

Do single family offices make good owners of the companies they buy?

Firms owned through a family office earn less, unless a family member stays involved

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Published on August 21, 2026

<https://doi.org/10.68623/spotlight.2026.1e8>

When a business family sells its company, or simply grows too wealthy and too numerous to run its affairs around the kitchen table, the single family office (SFO) has become the default answer. In 2019 there were more than 7,300 of them worldwide, controlling about \$5.9 trillion. Germany alone counts somewhere between 350 and 450, and roughly 70% were founded after 2000. In 1985 the whole German-speaking region had 25.

Many of these offices do more than spread money across stocks, bonds and property. They buy companies. They take majority stakes in established firms and hold them for the long term, often as a way to keep the family entrepreneurial after the original business is gone.

That raises a question nobody had tested. Is a family office a good owner? A new study offers the first systematic answer, and it is an uncomfortable one for families who see the office as a tidy replacement for hands-on ownership.

WHAT WE STUDIED

The researchers had to build their own dataset, because no register of family offices exists. They combed news sources, LinkedIn, Xing, Preqin, Pitchbook and the ownership records in the Amadeus database to identify 241 single family offices in Germany, Austria and Switzerland, then traced the family behind each one. A firm counted as SFO-owned if an office held at least 25% of its equity, the threshold that gives a blocking minority under German corporate law.

After dropping offices that make no direct investments and firms without accounting data, 173 companies

owned by 98 offices remained. Each was matched to the five most similar firms in which the founding family itself held at least 25%, using industry and number of employees. The result: 684 family-owned comparison firms and 3,228 firm-year observations from 2011 to 2020.

Performance was measured as return on assets and return on sales, both based on earnings before tax. The models controlled for firm age, size, leverage, intangible assets, earnings volatility, listing status, industry and year.

The starting point is agency theory. Putting an office between the family and the firm adds a layer of delegation, and the authors give three reasons why that layer weakens oversight. First, the office is not the residual claimant and is usually judged on the whole portfolio, so the fate of one company barely registers in its incentives. Second, it is multitasking. Following Holmström and Milgrom's classic argument, an agent holding one easy-to-measure task (portfolio returns) and one hard-to-measure task (watching a company's managers) drifts toward whatever the principal can see. Third, the office enjoys none of the private benefits that push families to monitor closely: the family name, legacy, reputation and jobs for the next generation.

KEY INSIGHTS

Firms owned through an office earn less

The raw averages are stark. SFO-owned firms show a return on assets of 3.9%, against 7.6% for matched family-owned firms, and a return on sales of 0.5% against 5.3%. They are also less productive, generating less revenue per employee and per unit of assets. After controls, office ownership is associated with a return

on sales 3.3 percentage points lower and a return on assets 2.8 points lower. For a company running at typical margins, that is a large slice of profit.

One detail in the profile says a lot. Family members sit on the management board of only about 10% of SFO-owned firms, compared with 64% of family-owned firms. In most cases the office really does stand in for the family.

A family member on the board closes the gap

This is the finding that matters most. When a member of the owning family sits on the supervisory board of an SFO-owned firm, the return-on-sales penalty is more than offset (the interaction is 144% of its size) and the return-on-assets penalty disappears. A family member on the management board has an even stronger association: 205% of the sales penalty and 134% of the assets penalty. The return-on-assets effects are statistically weaker, significant only at the 10% level, but they point the same way.

The theory explains why. A family member in the boardroom shortens the chain between owner and manager, makes the office's own monitoring effort visible, and brings back the legacy and reputation motives the office lacks. The authors also suggest selection: offices may only bring in relatives who are competent and motivated enough to add value. That fits earlier evidence on family managers in foundation-owned firms, and it sits awkwardly beside the long line of studies that find family management a drag on performance. Once ownership runs through an intermediary, family involvement seems to become an asset rather than a cost.

A stock market listing does not help

The researchers expected analyst coverage and disclosure rules to make up for weak oversight by the office. They found no such effect. Listed SFO-owned firms show the same gap as private ones, perhaps because offices focused on preserving family wealth and public shareholders hunting higher returns want different things.

Older offices do better

Offices more than 20 years old are associated with stronger performance in their portfolio firms. Business experience seems to accumulate inside the office over time.

TAKEAWAYS FOR FAMILY BUSINESS LEADERS

Treat the office as a complement, not a replacement

The office is good at what it was built for: allocating, reporting on and preserving wealth, and keeping family tensions away from the business. Stewardship of an operating company is a different job. Families who set up an office to keep conflict away from their

firms should notice that they may be keeping themselves away too.

Don't overload the office

Every task added to an office competes for attention with the one the family can measure most easily. The study points to the growing list of services families now expect from their offices. Direct ownership of companies deserves its own governance rather than a line in the office's mandate.

Align incentives with the firms, not only the portfolio

As an application of the study's logic, families might consider the following:

- Link part of the office team's rewards to the performance of individual holdings, not only to total returns.
- Ask for firm-level reporting on management quality, strategy and risk, not just financial results.
- Review each direct holding separately, at least once a year, with family owners in the room.

IMPACT

This is the first comparison of SFO-owned firms with family-owned firms, and it carries the agency view of family offices down from the wealth level to the company level. An office may well reduce agency costs in managing family wealth while adding new ones in the firms it owns. The study also tempers a comfortable picture of offices as natural stewards. Even an office genuinely committed to the family may rationally put its effort where the family can see it.

The authors are open about the limits. The data cover only the German-speaking region, and the number of SFO-owned firms is modest because offices are discreet and many publish nothing. The design is correlational, so firms might already have been underperforming before an office bought them, although offices are rarely set up as turnaround vehicles. Before-and-after comparisons, other countries, and comparisons with foundations and private equity are the obvious next steps.

RECOMMENDATIONS

1. Before moving operating companies into a family office, decide which family members will stay on their boards, and for how long.
2. Give the office a mandate that separates wealth management from active ownership of companies, and govern the two accordingly.
3. Prepare next-generation family members for board seats in the office's portfolio firms; their presence is associated with closing the performance gap.

4. Do not count on a stock market listing to discipline management in place of engaged owners.
5. Revisit the arrangement as the office matures, since experience inside the office appears to pay off.

Spotlight by CeFEO, Do single family offices make good owners of the companies they buy? Firms owned through a family office earn less, unless a family member stays involved. Downloaded on 24 October 2026 from <https://doi.org/10.68623/spotlight.2026.1e8>

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PUBLISHED IN



Block, J., Eroglu, O., Legendre, N., Bazhutov, D., Miller, D., & Betzer, A. (2026). Single family offices as firm owners: Comparative performance effects. *International Review of Financial Analysis*, 118, Article 105332.

<https://doi.org/10.1016/j.irfa.2026.105332>

Spotlight is an online magazine that translates research from the Centre for Family Entrepreneurship and Ownership (CeFEO) at Jönköping International Business School, Jönköping University, into accessible insights for family business owners, practitioners, and policymakers.

Spotlight is supported by the WIFU Foundation. This partnership advances dialogue and education in responsible family entrepreneurship and ownership.



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