Spotlight
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Do family office-owned firms take more financial risks?

Capital structure in single family office-owned firms: a strategic shift in financial decision-making

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Family businesses have traditionally been known for their conservative financial management, often preferring internal financing over external debt to maintain control. However, the rise of Single Family Offices (SFOs) is changing this landscape. SFOs—dedicated entities managing the wealth of ultra-high-net-worth families—introduce a more institutional approach to capital structure. This shift raises critical questions: How do SFO-owned firms finance their operations? Do they differ from family-owned businesses in their use of debt? This study explores these questions by analyzing 173 SFO-owned firms in the DACH region (Germany, Austria, and Switzerland) and comparing their financial strategies to traditional family-owned firms.

WHAT WE STUDIED

The research analyzed a hand-collected dataset of 173 SFO-owned firms and 684 matched family-owned firms. The study focused on capital structure—particularly debt financing—and examined whether these firms followed the pecking order theory (which prioritizes internal financing) or the trade-off theory (which optimizes debt levels for tax benefits and leverage effects). The study also explored whether SFOs that had sold their original family firm differed in financial strategy from those still owning their legacy business.

KEY INSIGHTS

1. SFO-Owned Firms Use More Long-Term Debt

The study found that SFO-owned firms have a significantly higher long-term debt ratio compared to family-owned firms. This suggests that SFOs are more comfortable using debt strategically, much like private equity investors, leveraging debt to maximize returns.

2. Traditional Family Firms Prefer Conservative Financing

Family-owned firms follow the pecking order theory, prioritizing internal funds and avoiding excessive debt. Their financial decisions are often shaped by socioemotional wealth concerns, such as preserving family control and ensuring long-term stability.

3. SFOs That Sold Their Original Family Business Take on More Debt

The study found that SFOs that had divested their original family business exhibited an even higher long-term debt ratio than those that still owned their family firm. Without strong emotional ties to a single business, these SFOs acted more like institutional investors, optimizing debt for financial gain.

4. SFOs Avoid Short-Term Debt Risks

While SFOs take on more long-term debt, they avoid short-term debt, which is riskier due to frequent refinancing and interest rate fluctuations. This suggests that SFOs balance their financial strategies by maintaining stability while still utilizing leverage.

TAKEAWAYS FOR FAMILY BUSINESS LEADERS

For Family Business Owners: Consider Capital Structure Choices Carefully

- If transitioning to an SFO model, understand that financial strategies may shift toward a higher debt ratio and less emotional attachment to individual firms.
- Maintaining direct ownership may help preserve a more conservative financial approach.

For Investors and Banks: Adjust Risk Assessments for SFO-Owned Firms

- SFOs tend to have higher long-term debt but are cautious about short-term risks.
- Lending institutions should recognize that SFO-owned firms behave more like private equity-backed companies, making them different from traditional family businesses.

For SFO Managers: Leverage Debt Strategically While Managing Risk

- SFOs should balance long-term debt usage with risk management to maintain financial stability.
- While SFOs are more professionalized than traditional family firms, they should consider emotional and social factors in decision-making, especially when maintaining ties to the founding family business.

IMPACT

This study highlights the growing distinction between traditional family-owned firms and those managed by SFOs. As SFOs become more prevalent, their more aggressive use of debt could reshape the financial landscape of family businesses. While this approach may unlock growth opportunities, it also introduces risks that must be carefully managed. Future research could explore how SFO financial strategies affect innovation, succession planning, and firm longevity.

RECOMMENDATIONS

1. Family businesses considering SFO transitions should prepare for a shift toward higher leverage and institutional decision-making.
2. Financial institutions should develop new assessment models for SFO-owned firms, recognizing their unique capital structure.
3. SFO managers should balance risk-taking with wealth preservation, ensuring long-term sustainability.

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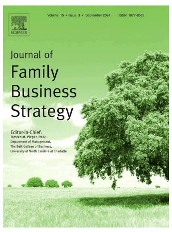

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