Naming a firm after its owner is risky, but can pay off handsomely

There's one choice every business, large and small, must make: what to name itself. It appears that more talented and confident entrepreneurs are more likely to name their firms after themselves, self-selecting into a group taking a risky approach, but one that can pay off handsomely.

We found entrepreneurs who name their firms after themselves are sending a powerful signal about their confidence that, when they succeed, translates into greater success than firms with anonymous names. (whether family-owned or not) Well-known examples include Dow Chemical, Gucci, Guinness, Hewlett-Packard, Hess, Johnson and Johnson, Kroger, Porsche, Proctor and Gamble, Ryanair, Walgreens, and many others.

Our theory is that they are raising the stakes by betting their own names on the success of their company.

Most research into entrepreneurship is about choices that not everybody has. For example, you can only raise capital if you have interested investors. You can only hire employees if you have the resources. But naming is a choice every small business has to make.

Conventional wisdom says you should never name a firm after yourself because it demonstrates a lack of creativity and hurts resale value, since most buyers won't want to be tied to a previous owner's name. We studied more than a million firms in Europe, controlling for age and ownership structure, and found that less than one in five were named for their founders. But we also found the return on assets for those so-called eponymous firms was 3 percentage points better than similar, non-eponymous companies.

People who are more confident in their ability to succeed are more likely to strengthen their attachment to a firm by naming after themselves. That's what seems to be driving this improved performance. But changing a venture to your own name isn't a party trick that leads to success. It's not that simple. What's more significant is the kind of entrepreneurs who do something like that in the first place.

We see that even more clearly among entrepreneurs with less common names who make this choice. Our logic is that if you have a more common name, you are going to be more willing to attach it to your firm because you're less likely to be forever associated with failure if the firm doesn't succeed. Consequently, a more unusual name would make it even harder to escape the shadow of failure.

We were able to look at the rarity of names across regions to see whether that affected how many entrepreneurs named firms after themselves. We found the rarer your name, the less likely you were to name a firm after yourself. We see a beautifully smooth curve where the more common your name is the higher the incidence of eponymy is, which is exactly what the model predicted.

We also found the performance effects for eponymous firms were more pronounced for founders with unusual names. So if you're attached to a firm in this way and it does really well, you're going to do even better than if it was an anonymously named firm. But on the flipside, if you do badly, the personal costs are higher.

Our theory is that only the best of the best will name a firm after themselves if their name is unusual, because there's more at stake. The only people willing to do it are those who aren't as worried about the downside because they are confident their ability will bring them success.

The naming decision is no guarantee of underlying quality in a firm. Ultimately, a name is just one kind of signal, but it can be a powerful indicator of who's behind a firm. In entrepreneurship, it matters how attached the individual is to the firm. At the beginning they are like one entity, and our research offers one of the first glimpses of how important that attachment can be.

Notes:

- *This blog post is based on the authors' paper Eponymous Entrepreneurs, in American Economic Review, vol. 107, no. 6, June 2017.*
- *The post gives the views of the authors, not the position of LSE Business Review or the London School of Economics.*
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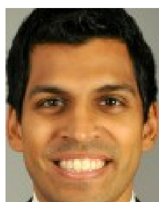

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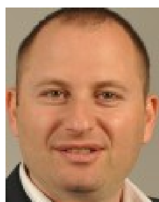

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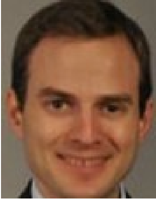

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