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Business Families Must Get Real About Growth and Payouts

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> Sometimes the family grows much faster than the business, especially in saturated markets. This has deep implications for how we manage family and business expectations.

When we talk to business-owning families about setting financial and non-financial goals, we often begin with a simple question: *In a saturated market—where everyone who wants a product already has one—how fast does the market grow?* The answer surprises many: typically, no faster than the rate of **population growth**. In the U.S., that number is currently under 1%, even with immigration.

Why does that matter? Because many families still operate under assumptions formed during boom times or market-expansion phases. But when markets mature, growth slows—and that has deep implications for how we manage family and business expectations. The short case below exemplifies the issue we see in many family enterprises:

When the fourth-generation members of the Lehner family gathered for their annual family assembly, tensions were already simmering. The business, a successful regional manufacturer founded in the 1930s, had delivered steady returns for decades. But this year, the dividend check was significantly smaller—and for some branches of the family, barely noticeable after taxes.

"How can the business be doing fine if our payouts keep shrinking?" asked one cousin. "We're all counting on this money to support our lifestyles, education plans, even retirement," said another.

The CEO—also a family member—explained that the company was hitting a growth ceiling. Market demand had plateaued, inflation was eroding margins, and reinvestment needs were rising. "If we keep distributing at the old levels," she warned, "we risk starving the business—and the next generation." The room fell silent.

Problem with Assuming Perpetual Growth

For decades, the Lehner family had relied on the assumption that both the business and the family could grow in tandem. Now, they were facing a hard truth: when family expectations outpace business performance, something has to give. This is a scenario we encounter in many families we work with: As the family grows and, with it, the financial demands on the enterprise, business leadership fails to address the sensitive topic of "what can we expect from our shared asset?"

In the early phases of an industry or major innovation, three major forces work in a company's favor:

- **High margins** – Demand outpaces supply, allowing higher prices.
- **Rapid scaling** – New capacity is quickly absorbed by hungry markets.
- **Level playing field** – Everyone has similar cost structures because all infrastructure is new.

But saturation eventually comes. When it hits, it feels like a wall: demand flattens or even falls, leaving excess capacity and deflated pricing. Suddenly, the easy wins are gone, and companies must compete on cost, innovation, or geography to grow; and growth comes at the expense of competitors who do not want to give up easily. The challenge is no longer *"how fast can we grow?"* but *"how can we grow at all?"*

The Cash Constraint: Growth Needs Fuel

Even if demand were strong, growth needs more than customers—it needs **capital**. Businesses need cash to buy inventory, fund operations, or build infrastructure. Without significant retained cash or debt appetite, growth is self-funded. That means a company can only grow as fast as it generates cash.

Family Growth vs. Business Growth

Let's shift the lens to the family. Many business-owning families grow faster than their businesses. For example, if each child has two children and each generation follows this pattern, the family may be growing at **2–3% annually[1].** This means that if each child has two children of their own, three generations after foundation, the family shareholder group – if not pruned – already counts roughly 14 members, including spouses. This number increases to about 24 in the fourth generation, growing exponentially after.

If family members begin receiving distributions at age 18 and expect the same purchasing power as their predecessors, then the **business needs to grow its profits 5% per year or more** (that is before inflation!) to keep up. And that assumes no increase in individual distributions—an assumption that's rarely true.

You begin to see the problem: Family growth exceeds business growth, and if families do not adjust their financial expectations vis-à-vis the business, they will likely end up taking too much money out of the enterprise, limiting its ability to grow.

Return on Equity: The True Growth Limiter

We'll get a little technical here for a minute. Let's assume your business is well-run, debt levels or the percent by which assets are funded by debt are steady, and you cannot squeeze suppliers or customers further. Then your **maximum sustainable growth rate** equals your **Return on Equity (ROE)**.

But there's a catch: If you're paying dividends or other distributions, including family salaries above market, then the actual rate at which you can reinvest in growth shrinks. Then, the formula becomes:

Maximum Growth Rate ≤ ROE × (1 – payout ratio)

Here, your payout ratio is the percentage of profits distributed to owners. So, for example, if your ROE is 12% and you distribute half your profits, your sustainable growth rate is only 6%. The more you distribute, the less you can reinvest, and the slower you can grow.

The Strategic Tradeoff

Here is the hard truth: If your family wants increasing distributions and your business is in a saturated market, something has to give. You must either:

- Invest in new markets (products, geographies, or stealing market share),
- Reduce payouts, or
- Make sure that the family is ok with the fact that each generation of family members will have to accept less and less financial benefit from the business.

That last point is often the most emotionally charged—but it is a conversation every multigenerational family must have, and more than once.

Goal Setting in Enterprising Families: An Integrated Approach

When business families encounter a mismatch between enterprise growth and family growth, they often respond by either increasing pressure on the business or lowering expectations for what the business can provide. But a more sustainable and strategic response is to rethink how goals are set—across both the family and the enterprise.

Integrated goal setting means aligning three key dimensions: **family expectations**, **enterprise capabilities**, and **capital allocation priorities**. This begins with honest dialogue about what the family expects from the business—not just financially, but also in terms of involvement, opportunity, and purpose. For example, do members of the rising generation expect employment, ownership, or both? And how do they define success? As Pieper (https://www.generation6.com/blog/blog-post-family-cohesion) asserts, in the short run, real commitment to the business can translate into less pressure on financial returns and that can allow for investment

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needed to get back to superior performance.

At the same time, the business must clarify what it can realistically deliver—based on its growth prospects, capital structure, market environment, and reinvestment needs. This requires scenario planning and disciplined capital deployment, not just optimistic forecasting.

Most importantly, families must recognize that **not all goals are simultaneously achievable**. Trade-offs are inevitable. Choosing to prioritize family liquidity (through dividends or buybacks) may mean slower growth. Choosing to prioritize innovation and expansion may mean leaner distributions. Choosing to keep idle cash in the business as rainy-day protection may also reduce growth and lead to the fund being needed sooner than later. Integrated goal setting doesn't eliminate tension, but it ensures the tension is intentional—and managed, not ignored.

A practical way to operationalize this integration is through the development of a **shared goal-setting framework**, often facilitated by family councils or an owner strategy processes. This framework includes shared financial goals (*e.g.,* acceptable dividend levels, target return on equity), family development goals (e.g., readiness for ownership, education pathways), and strategic business goals (*e.g.,* market expansion, digital transformation). When clearly documented and revisited regularly, such a framework helps the family coordinate decisions and monitor progress without relying solely on financial performance.

However, one common pitfall is that goal setting becomes either too abstract ("create a strong legacy") or too fragmented ("launch a new product line next year"). Families must strike a balance between visionary and actionable, and ensure that goals at different levels—family, ownership, and enterprise—are easily measurable and reinforce rather than contradict one another. This requires both discipline and dialogue: discipline to prioritize and sequence goals, and dialogue to ensure evolving family needs and business realities are reflected in shared decision-making.

Final Thought: Invest or Stagnate

Keeping family happy, customers loyal, and employees motivated and committed takes real work. . It is easy to decide to sacrifice the future to satisfy everyone today. It's easy to believe something will happen to make future problems irrelevant. But like we say, hope is not a strategy.

Without reinvestment, businesses stall and become vulnerable to fickle customers, suppliers, and even banks. Without some level of reinvention, growth can slow to a crawl and the business will eventually fail to meet the rising needs of a growing family. While family cohesion and commitment to the business can bridge the bad times, eventually patience wears thin and investors, even family investors, will demand something they view as a competitive return.

In the end, sustaining a family enterprise is not just a question of profitability. It's a question of **alignment**—between the pace of family growth, the business's true capacity, and the expectations placed on both. When you bring those elements into harmony through an intentional, integrated goal setting process, you create the foundation for lasting stewardship.

References

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[1] This and other rates in this article are based on the average of numerous simulations run where life span, birth years, and age at which children start receiving dividends were varied.

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