Study asks if eponymous business owners are more reticent about the transparent disclosure of company finances

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It is not uncommon for business owners to bestow their own names upon a firm. There are many well-known examples—in the U.K., there's

Dyson; in the U.S., there's Ben & Jerry's; while, in Europe, one might think of Bosch or Porsche.

When a firm bears the name of its owner and that owner is still alive, the tie between the two can be very strong. This tie is especially strong in private firms with one or a few owners, where the firm represents most of the owners' personal wealth and income. In such cases, a firm's financial disclosures can indirectly expose personal financial information, potentially triggering serious concerns about individual privacy. How sensitive might business owners be to the disclosure of their company's financial information?

A new study, forthcoming in *The Accounting Review* (and currently available as a working paper in the *SSRN Electronic Journal*), titled "Owner Exposure through Firm Disclosure," which has been co-authored by Dr. Francisco Urzúa, Reader in Finance at Bayes Business School (formerly Cass), investigates whether owners actually avoid disclosing such information in full, in order to protect their personal privacy.

To shed light on both the scale and breadth of the effect of owner privacy concerns on transparency, the study compares eponymous firms' financial disclosures to their non-eponymous peers from a sample of German private firms.

Germany has enforced mandatory financial disclosure since 2006. Prior to then, it was voluntary and as a result it was relatively rare for companies operating in the more secretive German economy to disclose publicly. Even after 2006, many companies were afforded discretion regarding the extent to which they should disclose.

The German setting is therefore well suited for the study because of the prevalence of financial privacy. German firms foster relationships when they do business, which means information-sharing is often exclusive and discreet. One might expect eponymous owners in such "insider" economies to have strong concerns for their privacy.

In addition, culturally it is deemed distasteful to be seen to be earning more than one's peers. In fact, there is a general stigma associated with wealth and debt. This facilitates an examination of whether eponymous owners especially avoid disclosure when it could reveal information connected with just such a social stigma.

With this large sample of German private firms, the study shows that eponymous firms, especially those most easily identified with their owner, do have a higher propensity to avoid disclosure than their non-eponymous local industry peers. The study also finds that eponymous firms disclose fewer items and less information on profitability.

Crucially, privacy concerns are more prevalent when disclosure reveals sensitive information that has a social stigma (e.g., immense wealth or high indebtedness) and in environments where social approval matters more. For example, eponymous owners avoid disclosure in areas where politics tend to the far left, and where anti-capitalist sentiment is strong. Eponymous owners are less keen on disclosure in rural areas and in areas where incomes are low.

The study also finds that when firms are forced to disclose, eponymous owners have a greater propensity to change their firm names. Newly founded firms have been less likely to be eponymous since the 2006 financial disclosure rules were enforced.

Admittedly, eponymous owners are not the only parties concerned about transparent disclosure. The research finds a similar preference for opacity among owners that live close to their firms, and those owners who are simply older.

Nor are these findings confined to Germany. An international sample shows that eponymous owners elsewhere prefer opacity under similar circumstances and related to similar items.

As prior research has found, many people do not relish sharing detail about their income. People may be willing to share information anonymously but are reluctant to see their wealth and identity linked. The study shows that eponymous firms' disclosure avoidance is exclusive to public disclosure, and not private disclosure.

Dr. Urzúa said, "Overall, these results indicate that business owner privacy concerns are more pronounced when sensitive or potentially stigmatizing financial information may be revealed, especially in environments where income equality and reputation matter more."

More information: Maximilian A. Müller et al, Owner Exposure Through Firm Disclosure, *SSRN Electronic Journal* (2020). DOI: 10.2139/ssrn.3565224

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