

# THE EFFECT OF NAME CHANGES ON THE EARNINGS MANAGEMENT IN KOREA

Soon Suk Yoon, Western Illinois University  
Min Kyong Park, Chonnam National University

## ABSTRACT

*Recently, corporate name changes by loss-reporting firms are increasing among the KOSDAQ market. From a sample of 544 name change firms over the period of 2004 to 2011, there are firms change their names following major structural changes like industry change, CEO change or largest stockholder change. And corporate name changes are followed by bad operating performance. Many of the firms changing their names are plagued by embezzlements or financial fraud by management.*

*We examine empirically whether name change firms are associated with particular patterns of discretionary accruals. And we divide the reasons for corporate name changes into cosmetic change, industry change, and largest stockholder change to examine whether there are differences in earnings management practices. We find that name changes are negatively related with discretionary accruals, particularly when they change names due to accumulated losses.*

*Our study adds to the literature in the sense that it is the first attempt to examine the purpose of firms changing their names and to investigate the impact of corporate name changes on discretionary accruals. We expect that our empirical results can play a role for the investors to let them exercise caution to invest firms changing their names frequently who could change names to disguise bad performance or negative image.*

## INTRODUCTION

Recently, the financial press reports the trend that increasing number of firms change their names. Twenty four KOSDAQ firms have changed their names twice in a year and six firms have changed their names up to five times over the period of 2004 to 2011. Corporate name is supposed to serve as a signal to convey information about a firm's major business or product lines. Investors will be better served as long as corporate names can be associated with major businesses or product lines. A name change may well cause intangible assets such as trade mark or goodwill to disappear. Firms have accumulated some goodwill in the form of name recognition and company image. Also there are direct costs involved in changing names like legal fees and printings of new packaging and advertising outlays why do they change their names despite non-trivial cost associated with name changes? The value of a firm would be increased if corporate name change positively conveys the plan of real changes in the firm's business activities, restructuring or reorganization. Otherwise, investors would disorient by the new names.

Facing the rapid increase in corporate name changes, investors are advised to exercise caution when they make investment decisions in the firms which change their names, particularly when they purchase the securities of name change firms to disguise accumulated losses. According to our investigation, there is a big increase in corporate name changes by loss-reporting firms even though it is accompanied by non-trivial costs such as consulting fees and corporate identity

costs. Some of firms changing their names are involved in litigations such as fraud or embezzlement. Some of them are administrative issues in the KOSDAQ market.

The KOSDAQ market has some features that can be distinguished from the KSE market. KOSDAQ firms are smaller and younger than KSE firms and the disclosure environment of the KOSDAQ market is inferior to the KSE. As a result, we believe the information asymmetry in the KOSDAQ would be worse than the KSE. Yoon (2005) finds that KOSDAQ firms tend to manage earnings more aggressively than KSE firms. So there is an increasing concern on the reliability and transparency of the financial statements of KOSDAQ firms.

We find that corporate name changes in the KOSDAQ market are more frequent than in the KSE market, particularly there is a big increase in KOSDAQ market. KOSDAQ firms are smaller and younger than KSE firms and they have lower intangible value associated with company names comparing to KSE firms so it would be easier to change their names.

And the announcements of corporate name changes in KOSDAQ have started since 2000 and they have announced reasons of changing definitely since 2007. The KOSDAQ market have enforced that firms changing name frequently should announce the details to prevent investors' confusion whether they had changed corporate name within 2 years since 2007 and it's one part of announcements management consolidation.

The prior literature of corporate name changes is almost about the relationship between corporate name change and stock price but they are scarce and the results in Korea are inconclusive. In this paper, we examine the purpose of the managements who change corporate name, different from the prior study.

This study was motivated by the suspicion that firms who change their names in KOSDAQ market would have intent to use name changing strategically for the change of corporate bad image. We suggest that corporate name change engage in earnings management to upward earnings around the time of their change.

We first examine empirically whether corporate name change firms are associated with discretionary accruals. We further divide the reasons of corporate name change into cosmetic change to hide negative earning, industry change or consolidation and change of the largest stockholders and examine whether there are differences among the corporate name change reasons.

We find that name change firms have negative discretionary accrual and especially name change firms with loss-reporting are significantly negatively associated with discretionary accruals. The results provide evidence that firms changing their names due to accumulated losses are expected to manage earnings downward to improve performance in the following periods. Firms under serious financial distress may have incentives to change their corporate names as well as to manage earnings as a means to intentionally mislead investors.

Our study adds to the literature in the sense that it is the first attempt to examine the characteristics of firms changing their names and to investigate the impact of corporate name changes on discretionary accruals. We expect that our empirical results can play a role for the investors to let them know about corporate name changes by loss-reporting firms.

## **BACKGROUND AND HYPOTHESIS DEVELOPMENT**

### **Prior Studies**

Most of the prior study about corporate name changes is about the relationship between corporate name change and stock price. Previous studies have shown mixed results about corporate

name changes and valuations.

Song (1991) studied the stock price reactions to corporate name change announcements of 74 announcements for the period from 1980 to 1990. He found that weak positive stock price reaction to the announcement and he also suggests that findings are sensitive to sample selection.

Some suggests that the valuation effects of name changes are only modest and transitory. Horsky and Swyngedouw(1987) studied the effect of corporate name change on profit performance of firms and the type of firms that have a positive effect. They rightly conclude that the act of name change per se do not enhance the demand for firms' products.

Howe(1982) found that there is no significant share-price reaction was associated with corporate name changes. Also Karpoff and Rankined(1994) find little evidence that corporate name changes corresponded to changes in a firm's stock return covariability with its industry index or with changes in the firm's earnings growth rate.

On the subject of fashions in naming, Cooper, Gulen and Rau(2005) examine whether or not mutual funds change their names to take advantage of currently popular investment styles, and what effects such name changes have on inflows to the funds and on the funds subsequent returns. They report that funds adopting fashionable names experience an average cumulative abnormal inflow of 28%, with no improvement in performance, the year after such a change.

Oh (2004) analyzed the information contents of corporate name changes and to determine the factors that explain. He found that several factors of name changes don't have any association with firms' abnormal stock returns.

Overall, prior studies suggest that corporate name change affects stock prices in short-term, but it has no effects on firms' performance. However, there is little evidence on corporate name changes affect discretionary accruals. We focus on earnings management of discretional accruals of name change firms.

## Hypothesis Development

The disclosure environment of the KOSDAQ market is inferior comparing the KSE. So there is an increasing concern on the reliability and transparency of the financial statements of KOSDAQ(Yoon, 2005). According to our research, 65% of corporate name change firms say that the reason for the change is the improvement of corporate image. We find that most of KOSDAQ firms changing their names recently report current loss and highly leveraged. They report bad performance and are involved in litigations such as fraud or embezzlement of managers. Some of them are watch-list companies by the stock market.

Na (1996) finds that loss-reporting firms have incentive to lower accrual, that is big bath. Because most of them are watch-list companies by the stock market or they are highly leveraged so they can't manage earnings upward. Yang et al.(2009) report that managers of loss-reporting firms may take actions to accelerate the collection of receivables, and delay the purchases of inventory and payment of payables so those actions will result in the decrease of accruals.

We hypothesize that corporate name change firms will have incentives to manage earnings to disguise accumulated losses or for the next period' performance after getting new name. Based on the previous study and our investigation, we set our first hypothesis as follow:

*H1 There is a relationship between the corporate name change and earnings management.*

Second, we examine the reasons for corporate name changes. According to the previous

study, the reasons for corporate name changes could be due to show expanded product offerings and strategic direction, to reflect company diversification and expansion, to provide a more universally representative name, and to reflect new identity following a change in ownership. We partition the reasons for corporate name changes into the cosmetic name change of loss reporting firms, industry change due to firms' merger and acquisition and largest stockholders change.

We hypothesize there will be different the patterns of earning managements among the reasons of change. Intuitively the natural change following the largest stockholders or organization change will be different with the strategic change for hiding the accumulated loss.

Nah and Choi (2000) finds that discretionary accruals of financial distress firms are negative. They suggest that financial distress firms manage earnings downward to give a definite cash or renegotiate debt contract. Or strict monitoring of regulatory authorities about earnings management could be the reason.

Regarding our investigation, in 260 KOSDAQ firms changing largest stockholders, the executives of 52 percentages of largest stockholders change firms are largest stockholders. It means that when largest stockholders change, the executives change at the same time. That is, most of KOSDAQ firms are management control. DeAngelo (1988) find that the executives change firms intend to manage earnings lower to maximize next earnings when they change executives. Kwak and Choi (2011) find that executives engage in earnings management to bolster self-interests around the time of their change. Lee (2007) finds that there is significant negative relationship between CEO turnover and discretionary accruals

Jeong and Bae (2006) find the acquiring firm manage earnings downward whereas the target firm manage earnings upward. Usually the target firms change their name after mergers and acquisition. According to previous research, we expect corporate name change of largest stockholders change firms and cosmetic change firms would have negative discretionary accruals. On the other hand, name change firms due to organization change may have positive discretionary accruals.

Therefore we set our second hypothesis to investigate the difference among the reasons for corporate name changes.

*H2 There are differences of discretionary accruals among the reasons for corporate name changes.*

## **SAMPLE SELECTION AND RESEARCH METHODS**

### **Sample**

We select our sample firms listed on Korean Securities Dealers Automated Quotations(KOSDAQ) and who change the corporate name from 2004 to 2011. We focus on name change for the KOSDAQ firms because it is more frequent compare to the KSE firms and there are questions about reliability and transparency about financial reporting in the KOSDAQ market. We present the frequency of corporate name change in Korea from 2004 to 2011 in Figure 1.

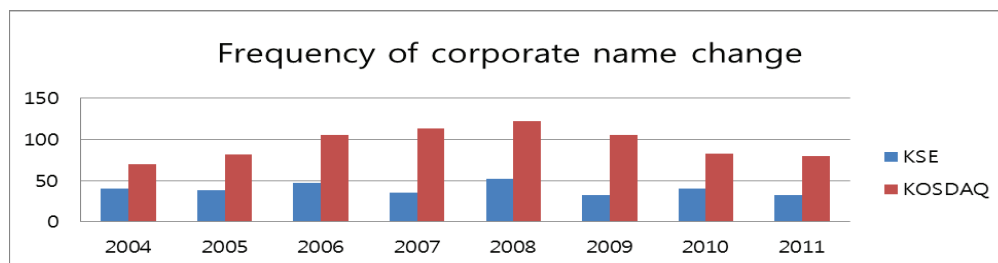
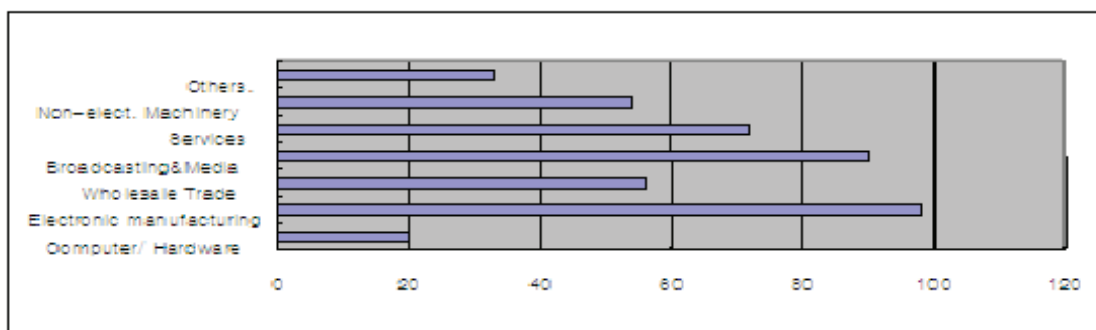


Figure 1

The financial data were retrieved electronically from KIS-VALUE database. The data of corporate name change was on on-hand processing from KIND database in Korea Exchange. The largest stockholders change was retrieved electronically from KIS-VAUE database and the data about consolidation and diversification during the study period was manually collected from KIND. We came up with a final sample of firm-year observations and we selected 544 firm-year observations for the corporate name change firms from 760 firm-year observations who had announced the name change.

Figure 2 reports industry dispersion of corporate name change firms from 2004 to 2011. 122 Electronic-computer Manufacturing companies changed their names and 115 Broadcast and media companies and 81 service companies changed their names. It means name changes happen in those industries especially are susceptible to changes in trend.



## Research Methods

### Estimation of Discretionary Accruals

Estimating discretionary accruals affects the success of earnings management tests. Therefore, the development of a well-fitting model is very important for this part of research. In this research we use discretionary accruals as the proxy of earning management and we use 3 models to minimize errors from the model setting.

First we use the modified Jones model (Dechow et al. 1995). Prior research documents that the modified Jones model is generally effective. Our first model is described as follows:

$$\frac{TA}{BTA} = b_0 + b_1 \frac{(\Delta REV_i - \Delta REC_i)}{BTA} + b_2 \frac{PPE}{BTA} + e_i \quad (1-1)$$

Here, TA (total accruals) = NI (net income) – CFO (cash from operations); REV = net sales revenue; REC = trade receivables; PPE = property, plant, and equipment; BTA = beginning total assets;  $\Delta$  = change operator

The discretionary accruals are obtained by subtracting fitted values of accruals that is, non-discretionary accruals, from the total accruals as follows:

$$DA = \frac{TA}{BTA} = (b_0 + b_1 \frac{(\Delta REV_i - \Delta REC_i)}{BTA} + b_2 \frac{PPE}{BTA}) + ei \quad (1-2)$$

Yoon and Miller (2002) document that the modified Jones model does not fit well, particularly for Korean firms. Kothari et al. (2005) suggest that it is better to give an additional independent variable to control firms' performance in the modified Jones model when estimating discretionary accruals. Yoon and Miller (2002) find that cash from operations is the major determinant of accruals. So we include cash from operations as an additional independent variable as a control variable of performance. Our second model is described as follows:

$$\frac{TA}{BTA} = b_0 + b_1 \frac{(\Delta REV_i - \Delta REC_i)}{BTA} + b_2 \frac{PPE}{BTA} + b_3 \frac{CFO}{BTA} + ei \quad (2)$$

The way to have the discretionary accruals and variables are same with model (1-2). Lastly Kothari et al. (2005) suggest that discretionary accrual models may be mis-specified when applied to firms with extreme past performance, proposing that a matching procedure based on performance (ROA) is more appropriate for these firms. Return on assets (ROA) is net income deflated by total assets. Consistent with Kothari et al. (2005), we implement the 'performance-matched' discretionary accrual model.

Our third model is described as follows:

$$\frac{TA}{BTA} = b_0 + b_1 \frac{(\Delta REV_i - \Delta REC_i)}{BTA} + b_2 \frac{PPE}{BTA} + b_3 \frac{ROA}{BTA} + ei \quad (3)$$

The way to have the discretionary accruals and variables are same with model (1-2).

### Regression Models

The purpose of this study is to examine empirically whether corporate name change associated with earnings management. First we examine the relationship between name change firms and discretionary accruals. And we divide the reasons for corporate name changes into cosmetic change, industry change and largest stockholders change to focus on the purpose of name change. We examine whether there are accrual differences among the reasons.

First we examine whether corporate name changes have an effect on earnings management. NC is the main variable in our model and we add control variables, we regress DA1 (2, 3) on NC and controlling for CFO, LEV, SIZE, GRW, ROA.

$$DA1(DA2, DA3)_{it} = b_0 + b_1 NC + b_2 CFO_{it} + b_3 LEV_{it} + b_4 SIZE_{it} + b_5 GRW_{it} + b_6 ROA_{it} + e_{it}$$

NC, the main variable is a dummy which has a value 1 when a firm change name. If NC has significant positive (negative) coefficient, it means that name change firms have incentive to manage earnings upward (downward).

The control variables include a set of variables that are likely to influence discretionary accruals. We include cash flow of operating (CFO), debt ratio (LEV), firm size (SIZE), firm's growth (GRW) and return on assets (ROA). Yoon (2005) suggests that CFO is a significant variable to affect accrual. But we exclude CFO (ROA) in model 2 (model 3) because we already controlled CFO (ROA) to measure DA2 (DA3). Yang et al. (2009) finds debt ratio related with discretionary accrual negatively because firms with high debt firms are subject to be under the regulatory authorities.

Second, we regress of DA 1(2, 3) on LC, IC, OC and controlling for CFO, LEV, SIZE, GRW and ROA to investigate whether there are differences among the reasons for name change firms. LC is a dummy variable which has a value 1 when a firm reports loss before the name change and IC is a dummy which has a value 1 when a firm changes organization from merger and acquisition. OC is a dummy which has a value 1 when largest stockholders are changed. We expect b1 and b2 and b3 have a different magnitude and direction when loss reporting firms have a strong incentive to manage earnings comparing to other firms. Other variables are same with upper model.

$$DA1(DA2,DA3)_{it} = b_0 + b_1LC + b_2IC + b_3OC + b_4CFO_{it} + b_5LEV_{it} + b_6SIZE_{it} + b_7GRW_{it} + b_8ROA_{it} + e_{it}$$

## EMPIRICAL RESULTS

### Descriptive Statistics and Variables Correlation

Table 1 presents the mean, lower quartile, median and upper quartile, standard deviation of dependent and independent variables used in the study. Among the KOSDAQ listed firms from 2004 to 2011, average 8 percent of KOSDAQ firms changed their name.

Table 1 DESCRIPTIVE STUDIES					
Panel 1 Treatment Sample (n = 544)					
	mean	min	median	max	sd
LC	0.65	0.00	1.00	1.00	0.47
IC	0.16	0.00	0.00	1.00	0.36
OC	0.45	0.00	1.00	1.00	0.50
DA1	-0.18	-3.13	-0.12	1.58	0.59
DA2	-0.20	-3.31	-0.16	1.53	0.59
DA3	-0.04	-3.14	0.00	1.92	0.53
LEV	0.48	0.00	0.45	1.91	0.30
CFO	-0.12	-2.16	-0.07	0.90	0.38
ROA	-0.37	-4.55	-0.18	0.36	0.79
SIZE	24.20	20.34	24.01	28.78	1.08
GRW	0.20	-0.99	0.06	4.69	0.89

Panel 2 Control Sample (n = 6819)					
	mean	min	medi	max	sd
DA1	-0.00	-3.85	-0.00	1.99	0.59
DA2	-0.00	-3.15	0.00	1.63	0.59
DA3	0.01	-3.01	0.01	1.64	0.53
LEV	0.40	0.00	0.39	3.55	0.25
CFO	0.04	-1.89	0.04	1.49	0.18
ROA	-0.03	-5.49	0.03	0.65	0.36
SIZE	24.6	20.25	24.4	28.8	0.87
GRW	0.13	-1.79	0.08	6.81	0.57

<definition of variables> NC= corporate name change firms; LC= loss-reporting firms in corporate name change; IC= industry change through consolidation or diversification in corporate name change; OC= the largest stockholders change in corporate name change; CFO= the ratio of cash from operations to the beginning total assets(BTA); LEV= the ration of debts to total assets; ROA= net income to total assets;; SIZE= natural log of the total assets at the end of the year; GRW= the growth of sales; DA1(2, 3)= discretionary accrual through model 1(2, 3).

Among the name change firms, 65 percent of name change firms report current losses. 45 percent and 16 percent of name change firms have changed the largest stockholders and organization respectively, we show that in Panel 1. Cash from operations (CFO), return in assets (ROA) of corporate name change firms is lower and highly leveraged than control firms (non-change firms), it means that firms who report bad performance tend to change their name. And the size of corporate name change firms is smaller than Panel 2, but the growth rate of name change firms are higher, it means that name change firms are smaller and younger than non-change firms so they have lower intangible value associated with company names.

Table 2 shows the correlation coefficients between the pairs of the variables of interest for the sample in Panel 1 (total firms) and Panel 2 (name change firms). The result of correlation analysis for Panel 1 indicates that corporate name change firm is significantly negatively correlated with discretionary accrual (DA1, DA2, DA3). It supports our first hypothesis. And corporate name change has significantly negative relationship with cash from operations (CFO) and return on asset (ROA) but, it shows positive relationship with leverage ratio (LEV). It indicates that firms tend to change names when firms are in financial distress. And name change shows negative relationship with firm size.

In Panel 2, it shows that name change by loss-reporting firms is significantly negatively correlated with all discretionary accruals (DA1, DA2, DA3). And name change by largest stockholders change (OC) is significantly negatively correlated with discretionary accruals in panel 2. On the other hand name change following organization change (IC) doesn't show any relationship with discretionary accruals. So, it supports our hypothesis 2 partially.



**Table 2**  
**CORRELATION COEFFICIENTS**

Panel 1. Total firms (n = 7,363)										
	DA1	DA2	DA3	NC	CFO	LEV	SIZE	GRW		
DA1	1	0.92**	0.85**	-0.13**	-0.19**	-0.13**	0.05**	0.09**		
DA2	0.94**	1	0.76**	-0.15**	-0.07**	-0.14**	0.08**	0.09**		
DA3	0.88**	0.80**	1	-0.04*	-0.42**	-0.02	-0.03	0.06**		
NC	-0.13**	-0.16**	-0.04*	1	-0.20**	0.07**	-0.17**	-0.02		
CFO	-0.25**	-0.08**	-0.40**	-0.20**	1	-0.23**	0.15**	0.20**		
LEV	-0.25**	-0.27**	-0.53*	0.10**	-0.15**	1	0.13**	0.01		
SIZE	0.09**	0.11**	0.10**	-0.19**	0.21**	0.04**	1	-0.00		
GRW	0.02	0.02	0.02	0.03*	0.02	0.00	-0.10**	1		
Panel 2. Sample firms (n= 544)										
	DA1	DA2	DA3	LC	IC	OC	CFO	LEV	SIZE	GRW
DA1	1	0.93**	0.80**	-0.46**	-0.00	-0.21**	0.04	-0.15**	0.05	0.07
DA2	0.	1	0.75**	-0.49**	-0.00	-0.26**	0.12*	-0.17**	0.11**	0.05
DA3	0.	0.85**	1	-0.24**	-0.00	-0.07	-	-0.08	-0.05	-0.00
LC	-	-0.29**	-0.16**	1	0.03	0.33**	-	0.10*	-	-
IC	-	0.01	-0.00	0.03	1	0.10*	0.00	0.07	0.02	0.07
OC	-	-0.14**	-0.03	0.33**	0.10*	1	-	0.03	-	-0.11*
CFO	-	-0.26**	-0.45**	-0.21**	0.00	-0.15**	1	-0.05	0.42**	0.22**
LEV	-	-0.15**	-0.01	0.14**	0.04	0.06	-0.08	1	0.09	0.05
SIZE	0.	0.05	-0.00	-0.12*	0.01	-0.31**	0.38**	0.02	1	-0.00
GRW	-	-0.01	-0.04	-0.16**	0.06	-0.03	0.05	-0.00	-	1

1) Pearson(Spearman) correlation coefficients are reported above(below) the diagonal. Statistical significance at 0.05 level(two-tailed).

2) Definition of variables; NC= corporate name change firms; LC= loss-reporting firms in corporate name change; IC=organization change through consolidation or diversification; OC= the largest stockholders change; CFO= the ratio of cash from operations to the beginning total assets(BTA); LEV= the ration of debts to total assets; ROA=return on asset; SIZE= natural log of the total assets at the end of the year; GRW= the growth of sales ; DA1(2, 3)= discretional accrual through model 1(2, 3).

We find that name change by loss-reporting (LC) is positively correlated with largest stockholders change, it indicates that firms who have a financial trouble tend to be changed largest stockholders. And name change by loss-reporting (LC) shows a significant positive relationship with leverage ratios. However, name change following organization change (IC) and name change by largest stockholders change(OC) do not show any relationship with leverage ratios. It supports our idea that firms who change their names despite they report loss have a high debt- ratios so it is not easier to manage earnings upward.

## Regression Analysis

The regression results for hypothesis 1 are reported in table 3. The results are reported for regression DA1 (2, 3) on NC and controlling for CFO, LEV, SIZE, GRW and ROA. We do not control CFO (ROA) in model 2(model 3) because we already control it during drawing model 2 (model 3).

For all model, the coefficients on NC are negative and significant at the .01 level. We expect that corporate name change firms will affect their earnings management. We find that corporate name change firms have negative discretionary accrual and the result is consistent with

our expectation. Firms changing their names are expected to manage earnings downward to improve performance in the following periods. They may set a low criterion which future performance is judged by having new names. All of the control variables for the discretionary accruals exhibit coefficients consistent with the previous study and all variables are significant except growth rate.

$DA1(DA2, DA3) = b_0 + b_1NC + b_2CFO_{it} + b_3LEV_{it} + b_4SIZE_{it} + b_5GRW_{it} + b_6ROA_{it} + e_{it}$			
	DA1	DA2	DA3
Intercept	-1.96 (-10.15)	-1.15 (-6.23)	-1.17 (-6.82)
<b>NC</b>	<b>-0.25 (-10.49)</b>	<b>-0.18 (-8.07)</b>	<b>-0.15 (-7.15)</b>
CFO	-0.55 (-25.50)		-0.64 (-33.36)
LEV	-0.46 (-21.70)	-0.38 (-18.53)	-0.17 (-8.73)
SIZE	0.06 (5.60)	0.05 (7.02)	0.05 (7.38)
GRW	0.00 (1.43)	0.02 (2.51)	0.03 (3.10)
ROA	0.49 (22.43)	0.08 (10.12)	
Adj.	0.24	0.13	0.13
N= 7363			

<Definition of variables> NC= a value 1 when a firm change corporate name; CFO= the ratio of cash from operations to the beginning total assets(BTA); LEV= the ration of debts to total assets; SIZE= natural log of the total assets at the end of the year; GRW= the growth of sales; ROA= return on asset; DA1(2, 3)= discretionary accrual through model 1(2, 3).

Next we investigate whether there are differences of discretionary accruals depending on the reason of name change for the name change firms. Table 4 shows the result of regression of DA 1(2, 3) on LC, IC, OC and controlling for CFO, LEV, SIZE, GRW, ROA. LC is a dummy variable which has a value 1 when a firm reported loss income and IC is a dummy which has a value 1 when a firm has changed organization through merger and acquisition. OC is a dummy which has a value 1 when the largest stockholders are changed among the name change firms.

We expect there is difference of accruals among the name changes reasons. Corporate name change by loss-reporting firms(LC) have significantly negative discretionary accruals in all models, on the contrary the name change of industry change firms(IC) and largest stockholders change firms(OC) have no significant relationship with discretionary accruals. Therefore, the result supports hypothesis 2 that there are statistically significant differences among the reasons for corporate name changes. We find that loss-reporting firms have a high incentive to manage earnings to disguise bad performance or negative image for future year. Other control variables for the discretionary accruals except LEV in model 3 show consistent result with table 3.

$DA1(DA2, DA3)_{it} = b_0 + b_1LC + b_2IC + b_3OC + b_4CFO_{it} + b_5LEV_{it} + b_6SIZE_{it} + b_7GRW_{it} + b_8ROA_{it} + e_{it}$			
	DA1	DA2	DA3
Intercept	-4.91 (-3.93)	-0.01 (-0.01)	-4.40 (-3.51)
<b>LC</b>	<b>-0.81 (-7.27)</b>	<b>-0.60 (-5.24)</b>	<b>-0.63 (-5.75)</b>
IC	-0.03 (-0.26)	-0.09 (-0.86)	0.06 (0.58)

OC	0.06 (0.47)	0.10 (0.75)	0.02 (0.12)
CFO	-0.90 (-11.57)		-0.94 (-12.19)
LEV	-0.45 (-3.67)	-0.41 (-4.32)	-0.09 (-0.90)
SIZE	0.22 (4.36)	0.12 (3.38)	0.19 (3.78)
GRW	-0.02 (-0.41)	-0.05 (-1.12)	-0.03 (-0.78)
ROA	0.08 (11.21)	0.06 (3.18)	
Adj. R <sup>2</sup>	0.29	0.10	0.26
N= 544			

<Definition of variables> LC=a value 1 when a firm report current loss; IC=a value 1 when a firm change industry; OC=a value 1 when a firm change largest stockholders; CFO= the ratio of cash from operations to the beginning total assets(BTA); LEV= the ration of debts to total assets; SIZE= natural log of the total assets at the end of the year; GRW= the growth of sales; ROA= return on assets; DA1(2, 3)= discretionary accrual through model 1(2, 3).

### Robust Check

Corporate name would have changed by the interaction of multiple factors, by not just one factor. For example, corporate name change could be happened that the largest stockholders have changed by disposition of shares or the management right abundantly due to current bad performance. Largest stockholders could be changed following the industry consolidation or continued corporate restructuring. So we investigate the effect the interaction of multiple factors on discretionary accruals when corporate name change reasons are interplayed and table 5 reports that the regression result.

**Table 5**  
**REGRESSION OF DISCRETIONARY ACCRUALS ON THE REASONS FOR**  
**NAME CHANGES WITH INTERACTION TERMS**

$$A1(DA2, DA3)_{it} = b_0 + b_1LC + b_2IC + b_3OC + b_4LCIC + b_5LCOC + b_6ICOC + b_7LCICOC + b_8CFO_{it} + b_9LEV_{it} + b_{10}SIZE_{it} + b_{11}GRW_{it} + b_{12}ROA_{it}$$

	DA1	DA2	DA3
Intercept	-5.32 (-4.29)	-0.29 (-0.24)	-4.66 (-3.77)
<b>LC</b>	<b>-0.50 (-3.33)</b>	<b>-0.38 (-2.38)</b>	<b>-0.40 (-2.63)</b>
OC	<b>0.60 (2.90)</b>	0.38 (1.78)	<b>0.56 (2.70)</b>
IC	-0.11 (-0.20)	-0.08 (-0.16)	-0.17 (-0.32)
<b>LCOC</b>	<b>-0.83 (-3.50)</b>	<b>-0.64 (-2.60)</b>	<b>-0.66 (-2.77)</b>
LCIC	0.13 (0.21)	0.12 (0.20)	0.18 (0.30)
ICOC	-0.34 (-0.54)	-0.28 (-0.44)	-0.22 (-0.36)
LCICOC	0.46 (0.66)	0.46 (0.63)	0.28 (0.40)
CFO	-0.91 (-11.80)		-0.95 (-12.33)
LEV	-0.47 (-3.91)	-0.37 (-2.95)	-0.10 (-0.81)
SIZE	0.23 (4.61)	0.02 (0.51)	0.20 (3.96)
GRW	-0.02 (-0.46)	-0.05 (-1.16)	-0.03 (-0.82)
ROA	0.05 (3.14)	0.03 (2.19)	
Adj. R <sup>2</sup>	0.32	0.11	0.29

<Definition of variables> LC=a value 1 when a firm report current loss; IC=a value 1 when a firm change industry; OC=a value 1 when a firm change largest stockholders; LCIC= a value 1 when a loss-reporting firm change industry; LCOC= a value 1 when a loss-reporting firm change largest stockholders; ICOC= a value 1 when a firm change industry and largest stockholders; LCICOC= a value 1 when a loss-reporting firm change industry and largest stockholders; other variables are same with Table 4.

We find that name change by loss-reporting firms(LC) have significantly negative discretionary accruals in all models and corporate name change of largest stockholders change firms have significantly positive discretionary accruals in model 1 and 3. And corporate name change by loss-reporting and largest stockholders change firms have significantly negative relationship with discretionary accruals. We find that firms who change corporate name and have changed largest stockholders due to accumulated losses are highly motivated to manage earnings to downward for the next period. It also means the relationship between name change by loss-reporting firms and discretionary accruals is strongest among other purpose.

## CONCLUSION

According to our investigation, there is a big increase in corporate name changes by loss-reporting firms even though it is accompanied by non-trivial costs such as consulting fees and corporate identity costs. We find that almost 70% of name change firms report accumulated losses or highly leveraged. In this paper, we focus on the purpose of the earnings management who change their name, different from the prior study.

We examine empirically whether name change firms are associated with discretionary accruals. We further divide the reason of corporate name change into cosmetic change to hide negative earning, organization change following M&A and change of the largest stockholders to examine whether there are differences among the name change reasons.

We find that name change firms have negative discretionary accrual and especially name change with loss-reporting firms are significantly negatively associated with discretionary accruals. And we also investigate the effect the interplay of multiple factors on discretionary accruals when corporate name change purpose is interplayed, therefore we find that name change of largest stockholders change firms who reported negative is significantly negatively related with discretionary accrual. It means that the relationship between corporate name change with loss-reporting and discretionary accruals is strongest among other purposes.

According to our research, 65% of corporate name change firms say that the reason for the change is the improvement of corporate image. Some of firms changing their names are involved in litigations such as fraud or embezzlement and some of them are watch-list companies by the stock market. And we find that name change of loss-reporting firms have a strong incentive to manage earnings. This result calls the validity of financial statements of name change firms who report bad performance in question. And investors should exercise caution to invest firms changing their names frequently because they could change names to disguise bad performance or negative image.

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