The Name Game: How Corporate Name Changes Affect Stock Price

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Much has appeared in the media about name changes in the past year because companies — indeed, some very large, well-known companies — are changing their names more than ever. Yet, despite all the attention focused on this trendy subject, little has been done (particularly in the academic community) to study the effects of this expensive and time-consuming process. The few academic studies that have been done suggest that name changes are associated with small positive effects on the company’s stock price around the time of the name change announcement. These studies suffer, however, from small data bases and a lack of control for events concurrent with the name change that can confound measurement of the name change’s effect.

We undertook a study of the effect corporate name changes have on stock prices for Anspach Grossman Portugal Inc. (AGP), a corporate identity firm located in New York. Because of the large data set provided by AGP — a complete listing of all corporations that had changed names since 1960 — we felt that we could provide results supplementing those of earlier studies. This article explains in detail the conceptual framework we used to conduct the study, our methodology, and the results of our analysis.
I. Conceptual Framework

We identified two mechanisms by which a name change could affect the price of common stock. One of these acts directly through the investment community; the other works through the company’s business customers:

A firm changes its name (or proposes such a change)

Mechanism 1
The investment community hears about the change
The investment community judges the implications of name change
Stock price is either affected positively, negatively, or not at all

Mechanism 2
Customers hear about the change
Through their actions, customers can affect earnings per share

Although the second mechanism clearly is important, we realized that it would be virtually impossible to analyze except on a case-by-case basis, because the mechanism would operate over an extended period of time. Its effect would be diffuse and, therefore, difficult to measure.

The first mechanism, however, would be expected to operate around the actual time of the name change. In our analysis, the “investment community” includes stock specialists, other insiders, and the general investing public. Our sense was that the specialists and insiders could affect the stock price before an announcement and the general public would exert its influence afterwards. In fact, investors will anticipate how customer reactions will affect earnings and stock price in the future and, therefore, they will impound those expectations into present stock prices. Our reliance on this weak form of market efficiency underlies our considering only Mechanism 1.

In devising a conceptual framework for the study, we also needed to make decisions about whether to analyze only those companies that had “pure” name changes (i.e., no other events, like dividend announcements, happening at the same time), or to look at those with concurrent events.

We encountered difficulties in both cases. Those companies with pure name changes would be very limited in number and thus might not produce statistically significant results. On the other hand, companies

II. Methodology

Event studies
Event studies are the major way in which financial economists examine the effect on security prices of firm-specific events and test the informational efficiency of securities markets. This methodology arose right after the initial development of the theoretical models for determining asset prices (e.g., the capital asset pricing model [CAPM], which is a framework for analyzing the relationship between risk and rates of return).

A list of the published papers using event-study methodology would be extremely long. It has certainly passed the test of general academic acceptance. Furthermore, there is a well-developed theoretical justification for event-study methodology.

The basic idea underlying the methodology is that in the absence of any unanticipated firm-specific information, a firm’s stock will yield a return just high enough to compensate investors for holding that stock. This “normal” or “expected” return is predicted by the CAPM and reflects what the market as a whole earns with an adjustment for the firm’s risk. A stock will yield a return different from the expected return only to the extent that unanticipated firm-specific information has appeared during the period.

Announcements or releases of such information are referred to as “events.” Events involving bad information will cause a stock’s actual return to be less than expected, and the reverse is true for events of good information.

If we then define the “excess” or “abnormal” return to be the actual return less the expected return, we can classify events as containing good or bad information according to whether we observe positive or negative excess returns, respectively.

The last step is to calculate excess returns. A simple and reliable technique is to subtract the market’s return (overall average for all stocks listed on the NYSE) from a stock’s actual return. Intuitively, we are “adjusting for the effect of the market as a whole” and are left with only firm-specific excess returns, all of which must be due to unanticipated informational events.
<table>
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<th>Type of Name Change</th>
<th>Before</th>
<th>After</th>
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| 1. Removal of a limiting descriptor (95 companies) | Hershey Chocolate Corporation  
Sun Oil Company  
St. Regis Paper Company | Hershey Foods Corporation  
Sun Company, Inc.  
St. Regis Corporation |
| 2. Newly created or selected name (71 companies) | Swift & Co.  
First National City Corp.  
American Metal Climax Inc. | Esmark, Inc.  
Citicorp  
Amex Inc. |
| 3. Adoption of initials (41 companies) | Union Twist Drill Company  
Radio Corporation of America  
Shoe Corporation of America | UTD Corporation  
RCA Corporation  
SCOA Industries, Inc. |
| 4. Simple truncation (eliminating the non-essential) (31 companies) | Ashland Oil & Refining Co.  
Harris-Intertype Corporation  
Foremost-McKesson, Inc. | Ashland Oil, Inc.  
Harris Corporation  
McKesson Corporation |
| 5. Addition of merger partner, acquirer, or acquisition’s name (22 companies) | Phibro Corporation  
Knight Newspapers Inc.  
Amerace Corporation | Phibro-Salomon Inc.  
Knight-Ridder Newspapers Inc.  
Amerace Esna Corporation |
| 6. Adoption of an acronym (of the previous name) (14 companies) | National Biscuit Company  
Continental Oil Company  
Pepsi-Cola Company | Nabisco, Inc.  
Conoco, Inc.  
PepsiCo, Inc. |
| 7. “Verbal escalation” (use of presumably more impressive words) (12 companies) | Genstar Limited  
Dun & Bradstreet | Genstar Corporation  
Dun & Bradstreet Companies Inc. |
| 8. Change to a descriptive name, or addition to an existing description (12 companies) | SuCrest Corporation  
Purolator, Inc.  
National Aviation Corporation | Ingredient Technology Corp.  
Purolator Courier Corp.  
National Aviation & Technology Corp. |
| 9. Adoption of a brand name as the corporate name (12 companies) | Consolidated Foods Corporation  
Charter New York Corporation  
California Packing Corp. | Sara Lee Corporation  
Irving Bank Corporation  
Del Monte Corporation |
| 10. Adoption of a personal name (11 companies) | A-T-O Inc.  
Associated Spring Corp.  
Saturn Industries, Inc. | Figgie International Inc.  
Barnes Group Inc.  
Tyler Corporation |
| 11. Change of description (10 companies) | Interlake Iron Corporation  
Mission Equities Corporation  
Wallace Business Forms, Inc. | Interlake Steel Corporation  
Mission Insurance Group, Inc.  
Wallace Computer Services, Inc. |
| 12. Replacement of initials (8 companies) | VWR United Corporation  
SOS Consolidated Inc.  
ELT, Inc. | Univar Corporation  
Core Industries Inc.  
Dutch Boy, Inc. |
| 13. Adoption of an acquirer’s or an acquisition’s name (7 companies) | Lum’s Inc.  
Leasco Corporation  
Gulf Oil Corporation | Caesars World, Inc.  
Reliance Group, Inc.  
Chevron U.S.A., Inc. |
| 14. Legal status change or similar technicality (5 companies) | M.D.C. Corporation  
LITCO Corporation  
Bates Manufacturing Co. | M.D.C. Holdings Inc.  
LITCO Bancorporation  
BAV Liquidating Corp. |
| 15. Reversal of an earlier name change (4 companies) | U.S. Plywood-Champion Papers Inc.  
Acme Markets, Inc.  
Amerace Esna Corporation | Champion International Corp.  
American Stores Company  
Amerace Corporation |
Thus, in the case of our study, we would look for abnormal returns associated with the event, name change. The difficulty with this study in relation to other event studies is twofold. First, event studies usually do not take into account concurrent events because they deal with "cleaner," more discrete information, such as dividend announcements, which have an obvious economic impact. Second, most event studies also deal with events for which information cannot leak out (such as earnings information), and which occur on a specific day. Despite these problems, this study fits very obviously into the realm of other event studies.

Selection of day zero
As mentioned earlier, one of the biggest problems we had with this study was determining what day would serve as "day zero," or the day on which information about the name change became public. AGP provided us with an initial listing by effective dates. So many other legal and communication-oriented events have occurred by this time that we decided not to use effective dates. (For example, Consolidated Foods Corporation's change to Sara Lee Corporation became effective on the New York Stock Exchange on April 2, 1985, yet The Wall Street Journal had already announced news of the change on February 1, 1985.) Furthermore, investors' reactions to the name change are what cause stock prices to change, and investors will react as soon as information on the name change comes out. By the time the change becomes effective, all reactions may have ended.

We also thought about using surveys to find out when mailings went out to shareholders for approval or to solicit dates of press releases. Given the large sample (714 companies initially), however, and the constraints, we determined that this was infeasible.

Therefore, we chose The Wall Street Journal (WSJ) announcement dates as those easiest for us to find and closest to the actual event. We also decided to look at sixty days on either side of this day zero as a way to capture and isolate the actual day on which information became public.

Our conclusion is that information about name change does not become public on one particular day (as with dividend announcements), but over a period of time. Conversations with market specialists backed up this assertion. Thus, at the very least, stockholders and insiders (like specialists) might find out about a name change at different times from the general investing public.

Coding of concurrent events
Through the WSJ Index, we were able to find not only information about initial public announcements, but references to other events that occurred on the same day (concurrent events). Thus, for each company, we looked first in the Index, then followed up by looking for the specific articles mentioned to find concurrent events. Using some judgment, we grouped all concurrent events into classes so that we could statistically control for the effect of the concurrent events.

Final selection of sample
Although we began with 714 companies, only 448 had an announcement in the WSJ Index, which narrowed our focus substantially. In addition, we had to cut out companies for which we could not find information both sixty days before and after day zero. We were limited in this regard by what was available on our data base — the 1985 CRSP (Center for Research on Security Prices, a research group based in Chicago that provides daily returns and volume for NYSE stocks) tape. This data base began in 1962, which eliminated more companies, and ended in 1985, which further cut the sample.

We also cut several companies that merged into, or were acquired by, other companies and dramatically altered the nature of the original company. Thus, our final sample included 355 companies, 60 of which had no concurrent events besides name change.

Statistical analysis
The statistical analysis for this study was designed to achieve two objectives: first, to estimate the potentially different effects of the various types of name changes, and second, to control for the effects of events occurring the same day as the name change announcement. A regression model was formulated and estimated to achieve these goals.

The model was made feasible by the character of the data available. Most name changes occurred simultaneously with at least one concurrent event, although there were some "clean" name changes. Among the name changes occurring jointly with other events, the particular events or combination of events varied for a given type of name change. For example, acronym name changes did not always take place concurrently with earnings reports. Sometimes there were concurrent earnings reports, but other times there were investment announcements, financing news, etc.

This lack of perfect correlation between particular name changes and particular events allowed us to disentangle the effects of the name changes from the effects of concurrent events. If the data had been such that, say, acronym name changes had always been implemented simultaneously with an earnings report, we never would have been able to disentangle the name change for the earnings effect.

III. Results

The most important finding in our study is that we are now convinced that name change does have an effect on stock price. We also believe, however, that the type of name change is important, rather than just name change in general. (See Tables 1 and 2.)

For the entire sample of 355 companies, we found significant positive effects beginning three days before the WSJ announcements (day zero). The effect is about 1%, which is significant at the 5% level. The effect continues to accumulate, reading 2.3%, 33 days before the WSJ announcement. There was some indication of a positive effect occurring after the WSJ announcement, but the result was not significant at the 10% level.

The above result is very important. It says that, across all 355 companies, after controlling as best we could for concurrent events, a corporate name change has a positive
association with stock price. (Incidentally, this is the same finding being reported by other researchers.) We also found, however, that the type of name change is more important than name change in general. To summarize what we found about different types of name change:

1. We discovered effects both before and after WSJ announcements.

2. Effects tend to show up within two weeks of the announcements.

3. *Positive effects* are much more likely for the following types of name change:
   - Adoption of an acronym
   - Adoption of initials
   - Adoption of a personal name
   - Adding a name of merger partner/acquisition
   - Removal of a limiting descriptor
   - Replacement of initials
   - Simple truncation
   - Verbal escalation

4. Negative effects are rare but were found for:
   - Adoption of a brand name
   - Adoption of the acquiree’s/acquirer’s name
   - Change to description

5. We found no effect for:
   - Change of description
   - Legal status change
   - Newly devised name
   - Rollback of earlier name change

### Table 2. Highlights of the Study

The most important finding of this study is that the researchers are convinced that name change has an effect on stock price, and that positive effects are more common than negative effects. The following graphs illustrate those effects for the periods before and after initial *Wall Street Journal* announcements:

#### Statistically Significant Positive Effects (Period Before WSJ Announcements)

- All firms (3 days before*): \(+ .9\%\)
- Acronyms (6 days before): \(+ 3.0\%\)
- Add name of merger partner (1 day before): \(+ 3.0\%\)
- Initials (8 days before): \(+ 2.5\%\)
- Remove limiting descriptor (8 days before): \(+ 1.9\%\)
- Simple truncation (1 day before): \(+ 1.8\%\)

#### Significant Positive Effects (Period After WSJ Announcement)

- Personal (9 days after): \(+ 4.2\%\)
- Verbal Escalation (3 days after): \(+ 2.8\%\)
- Initials (7 days after): \(+ 2.6\%\)

*Denotes day relative to WSJ announcement that the effect first becomes statistically significant. For example, the average firm’s stock price increased .9% cumulatively between the date of the WSJ announcement and 3 days prior. For firms using acronyms, the average cumulative effect is 3.0% at 6 days prior to the announcement.

Three important cautions, however, preclude companies from randomly changing their names. First, our statistical analysis detected an association between name change and stock prices, but association does not guarantee causality. There is always the possibility that, despite our attempts to control for concurrent events, some third event, correlated with the name change, actually caused the price to change. Second, our regression results represent average effects. For example, not every single acronym name change resulted in a stock price increase: only the average stock change was positive. Third, we can’t project the results of this study beyond the time frame 1962-85. What generally occurred during this period may not hold up in the late 1980s.

Despite these caveats, our conclusion is that, after a careful and thorough analysis of 355 name changes, it appears that such name changes affect stock prices. The “name game” is therefore more than a fact: it is associated with the actual financial worth of the corporation.
Business Schools Enhance Identity with Logos

Although one could hardly expect Tuck's stock price to rise in response to a new logo, the search for a School "graphic identifier" that could unify a decades-old proliferation of Tuck symbols was approached with the same studied caution that attends the renaming of a billion-dollar corporation. "We wanted to present a single targeted and coherent picture to the world," says Dean Colin Blaydon.

The wider context of the decision was the increasing awareness of graphic image on the part of top-ranking schools, more and more of which (most recently Wharton and Carnegie-Mellon) have been following in business' footsteps with the adoption of new logos.

The logical place to start was at the top—with the communications and design consultants Anspach Grossman Portugal, who had been responsible for International Harvester's recent rebirth as Navistar, Libby-Owens-Ford's transformation into Trinova, and Consolidated Foods' adoption of the name of one of its tastier products—Sara Lee. Principal Joel Portugal is also a 1958 Dartmouth graduate, and thus familiar with the setting and the tradition.

Under the direction of Blaydon and Tuck Director of Communications Paul Argenti, the company carefully outlined a proposal that would define the kind of identifier to be sought: one that would be a shorthand means of communicating Tuck's image; that would use the name as a core ingredient; that would adapt itself to uses relating it to Dartmouth College; and that would convey a "strong sense of tradition"—specifically by a seal, if possible.

An extensive review of existing current and historical media, both at Tuck and other competing business schools, interviews with the School decision makers, and a careful analysis of the possible usages followed. "We wanted to create something that was compatible with Tuck's tradition, history, and closeness to Dartmouth," relates Blaydon, "but would also capture the modern corporate spirit."

The result combines elements of Tuck's main building facade (resonant with the Georgian and Greek Revival architectural images that abound on campus), its proximity to the Connecticut River (borrowed from the Dartmouth seal), its venerability (the 1900 founding year), and the traditional shield shape. Still, it projects a contemporary feel due to the strength of the lines and the succinctness of its wording: TUCK At Dartmouth. Agrees the Dean, "We're extremely pleased with what they came up with."