

## Why do family offices let their portfolio firms sit on excess cash?

*Firms owned by single family offices hold more cash, with weaker payoffs than family-owned peers*

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Setting up a family office is often described as the responsible thing to do with serious wealth. Pool the assets, professionalise the management, keep the family's disagreements at a safe distance from the operating business. It is sold as a way to protect what took generations to build. What the brochure rarely mentions is what happens to the companies a family office actually owns once the family has stepped back. Jörn Block and Onur Eroglu went looking, and they picked a revealing place to look: the cash sitting on those firms' balance sheets.

Cash is a deceptively simple number. A healthy reserve lets a company ride out a bad year and move quickly when an opportunity appears. Pile up too much of it, though, and the reserve starts to look like something else entirely — a comfortable cushion for managers rather than money working for owners. What separates the prudent buffer from the lazy hoard usually comes down to one thing: whether someone with authority is paying close attention. Who watches the managers, and how well they do it, is the question this study puts at its centre.

The answer is not flattering to the family office. Firms owned by single family offices, the authors find, hold systematically more cash than otherwise identical family-owned firms — and that extra cash tends not to pay its way. For families who built an office expecting sharper stewardship, it is an uncomfortable finding. It is also a useful one.

### WHAT WE STUDIED

The authors assembled a hand-collected panel of 173 firms owned by single family offices across the DACH region — Germany, Austria, and Switzerland — running

from 2011 to 2020. There is no central registry of family offices, which are private by design, so the sample had to be built by hand from sources including Preqin, Pitchbook, LinkedIn, Xing, and the trade publication Private Banking Magazin. They kept only offices that make direct investments and hold at least a quarter of a portfolio firm. Each of those firms was then matched against comparable family-owned companies — up to five apiece, paired on industry and size — yielding a control group of 684 firms in which a founding family held at least 25%. Accounting figures came from Bureau van Dijk's Amadeus database and the German Federal Gazette. Manufacturing made up the largest slice of the sample, followed by services and retail.

Cash holdings were measured plainly, as cash and equivalents divided by total assets. The analysis rests on agency theory, the standard lens for explaining why owners and managers fall out over spare money. The logic is old but it holds up. Managers know the business better than owners do, and some, left unsupervised, will let cash accumulate because a fat balance sheet makes their position safer and their choices wider. Close monitoring keeps that impulse in check. Block and Eroglu argue that family offices, for all their professional polish, monitor less effectively than families who own their firms outright.

Their reasoning turns on three gaps. A family that sold its operating company and parked the proceeds in an office has, almost by definition, stepped back — the emotional attachment is thinner and the family's reputation is no longer obviously on the line. Office staff, however skilled, seldom carry the deep, firm-specific knowledge a family builds up over decades. And the tacit feel for customers, suppliers, and markets

that families hand down internally is difficult for an intermediary to reproduce. On top of this, the authors borrow from work on psychological ownership to make a sharper prediction: an office that has already sold its original family firm should feel an even fainter bond to whatever it holds now.

## KEY INSIGHTS

### *Office-owned firms simply hold more cash*

On average, firms owned by family offices kept 15% of their assets in cash, against 12% for the matched family-owned firms. The regression backs up the raw gap with a positive and significant effect (coefficient 0.026,  $p < 0.05$ ). Three percentage points can sound trivial. On a balance sheet of any size, it is real money left sitting idle.

**For a family deciding whether to route ownership through an office, the structure itself appears to loosen the discipline that normally keeps cash at work.**

### *The gap widens once the family has sold its original firm*

This is the most revealing result in the paper. When the authors singled out offices that had divested their founding business, the cash effect grew stronger (coefficient 0.039,  $p < 0.05$ ). A Bayesian check points the same way: the credibility interval for divested offices, 0.033 to 0.042, sits almost entirely above the interval for offices still holding their original firm. The fainter the family's remaining tie to its commercial roots, the higher the cash climbs.

**Distance is the variable to watch. An office that has severed its last operational link behaves least like an engaged owner and most like a detached financier.**

### *And the cash does not appear to pay off*

A post-hoc test asked whether cash held today predicts performance tomorrow. In family-owned firms it does, clearly and positively, with a credibility interval of 3.26 to 4.08 for the following year's return on assets. In office-owned firms the relationship is murky and tilts negative, running from -2.00 to 1.68 and straddling zero. The same cash produces a very different return depending on who owns the firm.

**This is the result advisors should not wave past. Excess cash in an office-owned firm is not a quiet safety net; on average, it is money that fails to earn its keep.**

## TAKEAWAYS

The study stops well short of calling family offices a mistake. Its point is narrower and more interesting: an office changes the ownership relationship in ways that surface on the balance sheet, and the change is rarely intended. Buying distance from family conflict means also buying distance from the firm itself.

The hopeful part is that the underlying mechanism — weak oversight rooted in a faded sense of ownership — is something a family can work on rather than simply accept. The offices in the sample that behaved most like attentive owners were the ones that had kept a living connection to the businesses they held. That points to a few concrete habits worth cultivating.

- Treat ownership as a skill rather than a title. The families whose offices monitored well had deliberately built ownership competence instead of delegating the job and hoping for the best.
- Keep the family close to the asset. Revisiting the history of a portfolio firm, and choosing holdings that fit the family's values, strengthens the bond that drives careful oversight.
- Look hard at how the office's managers are paid. A flat salary invites routine, hands-off stewardship; rewards linked to firm outcomes pull behaviour closer to that of a genuine owner.

## IMPACT

For researchers, the paper does two useful things. It establishes the single family office as a distinct kind of owner — not a family firm, not quite a private equity fund — and shows that the distinction has measurable consequences for how a company is run. And it writes family offices into a corporate-governance literature on cash holdings that had, until now, mostly overlooked them.

For practice, the warning is sharper. Families build offices precisely to safeguard wealth across generations, yet on this evidence the very structure can quietly chip away at the value of the firms inside it. There is a kinder interpretation worth putting on the table: perhaps these firms hold extra cash for prudent, long-horizon reasons, accepting weaker short-term returns in exchange for resilience. The authors test that charitable reading against their performance data and find little to support it, at least over the period they can observe. It is not all downside, either — a cash-rich firm makes a more resilient employer and a steadier customer, so employees and suppliers may quietly benefit from the buffer that frustrates owners.

The limits are worth keeping in view. The DACH economies run heavily on bank lending, where banks impose their own discipline through covenants, so the pattern could look different in market-based systems. And the data cannot see inside the family — its generation, its size, how emotionally tied it remains to its origins. Those are precisely the threads the next study should pull.

## RECOMMENDATIONS

1. Before creating a family office, decide who will genuinely own the portfolio firms. Professional management is not the same thing as engaged ownership; name the people responsible for monitoring and give them a real mandate to do it.
2. Build ownership competence on purpose. Develop the family's capacity to read, question, and guide the businesses the office holds, rather than treating the office as a place to deposit assets and look away.
3. Keep the psychological bond alive. Revisit the stories of portfolio firms, bring the next generation into contact with them, and favour holdings that share the family's values and direction.
4. Align the office's incentives with the family's goals. Review how the office's managers are compensated and tie at least part of their reward to the long-term health of the firms they oversee.
5. Watch the cash. Treat an unexplained climb in a portfolio firm's reserves as a reason to start asking questions, not as a comforting sign of safety.

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