-term. The positive effect of the change of names was also noted by Agnihotri & Bhattacharya (2017), based on a sample of 415 companies from India over a period of 10 years – 2005-2014. The study shows greater abnormal returns, when firms do not indicate geographical specificity in the name and have a specific rather than generic name. The fluent name and associated with the owner's family name turned out to be also significant for the stock prices.

Despite thorough research the author was not able to find any scientific studies on the problem at issue which would be carried out on the Polish capital market. The online publications which discuss various case studies online publication (e.g., Filipek, 2011; Kwestarz, 2015), would be difficult to recognize as reliable.

3. Research methodology and sample

The research on the relations between name changes of listed companies and their return rates covered the period of nearly ten years of the WSE operations, i.e., from January 2006 till October 2015. At the first stage of the analysis, 116 event were distinguished which changed the names of the companies listed on the WSE. Then, to achieve possibly the most representative research sample, it was subject to five steps of selection. The first two were related to the significance of the change. The remaining three took into account the time-frame criteria of the change which, due to the adopted research methodology, were likely to impair the achieved results. At the initial stage of the selection, the cases of changes of names were limited to those which changed the company's ticker. In this way it was possible to obtain a sample group of 97 cases. It was assumed that at the second stage that a slight change of the name involving a change of the ticker but preserving the company's name shown in the listing table, will not be taken into account, either. The identification of three such cases allow to reduce the analysis to 94 cases. At the third stage it was assumed that the analysis will not cover cases in companies which were renamed before the third calendar year. Eliminating both cases, the former and the later, i.e., 15¹, there were 79 left. At the next stage of the selection of the research group, 5 companies were eliminated from further analyses as they were removed from the public trading before the elapse of two years after the event. Out of the remaining 74 companies, 4 other were eliminated as they changed their name within one year after their stock exchange debut. This eventually formed a research sample of 70 cases qualified for the analysis of changes in the listed companies' names.

The research uses the relative force of daily price changes of companies accepted for the analysis in relation to the WIG index in order to eliminate the impact of general economic trend on the market share prices. The research methodology was based on the priced index created by the author, which covers exclusively share prices making up the research sample. The index was calculated as arithmetic mean of the sum of indexes of relative force of particular instruments, i.e., the ratios of share valuations from a given period P to the WIG value on that day.² It is illustrated by the following formula:

¹ One of the cases had already been excluded from the analysis in one of the previous selection stages.

² Research methodology modeled on the work of Bałtowski & Kwit (2002), systematized and compared to the original.

$$IC_t = \frac{\sum_{n=1}^N \frac{P_{n,t}}{WIG_t}}{N}, \quad (1.1)$$

where:

IC_t – price index of share group on day t ,

N – number of changes in companies making up the price index,

n – number of the next name change in companies making up the price index,

$P_{n,t}$ – price of n th share on day t ,

WIG_t – value of the WIG index on day t ,

t – next trading sessions, where t_0 means the day of the change of the name.

The formula determines that price index of the group is the arithmetic mean of price indexes of particular shares. The shares of each company holds the same share in the index, thus, the changes in quotations of each company – as related to the WIG index – influence the change of the index in the same way.

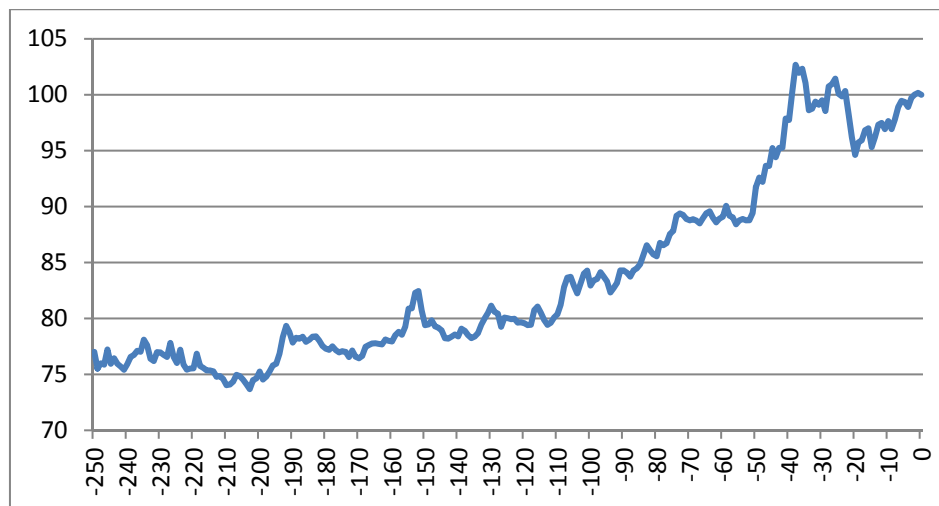
For the date of the name change of the company (t_0), an actual day of the change and the ticker was assumed. The quotations of the selected shares were brought to one point (t_0), giving value 100 to each price index of selected shares and, thus, to the price index of the whole research sample. The analyses were carried out within 250 sessions before and 500 sessions after this day, which roughly covers three years – one year before and two years after the name change of a company. The lack of quotations of a given company on the specified day or in the specified period (the lack of transactions or the suspension of quotations) did not exclude this session from the analysis. Corrections of rates arising from splits or cut-off values of shares of a rights issue were also taken into account, as appropriate.

The information on the dates of name changes of the companies listed on the Polish capital market were taken from annual reports published by the WSE (https://www.gpw.pl/biblioteka-gpw-lista?gpwlc_id=10) and from information given by public companies (<http://infostrefa.com/infostrefa/pl/index/>). The valuation of shares and the quotation of the WIG index used in the research were taken from EMIS (<https://www.emis.com>). To verify their accuracy and correctness by values arising from preemption rights and splits, the findings were compared to the data form Stooq.pl (<https://stooq.pl>).

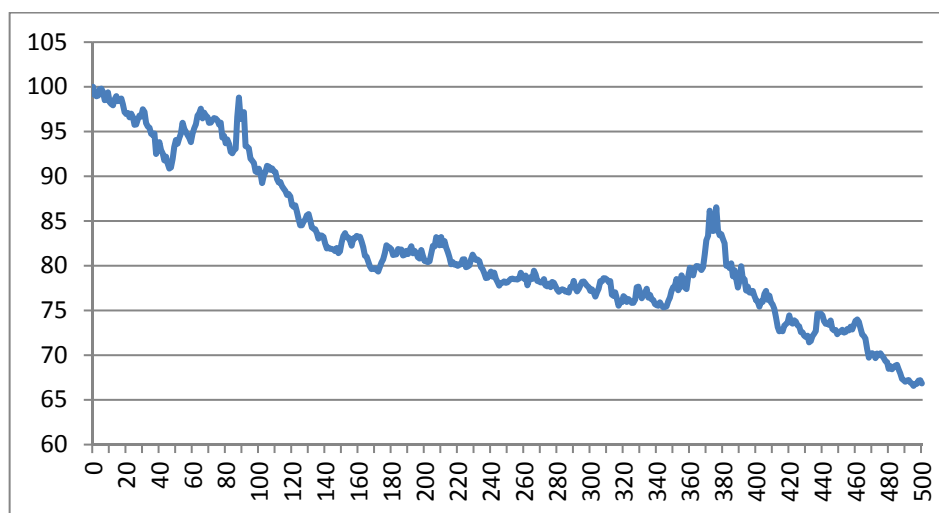
4. Research findings and discussion

The research proved that in the period of one year before the name change, quotations of the analyzed companies showed a clear upward trend (Figure 1). The average increase of the price index of relative force for the whole research sample was nearly 30%. It is worth noting that the companies achieved the highest average level of quotations 38 sessions (approx. 2 months) before the name change. On this trading day, a very strong phase of quotations strengthening with the highest momentum in the whole period was ending. It lasted 15 sessions and, on average, it increased share price of each analyzed company. The correction which lasted another 18 days lowered quotations on average by 8% to the benchmark. During the last 20 sessions before the name change, they showed a stable upward trend again.

Figure 1. Average share price before the name change



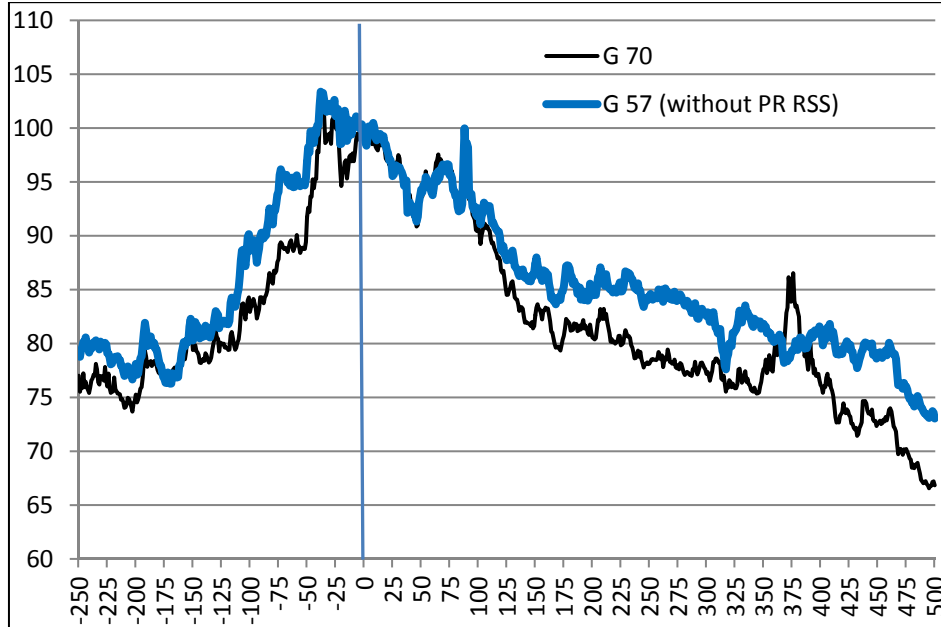
After the name change one may observe a rapid trend shift of quotations in the analyzed research sample (Figure 2). The decrease of relative force lasted since the first day post change and it was 33.2% in the whole research period. Already in the first 46 session days after the event, the average fall was over 9%. After the upward correction which lasted around 3 months post change (ending exactly after 42 days since the day of the first declining trend), a very stable downward trend began lasting almost a year and relatively weakening quotations of each analyzed company by nearly 25%. Over time the impetus in this unfavorable trend was getting weaker. The peak of relative force between 344 and 372 session days post change resulted from the abnormal price changes of two companies, which in this period distorts the trend, not changing, however, the general trend during the period of further analysis.

Figure 2. Average share price after the name change

A detailed analysis of the performance of the companies' stock allowed to identify a high instability of the quotations of some shares. This was particularly true of those companies which carried out reverse splits of shares. To verify the obtained results, recalculation was done excluding 13 companies which made reverse stock splits, splits (RSS) or new issue of shares as the execution of preemptive rights (PR) during the analyzed period. The results (Figure 3) do not change essentially the trends observed in the original study. Increases preceding the name changes as well as decreases following these cases are only slightly lower. The only distinct difference in shaping indexes of relative force is primarily found in excluding from the results strong increases in relative prices around one and a half year after the name change.

The last element of the analysis was to determine the impact of the name change on the liquidity of shares. Comparing the average volume of share trading before and after the name changes in companies, no positive effect was noticed in this scope. In as many as 41 cases after changes in the companies' names, the average volume of trading was lower than in the pre change period. The median of average volumes after the name change was lower by 12%.

Figure 3. Relative force of shares in limited research sample pre and post change against the whole sample



Unambiguous and clear research results may give grounds to discuss and identify probable causes of market behaviors. Setting aside the motives for the change of the company's name, a positive effect preceding this operation may be explained by the opportunity investors can see for the company's future. So called 'new reshuffle' may direct the company's activities into the right track or it may intensify the company's development. Anticipation of positive effects influences the decisions to buy shares. Intuition suggests that price and volume effects may be particularly strong on the shares in companies which are in financial difficulty. Negative trends in shaping relative force of share prices after the name change in the company may be treated as reaffirming a general investment principle recommending 'sale of facts'. A planned change, which before the event had brought a positive effect did really take place. A lack of new factors or immediate effects of the change in the company's name results in a relative price fall to the benchmark. An unfavorable trend discourages investors from investing which is reflected in lower interest in shares and lower trade volume. Here again, experience and observations of the market suggests that for the most part these effects will influence significantly companies with a weak financial situation.

5. Conclusions

The analyses indicate that there are positive abnormal returns on shares before the change of the company's name and that there are clearly negative ones after such an operation in the long term. The results are clear and unambiguous enough to help investors take proper investment decisions. For researchers they may give the rationale to get more interested in the problem of changes in the names of listed companies because they require confirmation and verification in further studies.

The results of the analyses and conclusions correspond with the observations carried out on the market in the UK (Andrikopoulos et al., 2007), where the researchers found negative trends after changing the names of companies in long term, independently of the financial results achieved by the companies. However, they are contradictory to the results of British research, which showed a positive impact of operations on the stock liquidity (Green & Jame, 2012). It is difficult to relate the results obtained to the analyses carried out in short periods, especially when researches took into consideration not the date of the change, but the date of publishing the information on the planned change.

The conclusions from the findings of the pilot research need to be confirmed and verified in further studies on the problem of changes in the names of listed companies. Any prospective studies should be extended and related to the motives determining the process of renaming undertaken by companies, and as possibly their financial results and market capitalization at the time of the change. The disaggregation of cases arising from the change in the company's scope of business, mergers and acquisitions, typical marketing activities as well as its financial standing is likely to discover clear differences in shaping abnormal rates of return. To carry out a more complex analysis, it is essential for such research to be conducted with more advanced research methods (e.g., CAAR, abnormal returns on the basis of one-factor CAPM model) and more advanced statistical tools. The disaggregation of cases and the use of more advanced research tools will eliminate the limitations of the methodology, which was applied. Those are to be used by the author in his next publications.

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