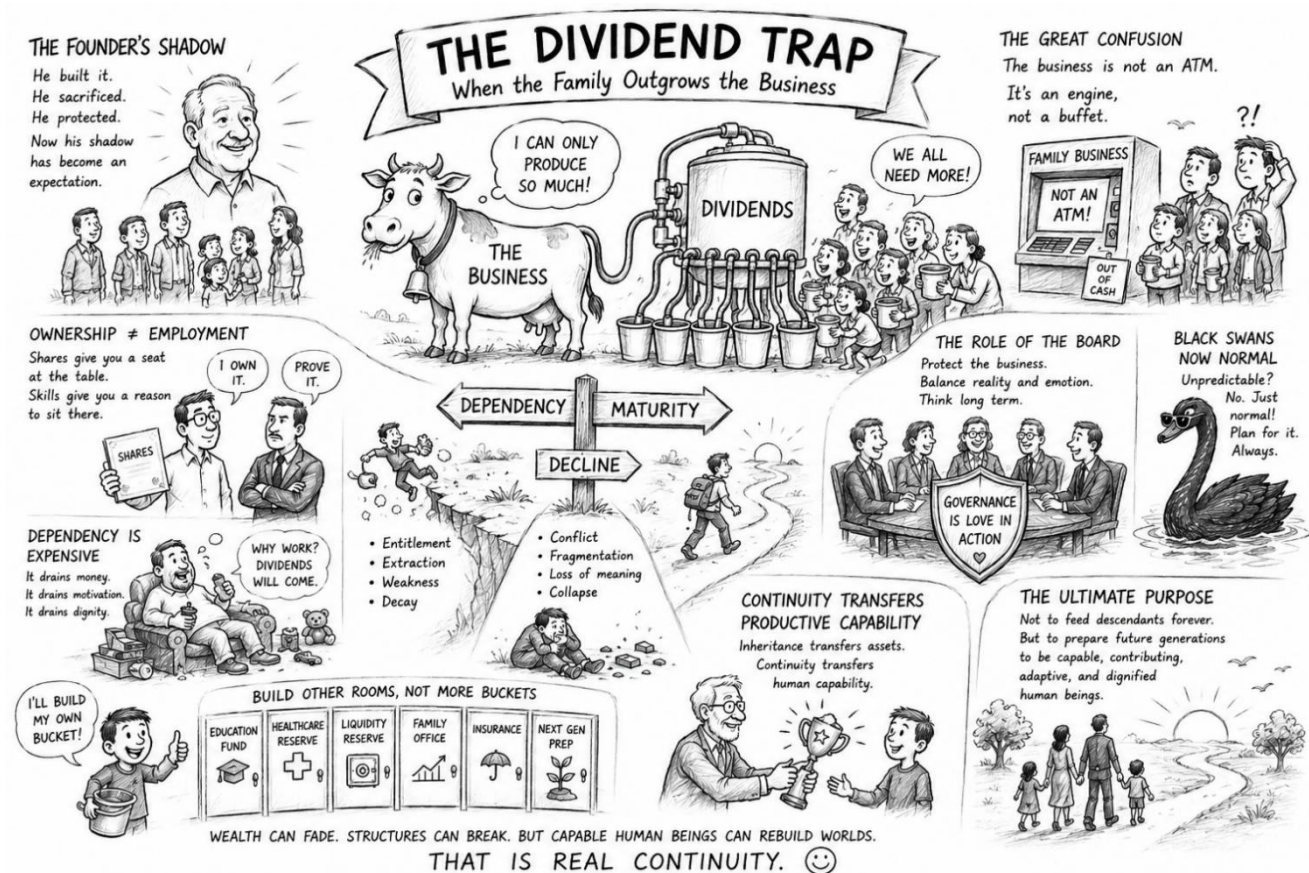


## The Dividend Trap

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This reflection note examines the moment when a family business stops functioning as a permanent livelihood system and begins behaving like a mature enterprise operating under the realities of capital, competition, demographic expansion, and global instability. It explores the psychological, governance, and civilizational consequences of dependency, and argues that continuity depends less on preserving wealth than on preserving human capability, discipline, adaptability, and the dignity of contribution across generations. Ultimately, it reframes the purpose of the family enterprise from feeding descendants indefinitely toward preparing future generations to remain capable human beings in a world defined by permanent recalibration.



### **When the Family Outgrows the Business**

Not every family business is meant to feed the fifth, sixth, or seventh generation forever. This is one of the most difficult truths in family enterprise because it forces families to confront the widening gap between emotional continuity and economic reality. A business may be founded by one individual, carried through sacrifice by the first generation, expanded through discipline by the second, and protected through caution by the third. During those years, the enterprise often becomes much more than a commercial activity. It pays for education, marriages, homes, healthcare, travel, emergencies, and entire lifestyles. It absorbs crises quietly, protects weaker members of the family, and gradually becomes the invisible structure holding the household together.

In the early stages of a family enterprise, the founder himself often acts simultaneously as entrepreneur, protector, employer, banker, mediator, and problem solver. The borders between the family and the business remain fluid because the family itself is still small enough for the system to carry the weight. During that stage, what matters is survival, cohesion, growth, and trust. The founder rarely thinks in terms of future generations numbering in the dozens or hundreds. He builds because he must build, and the family benefits because it remains directly connected to the source of creation.

But time changes the equation in ways many families fail to recognize early enough.

As generations expand, ownership fragments. What was once held by one founder becomes divided among children, grandchildren, cousins, branches, trusts, holding companies, and heirs who may no longer understand the business, the sacrifices behind it, or even the people operating it every day. The emotional memory remains powerful, but the economic reality underneath it transforms completely. The family continues speaking the language of belonging, while the enterprise increasingly behaves according to the laws of capital, competition, technology, regulation, and survival.

Many families do not notice this transformation while it is happening. The business still functions. The dividends still arrive. Gatherings still take place. Weddings are celebrated. Homes are maintained. The structure appears stable from the outside. Yet underneath, the relationship between the family and the enterprise has already begun to change.

At some point, every mature family enterprise must ask itself a difficult question: is this business still a family livelihood system, or has it become an enterprise in which family members are primarily shareholders?

If it has become an enterprise, then the rules must mature accordingly. A company cannot remain permanently responsible for feeding every descendant simply because they carry the family name. Passive ownership is not a profession. Inheritance is not a business model. Dividends are not a substitute for adulthood. This does not mean that the family abandons

its members or becomes indifferent to their struggles. It means that the family stops confusing support with dependency. Education, preparation, accountability, opportunity, and dignity must gradually replace automatic entitlement. A healthy family helps its members grow. It does not train them to wait permanently for distributions from a business operating inside an increasingly unstable world.

## **The Founder's Shadow**

### **When Exceptional Generosity Becomes Permanent Expectation**

One of the least discussed realities inside mature family businesses is the long shadow left behind by the founder himself. Founders often operate under extraordinary historical conditions. They build with instinct, speed, sacrifice, authority, and personal relationships. They solve crises directly. They distribute generously. They absorb weakness quietly. They help family members repeatedly because the family itself remains small enough for the founder's personal authority and productive capacity to sustain the burden.

Over time, however, later generations unconsciously transform exceptional founder behavior into inherited expectation. What the founder did voluntarily during one historical phase gradually becomes interpreted as a permanent obligation of the enterprise itself. Descendants begin assuming that the business must continue solving every personal difficulty because that is what the founder once did. Yet the founder often operated in a world that was smaller, faster, less regulated, less competitive, and less technologically exposed than the one future generations inherit.

The founder's emotional generosity survives long after the founder's economic conditions disappear.

Across history, old merchant houses, trading dynasties, industrial families, and landowning estates repeatedly encountered this same transition. The first generation built through scarcity. The later generations inherited through structure. Over time, memory weakened faster than expectation. The productive engine remained visible, but the discipline that created it slowly faded from daily life.

This creates one of the deepest distortions in family enterprise. Future generations inherit the expectation of protection without inheriting the founder's appetite for sacrifice, entrepreneurial instinct, historical timing, or capacity to produce. The result is that management eventually carries not only the weight of the business, but also the psychological burden of promises that were never formally made yet became emotionally embedded inside the family culture.

At the same time, something else begins quietly disappearing. Meaning itself slowly fragments. The founder usually knew exactly why the business existed. The second generation still remembers the struggle, the uncertainty, the sacrifices, and the moments when survival itself was uncertain. But as generations multiply, ownership expands faster than memory. Descendants inherit shares without inheriting the original narrative behind

them. The dividend remains emotionally real, but the meaning attached to the enterprise slowly weakens.

Conflict rarely begins only with money. Very often, it begins with the gradual dilution of shared meaning.

## **The Cow and the Farm**

### **Understanding Limits Before Reality Imposes Them**

This is where leadership becomes essential because leadership in a mature family business is not only about preserving growth or market share. Leadership is also about preparing the family emotionally and intellectually for realities that eventually become unavoidable.

Those entrusted with running the enterprise must explain, early and repeatedly, that the company is not an unlimited cow, and that the farm itself has limits. A cow can only produce so much milk. A farm can only carry so many animals before the land itself begins weakening. If every generation arrives carrying a larger bucket while nobody asks whether the land can continue supporting the herd, the problem eventually stops being financial alone. It becomes a failure of truth, courage, preparation, and governance.

This is one of the most painful transitions in family business evolution because management eventually begins facing pressure from every direction. Widows may ask for more support. Orphans may depend on distributions. Elderly family members may expect continuity of lifestyle. Passive shareholders may structure their entire existence around expected dividends. Some of these needs are real. Some are emotional. Some emerge from fear. Others emerge from dependency that was slowly created over decades without anyone fully recognizing its long term consequences.

Yet sincerity does not create cash flow. Vulnerability does not change the balance sheet. Need does not create profit.

The role of management is therefore not to grow the farm endlessly so that every descendant may live from it forever irrespective of numbers, debt, market conditions, technological disruption, geopolitical instability, or economic limits. The role of management is to preserve and grow a healthy enterprise at a rhythm the business itself can safely sustain. Sometimes this means reinvesting rather than distributing. Sometimes it means reducing dividends. Sometimes it means refusing demands that feel emotionally compelling but would ultimately weaken the enterprise itself. This is not cruelty. It is institutional responsibility.

## The Great Confusion

### When the Business Becomes a Welfare System

Many family businesses become trapped because they attempt to behave simultaneously like a sophisticated corporation and an unlimited family chest. They want the discipline, valuation, professionalism, and competitiveness of a serious company while preserving the emotional extraction patterns of a household economy. They want governance, but they also want unrestricted access to company cash whenever personal pressure arises. They want the business to compete globally while continuing to absorb every private financial difficulty inside the family system.

It cannot do both forever.

As businesses mature, complexity grows with them. Capital expenditure increases. Compliance obligations increase. Technology investment becomes unavoidable. Cybersecurity becomes essential. Talent becomes more expensive. Debt requires careful management. Entire industries transform within years. Meanwhile, the family often continues thinking emotionally through the lens of the founder's generation, when the business was smaller, simpler, more personal, and less exposed to global instability.

This creates a dangerous disconnect between ownership and management. Managers see liquidity pressure, reinvestment needs, debt exposure, technological threats, geopolitical instability, and market volatility. Passive shareholders often see only the dividend.

Over time, this disconnect creates resentment on both sides. Management begins feeling harassed by people who do not understand the operational realities of the business, while passive shareholders begin suspecting that management is withholding value unfairly. At the same time, another silent tension slowly develops beneath the surface. Family members working inside the enterprise often begin carrying operational burden, personal stress, strategic risk, and reputational exposure while passive branches continue expecting stable distributions regardless of economic conditions.

The working family member eventually begins asking himself difficult questions that are rarely voiced openly. Why must those carrying the operational burden also carry the emotional burden of protecting everyone else? Why does one branch absorb pressure while another only receives distributions? Why does one generation sacrifice weekends, health, reputation, and energy while another behaves only as economic beneficiary?

These emotions, if left unmanaged, quietly corrode family cohesion. Many future conflicts, branch rivalries, shareholder exits, and legal disputes begin not with greed alone, but with accumulated resentment surrounding unequal contribution and unequal sacrifice.

In several old family trading systems across the Middle East, Europe, and Asia, businesses were not destroyed primarily by markets. They were weakened slowly by internal extraction, fragmented expectations, and the inability to transition from founder authority toward institutional discipline. The enterprise continued functioning outwardly for years

while the productive culture underneath it quietly eroded. That is how many family systems weaken. Not suddenly, but gradually.

## **Ownership Is Not Employment**

### **The Confusion That Slowly Weakens Enterprises**

One of the greatest confusions inside family business is the failure to distinguish between ownership and employment.

Ownership gives economic rights connected to capital. Employment must remain connected to competence and contribution.

When these two ideas merge emotionally, the business slowly stops functioning as a competitive enterprise and begins behaving like a welfare institution. Positions are created to satisfy branches. Salaries become disconnected from contribution. Promotions become symbolic gestures of family peace rather than operational necessity. Over time, capable executives leave. Mediocrity becomes protected. Merit becomes politically dangerous.

The problem is not generosity itself. The problem is when generosity replaces discipline.

A family business may survive weak markets, competition, and economic cycles for decades. What it struggles to survive indefinitely is the slow internal erosion of standards.

This is why mature families eventually understand that family wealth and business wealth are not identical concepts. The operating company is not the entirety of the family's wealth. It is only one productive engine within a larger economic ecosystem. Mature families therefore gradually evolve toward broader capital architecture. Some assets remain inside the operating business. Others move into investment structures, liquidity reserves, real estate portfolios, educational funds, healthcare reserves, insurance mechanisms, family offices, or diversified investment vehicles.

This transition becomes essential because operating businesses themselves are vulnerable. Industries decline. Technology changes. Markets disappear. Entire sectors become obsolete. A family treating the operating company as the sole permanent provider eventually places unbearable pressure upon the productive core itself.

This distinction also forces families to confront another uncomfortable reality: preserving wealth and preserving continuity are not the same thing.

Large fortunes can coexist with collapsing cohesion, distrust, fragmentation, dependency, and internal decay. Meanwhile, smaller but adaptive families often survive longer because they preserve productive energy, discipline, and the capacity to reinvent themselves across generations.

Continuity is therefore not merely financial. It is cultural, intellectual, psychological, and strategic.

More importantly, continuity of capital and continuity of capability are not the same thing. A family may preserve ownership structures for generations while gradually losing the competence required to manage complexity. Capital without capability eventually becomes fragile. The real challenge is therefore not simply whether the shares survive. The deeper question is whether the family itself remains intellectually, emotionally, strategically, and professionally capable of deserving continuity across generations.

## **The Middle East Recalibration**

### **Why This Problem Is Becoming More Serious**

This discussion becomes even more important in light of the larger regional and global recalibration now taking place.

For decades, many family businesses operated during what now appears to have been an exceptional historical parenthesis. Growth felt almost permanent. Globalization expanded markets continuously. Energy remained relatively accessible. Supply chains stabilized production. Debt was abundant. Regulation was lighter. Entire regions, particularly in the Gulf, experienced long cycles of expansion that created the impression that growth itself was natural, predictable, and almost endless.

That world is changing rapidly.

Today, management operates inside an environment defined by volatility, fragmentation, geopolitical rivalry, sanctions, tariff wars, technological disruption, artificial intelligence acceleration, demographic pressure, cyber risk, liquidity shocks, and rapid capital reallocation. Entire industries may weaken within a decade. Professions disappear. Consumer behavior changes abruptly. Markets once considered stable become politically exposed almost overnight.

At the same time, many Gulf families are entering a demographic phase where the family itself is expanding faster than the business. Each generation becomes numerically larger. More branches emerge. More households form. More expectations develop. More descendants depend emotionally or economically upon the same productive engine.

This creates arithmetic pressure that no governance rhetoric can solve indefinitely.

A business growing at five percent annually cannot sustainably support family dependency growing at twenty percent annually over generations. At some point, mathematics itself imposes reality.

This changes the moral responsibility of management completely. Retained earnings are no longer simply "money not distributed." They increasingly represent resilience capital,

survival capital, and strategic optionality. They represent the reserves needed to absorb black swans that now arrive one after another with increasing frequency.

## **The Black Swan Has Become the New Normal**

### **Continuity in an Age of Permanent Instability**

The black swan is no longer the exception. It is increasingly the environment itself.

A pandemic, a war, a shipping disruption, a banking crisis, a cyberattack, a technological displacement, a currency collapse, or a sudden political rupture are no longer theoretical scenarios discussed in conferences. They are now part of normal strategic planning. The family enterprise must therefore stop behaving as though tomorrow will resemble yesterday.

In previous decades, families often viewed retained earnings as conservative excess. In the emerging environment, retained earnings may determine whether the enterprise survives the next recalibration.

This changes the role of management fundamentally. Management is not withholding cash out of selfishness or fear. It may be preserving the ability of the enterprise to survive a structurally unstable world.

For decades, management success was measured largely through expansion: more subsidiaries, more acquisitions, more leverage, more extraction, and more growth. But in a world defined by repeated recalibration, resilience itself becomes performance. A business that survives intelligently may outperform a business that grows recklessly. A company preserving liquidity during instability may create more generational continuity than one distributing aggressively during good years and collapsing during difficult ones.

This also changes the expectations placed upon passive shareholders. A family member expecting stable and ever increasing dividends while the company operates inside a permanently unstable environment is effectively asking management to absorb unlimited uncertainty on behalf of private consumption. That is no longer realistic.

The role of management is therefore evolving from operator of growth to protector of continuity.

This transition reflects a deeper transformation in governance itself. Earlier governance models focused heavily on preserving structures, ownership, and control. The emerging reality requires something far more adaptive. Governance can no longer be understood merely as preservation of static arrangements. It increasingly becomes the continuous reconstruction of alignment between family, ownership, capability, capital, meaning, adaptability, and long horizon continuity inside a permanently unstable world.

Governance therefore evolves from administration into adaptive continuity.

## The Psychological Cost of Dependency

### Economic Infantilization Inside the Family System

The deeper danger here is not merely financial exhaustion. It is economic infantilization.

A family becomes economically infantilized when adults continue behaving as dependents of the enterprise long after the enterprise itself has become too complex, too competitive, too capital intensive, and too exposed to global instability to continue carrying that role safely.

Long term dependency slowly weakens initiative, ambition, discipline, resilience, creativity, and risk appetite. Individuals stop building because they unconsciously expect to be carried. Waiting gradually replaces contribution. Consumption slowly replaces effort. Psychological fragility increases because people disconnected from productive contribution often lose the stabilizing structure that meaningful work provides.

Human beings generally develop confidence, resilience, and dignity through participation, responsibility, problem solving, risk taking, contribution, and effort. Families that unconsciously remove these experiences from future generations in the name of protection sometimes end up weakening the very individuals they hoped to help.

This is why the issue is not only financial. It is civilizational.

Across history, merchant houses, industrial dynasties, aristocratic families, landowning families, and trading empires eventually confronted the same reality: no productive asset can indefinitely support exponentially expanding descendants without renewal, diversification, entrepreneurship, adaptation, conquest, innovation, or fragmentation.

History repeats this lesson constantly. The laws may change. The technologies may change. The cultures may change. Human nature does not.

At the same time, another principle quietly repeats itself across civilizations: wealth without productive tension slowly decays. Families remain healthy when each generation continues encountering some form of constructive friction, responsibility, effort, uncertainty, accountability, and contribution. When all tension disappears, entropy quietly enters the system. Comfort expands while capability contracts. The family may continue appearing wealthy externally while slowly weakening internally.

Many families misunderstand continuity. They believe continuity means protecting future generations from difficulty. In reality, continuity often depends upon preserving the capacity to confront difficulty meaningfully.

That distinction changes everything.

## The Role of the Board

### Protecting the Enterprise from Emotional Extraction

This is where governance itself becomes critical.

Management should not stand alone against emotional pressure from ownership. The board plays an essential role as institutional shock absorber between operational reality and shareholder expectation. A serious board protects management from arbitrary emotional pressure while simultaneously protecting shareholders from arbitrary management behavior.

Without this institutional layer, management eventually becomes trapped between economic reality and family emotion.

The board must therefore formalize principles around dividends, reserves, reinvestment, debt, liquidity, succession, shareholder communication, and family support mechanisms. It must also explain repeatedly that protecting the productive engine is itself an act of loyalty to future generations.

Governance is not designed to create distance between the family and the business. Governance exists to prevent emotional pressure from destroying the productive capacity of the enterprise itself.

A healthy board also forces families to confront another uncomfortable truth: endless growth is not always wisdom. Some businesses destroy themselves by expanding too quickly in order to satisfy growing family expectations. A farm may add cows. It may also destroy its own land by adding too many too quickly. Debt rises. Quality weakens. Risk compounds. Complexity accelerates.

Slow growth is not failure. Disciplined growth may be the highest form of loyalty to continuity.

The board must also resist another dangerous temptation common in mature family systems: symbolic equality replacing economic logic. Families naturally seek fairness and peace between branches. Yet equality and fairness are not always identical inside productive systems. Treating all branches identically regardless of contribution, competence, sacrifice, involvement, or accountability may reduce conflict temporarily, but over time it often weakens merit, discourages initiative, and damages leadership legitimacy.

A productive enterprise cannot survive indefinitely if symbolic peace consistently overrides economic logic.

## **The Exhaustion of Emotional Capitalism**

### **When Institutions Must Replace Personality**

Another transformation eventually emerges inside mature family enterprises.

In founder led systems, relationships, loyalty, sacrifice, and personal trust often compensate for weak structures. The founder's authority itself becomes a form of economic glue. Emotional loyalty substitutes for process. Personal credibility substitutes for institutional architecture.

This works remarkably well during certain stages of growth.

But emotional capitalism eventually exhausts itself.

As scale increases and generations multiply, personality alone can no longer carry structural complexity. At that stage, institutions, governance, policies, communication systems, accountability mechanisms, and professional management must gradually replace charisma.

Families failing to make this transition often become confused because they continue expecting emotional cohesion to solve structural complexity.

It rarely does.

Love cannot replace liquidity planning. Respect cannot replace governance. Good intentions cannot replace financial discipline. And family attachment alone cannot indefinitely preserve institutional continuity.

## **The Transformation of Family Wealth**

### **From Dependency Toward Maturity**

The strongest families are those telling the truth early enough for the truth not to become cruel later. They prepare the next generation not only to inherit, but to stand independently. Some family members will work inside the business. Others will build their own careers. Some will become investors. Some will create new ventures. Some will contribute to the family in other ways.

But all must understand that ownership may provide dividends, yet it cannot replace work. Inheritance may provide access, but it cannot replace competence. The family business may create opportunity, but it cannot absorb unlimited dependency forever.

At generation one, the business may act as provider. At generation two, it may still function as the family engine. By generation three, it increasingly behaves like a shared asset. By generation four or five, unless entrepreneurial energy is continuously renewed, it begins behaving more like an investment platform owned by an expanding family network.

At that stage, the central question changes completely. The issue is no longer whether the business can feed everyone forever. The issue becomes whether everyone has been prepared to live responsibly without depending entirely upon the business itself.

This is the leadership duty.

Leadership must explain to the next generation that dividends should be treated as capital, not oxygen. Shares should be understood as ownership responsibilities rather than permanent guarantees of lifestyle. The family name may open doors, but it cannot replace competence, adaptability, contribution, or effort.

This is where the dignity of work becomes essential. A human being who builds, contributes, solves, risks, creates, and participates in society often develops greater stability than one who waits passively for distributions. Work is not only economic. It is psychological, social, intellectual, and moral. Families preserving the dignity of contribution across generations often preserve resilience itself.

Ultimately, every generation must justify its continuity morally and economically. Continuity is not inherited automatically. It must be renewed generation after generation through competence, adaptability, discipline, contribution, and responsibility.

Inheritance transfers assets. Continuity transfers productive capability.

Those are not the same thing.

And perhaps this is the final evolution in the understanding of family enterprise itself. The purpose of a family business may not ultimately be to feed descendants forever. Its deeper purpose may be something far more important: increasing the probability that future generations remain capable human beings.

The business then stops being merely an economic machine designed for passive distribution. It becomes a long horizon platform for developing resilience, adaptability, competence, contribution, judgment, responsibility, and continuity of human capability across generations.

## **The Final Responsibility**

### **What the Family Owes the Business**

A family business can create wealth. It can preserve memory. It can create opportunity. It can remain a source of pride for generations. But it should not become a permanent feeding machine for descendants who have not developed the ability to live with dignity outside it.

The business should not become the emergency room for every unplanned life.

The family must build other rooms.

Education funds, healthcare reserves, liquidity mechanisms, insurance structures, family support systems, next generation preparation programs, and clear ownership policies must gradually replace the old assumption that every difficulty inside the family can automatically be solved through company cash.

Without these distinctions, every human problem eventually arrives at the door of management asking for money.

That model no longer works in a world defined by permanent recalibration.

And if families refuse to adapt, something even more dangerous slowly begins to happen. Management eventually becomes incentivized to optimize primarily for institutional survival rather than emotional cohesion. The family gradually loses moral influence over the enterprise itself. The company begins psychologically transforming into something resembling a quasi public corporation even while remaining privately owned.

This is how many family businesses slowly stop behaving like family enterprises long before ownership formally changes.

There comes a moment when the question is no longer how much the business owes the family.

The deeper question becomes what the family now owes the business so that it may remain healthy enough to survive and continue serving future generations at all.

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