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Preserve Legacy

Sustaining the Company's Kingdom Impact
Through an External Transition

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Introduction

The demographic trends impacting our society also impact Christian business owners. As 10,000 Baby Boomers retire every day, many of them own their own businesses. They all face the problem that they cannot run their business forever. The purpose of this white paper is to share how biblical wisdom shapes the business transition planning process for Christian business owners.

Business owners cannot simply pick a date and retire; they must figure out what to do with the company they lead. While the common concerns about minimizing income and estate taxes when transitioning their business are important, a biblical worldview leads Christian business owners to a different starting point. We teach that preserving the company's legacy is accomplished by developing:

- 1. The Right Mindset** - Business owners need to understand the purpose their company was created to fulfill. In Matthew 5:16, Jesus challenges His followers to let their lights so shine before men that their good works are seen and men turn to God and praise Him. This is the purpose every business was created to fulfill, and this is the ultimate return God seeks from His stewards, regardless of the form it takes.
- 2. The Right Perspective** - Scripture tells us that God thinks generationally. When He created the nation of Israel, He had more in mind than Moses. Likewise, when He created the Church, He had more in mind than Peter. Therefore, when God created each business, He had more in mind than its current owner. As stewards of the businesses that God owns, every business owner needs to think beyond their own involvement.
- 3. The Right Purpose** - If God connected work to fulfilling His mission in the Old Testament, then business owners should have the perspective that God desires work (or business) to further His mission in the New Testament too. Jesus reiterates God's mission through the Great Commandments (Matthew 22:37-39) and the Great Commission (Matthew 28:19-20). Continuing this Kingdom impact is the primary purpose for preserving a company's legacy.



Approach to Preserving a Company's Legacy

For Christian business owners, this transition process carries added significance. The desire to hear the Lord's words, "well done, good and faithful servant ... enter into the joy of your master (Matthew 25:21)" challenges them be sure to finish strong as they transition their business. It's important to understand the eternal value of:

1. Building a healthy, valuable business
2. Learning to think generationally
3. Staying true to the company's mission

Building a Healthy, Valuable Business

The Parable of the Talents (Matthew 25:19-29) and Minas (Luke 19:15-26) teaches that when God gives something to be stewarded, He expects a return. These parables also teach that the steward will be held accountable for the return that is generated. A biblical approach to stewarding a business includes the following:

- 1. Adorning the Gospel (Titus 2&3):** involves building a healthy, valuable company. Picture a business that operates with excellence, has a firm foundation and delivers sustainable results.
- 2. Fulfilling the Great Commandments (Matthew 22:37-39):** involves building loving interactions with the business's many relationships. Picture a business that understands what its stakeholders expect from it and is constantly looking for ways to exceed these expectations.
- 3. Furthering the Great Commission (Matthew 28:19-20):** involves sharing the Gospel in a loving manner inside the company while using sustained generosity to advance the Gospel outside of the company. Picture a business that is just as effective at changing people's eternal futures as any ministry or non-profit. This business owner would be operating their company with the right mindset, right perspective and right purpose, while effectively stewarding all of the capital they have been given.

In 1 Corinthians 3:10-15, Paul challenges followers of Christ to be sure that what they are building will make an eternal impact. This passage combined with many others encourages business owners to be intentional in how they build their companies. God's word reveals eight marks of a healthy, valuable business that operates as its Creator intended. For more information on how to build healthy, valuable businesses based on biblical wisdom, please see our Enhance Value white paper. These marks are developed from the practical application of biblical principles to a business's operations.

- Through the examination of God's word (e.g. verses, stories or parables), four key themes emerge that influence the development of a healthy business. In Matthew 7:24-25, Jesus tells a parable about a man that built his house on the rock instead of the shifting sands. Applying these four themes from Scripture will lead business owners to build their company on "the rock."
- A framework for creating value in a company can be logically deduced from key truths found in God's word. As we discussed earlier, the Parables of the Talents and Minas show us that God expects a return on the capital He has given us. We have seen that applying these four biblical principles lead business owners to generate returns that result in more valuable companies (e.g. financial value, social value and spiritual value).

A healthy, valuable business not only increases its impact and influence; but it also focuses a business owner on the right priorities.

Thinking Generationally

God has a plan in mind for the business that extends beyond the current owner, and God has a plan in mind for the business owner and family that extends beyond the business.

For the Business

Business owners need to take time through a mixture of prayer and discernment to determine what God's generational plan is for the company. Asking the following questions will help business owners identify this plan:

- Why did God create the business?
- What are God's plans for this business beyond its current owner?

A business's Kingdom positioning is defined as the characteristics the company possesses that differentiate it from every other business in the world – its purpose, passions, people and placement. Gaining clarity by understanding God's Kingdom positioning involves:

- Discerning God's purposes for creating the business
- Identifying the passions that God has placed in the hearts of the company's owners and leaders
- Understanding the people that every business owner has been given to steward
- Prioritizing where God has placed the business and given it influence

The insight gained through this process applies to all business owners, not just those nearing retirement. Business owners who have clarity about God's plan can build a business that is better positioned to accomplish His purposes.

For the Owner

If business owners truly believe that God owns the business, then His plans for the company should determine the business's transition plan – not the owner's personal needs or desires. Therefore, it is important to know the primary reason why God gave the business to the current owner.

- Did He give them the business to be stewarded across generations?
 - This leads a business owner to develop a multi-generational family business.
- Or did He give them the business to provide for their family?
 - This understanding enables the current business owners to continue the company's Kingdom impact through an external transition.

In addition to God's generational plan for the company, business owners also need to take time to discern God's plan for the rest of their life given that most will still have 20-30 years of their life remaining after the transition. It's estimated that 75% of business owners regret selling their company within the first year after the sale¹. Why? Because they did not intentionally invest time and resources to replace the purpose and influence they had in their business with impact in the next chapter of their life

Staying Mission True

Identifying a generational plan is only the beginning for the Christian business owner seeking to be a faithful steward. An optimal transition takes intentional planning beyond tax minimization and risk mitigation to stay true to the company's mission. After all, if you asked a Christian business owner about their Kingdom impact, they're not likely to share tax returns, shareholder agreements and buy/sell agreements – they're probably most proud of their people, their leaders and their culture. Therefore, a mission-true transition plan will sustain these important relationships.

From a biblical worldview, the heart of a business is its relationships, not its products and services. In its relationships with employees, customers, vendors and community, Christian businesses have two types of influence (or capital) that need to be effectively transitioned:

- Social Capital – the company's ability to influence people in this life
- Spiritual Capital – the company's ability to influence people for eternity

To extend the company's Kingdom impact beyond its current owner, structures are needed to help the company resist and overcome mission drift. A good transition plan prepares for the expected and unexpected transfer of the business's ownership by:

- Intentionally selecting future owners that align with the business's mission
- Defining the process for the transfer of ownership to take place
- Determining the plan to implement these transfers

The clear communication and focus that this planning creates positions a business to thrive through the transfer of its ownership.

¹Exit Planning Institute's 2016 State of Owner Readiness



Practical Application of Biblical Wisdom

There are two primary strategies for executing a generational business plan: 1) an internal transition and 2) an external transition. An internal transition plan is focused on family members or key leaders stewarding the business into the future. An external transition plan is focused on a company or individual not currently involved in the business stewarding the business into the future. The rest of this white paper will focus on practically applying biblical wisdom to an external transition plan.

A biblical approach to an external business transfer focuses on preserving the company's legacy in three main ways: A) Preparing the company to continue its Kingdom impact; B) Finding a future owner that is committed to faithfully stewarding the business's Kingdom impact; and C) Working with the buyer and seller post-closing to successfully integrate their cultures.

Preparation for Sale

A business owner must do a lot of work with intentionality prior to executing an external transition in order to preserve the company's legacy. We teach that preparing for the sale of a company focuses on 1) defining a successful external transition for the current owner, 2) enhancing the value of the business by developing Ownership Independence, and 3) surrounding the current owner with a multitude of counselors that can guide them through the process of an external transition.

In our experience, a business owner can effectively transition the company's legacy by providing clear communication, cultivating a covenantal culture, developing a business generosity plan and preparing a financial plan. If these structures and plans do not currently exist, then they should be developed in order to have a better chance of leaving a lasting impact for the next generation.

1. Defining Success

Success in an external transition is usually defined with financial metrics like receiving the highest purchase price, maximizing cash at closing, minimizing income taxes, minimizing earn outs and reserves, etc. While these are important considerations in an external transition, they should not define a successful transition if maintaining the Kingdom impact of the company is the goal.

The first step to defining a successful transition is to clearly understand the business's Kingdom impact with its financial capital, social capital and spiritual capital. Once the current impact is clearly understood, the business owner can begin working to identify someone to steward the business and its Kingdom impact who has:

- A heart that is faithfully pursuing the Lord
- Experience integrating their faith in the marketplace
- Demonstrated passions for the ministry the business is currently engaged in
- Proven skills to lead the business operations

The current business owner cannot control the outcome of an external sale process or guarantee that the Kingdom impact of the business will continue after the transition. The good news is that God only calls business owners to be faithful with what they can control: He controls the outcomes and is ultimately responsible for continuing the Kingdom impact of the business. Therefore, once the next steward has been identified, the business owner is free to focus on structuring a transition that reflects the value of the business, does not presume upon the future health of the company and achieves the business owner's personal financial goals.

2. Developing Ownership Independence

A company that is independent of its owner (s) is self-sustaining, because it is positioned to grow beyond its owner's capacities and survive any adverse events that impact the owner. External buyers are generally willing to pay more for a business with ownership independence, because the future cash flows from the business are consistent and recurring.

An owner that is independent of its business can focus on making decisions that prioritize the Kingdom impact of the business. The financial strength that results from effective personal planning positions a business owner to know how much they need from the sale of the business to reach their personal financial finish line and when they need to receive it. For example, an independent owner can consider the following options:

- Selecting the best buyer to continue the Kingdom impact of the business
- Structuring the sale in a way that prioritizes the future health of the business
- Incorporating generosity into the sale transaction

As stated above, the majority of business owners who sell their company regret the sale within the first 12 months due to the loss of impact, influence and significance. The truth is that God created the business owner for more than the company they own and lead. Ownership independence positions the business owner to effectively transition the company's stewardship role and begin a "refiring process" to seek to understand what God is calling them to do in the next chapter of their life.

A complete definition and explanation of Ownership Independence is available under the *Stewardship* section of our white paper on *Preserve Legacy - Internal Transition*.

3. Hiring an Advisor

It is possible to execute their transition plan on their own, but business owners don't have to work alone. A good business advisor will help the owner determine their transition plan, design a plan to execute it and then provide ongoing accountability and encouragement during its implementation. It is important to find an advisor that has practical expertise. If sustaining the Kingdom impact of the business is important to the business owner, then it is even more important to find an advisor that possesses a biblical worldview. The first question to consider when hiring an advisor for an external transition is, "Does the advisor know and understand the owner's priorities?"

Just because an advisor is a self-professed “Christian” does not mean that the advisor is integrating their faith into the guidance they provide. Many advisors are following Christ in their personal life, but are still conducting their business like the rest of the world. When interviewing advisors, it is important to determine if the advisor and the advisor’s firm are practicing what they profess. For example:

- Do the advisors recognize that God owns their business?
- Do they have a mission, core values and vision that connects to God’s plans and purposes for business?
- Do they have a clearly defined understanding of how biblical wisdom impacts the advice they provide and the process they follow (e.g. negotiating deal structures, definitive agreements, etc.)?
- Do they demonstrate biblical generosity in and through their business?
- Do they have a clearly defined process for integrating corporate cultures together to maximize the kingdom impact of two separate companies?

The business owner’s advisor will be guiding the business owner through a myriad of decisions with near-term and long-term, personal and corporate implications. Given this influence and the resulting impact, it is important that the advisor share the business owner’s beliefs and values.

Finding Like-minded Buyers

Once the business and its owner(s) are prepared for an external transition, the focus turns to finding the right buyer. For the purposes of this white paper, we are assuming that Kingdom continuity is one of the seller’s top transition priorities. This means that it’s more important to find the best party to steward the business and its Kingdom impact into the future than to find a buyer who will pay the highest price with the best deal structure. This does not mean that the current owner will receive less than the business’s actual financial value – only that receiving the business’s actual financial value isn’t the business owner’s primary priority.

This perspective requires a different approach to marketing the business for sale. A typical approach would involve identifying strategic and financial buyers who would be interested in the operations of the business. When Kingdom continuity is the seller’s primary priority, the same approach is utilized; however, the seller’s advisors must do additional due diligence to determine if the strategic and financial buyers share the seller’s biblical worldview. This due diligence process is similar to the one utilized in hiring an advisor. It is important to determine if the potential buyer is practicing what they profess. For example:

- Does the buyer recognize that God owns their business?
- Do they have a covenantal culture that connects to God’s plans and purposes for business?
- Do they have a clearly defined understanding of how to integrate biblical wisdom into the business’s operations to build a healthy, valuable company?
- Do they demonstrate biblical generosity in and through their business?
- Do they have a clearly defined process for integrating corporate cultures together to maximize the kingdom impact of two separate companies?

Historically, the process of finding “like-minded” buyers has greatly restricted the pool of willing buyers. Over the past few years, the number of faith-based financial buyers (e.g., private equity companies, family offices, holding companies, etc.) has grown quickly. The seller’s advisor should be able to cultivate a pool of willing buyers who desire to faithfully steward the business into the future.

A word of caution for business owners who value Kingdom continuity: “like-minded” does not mean “same-minded.” While a potential steward may share the seller’s worldview, they may decide to make changes in how the business will operate going forward. If the current owner conducted their due diligence on the front-end and submitted the process to the Lord, they can have peace of mind that they were faithful and trustworthy in how they stewarded the business, that God is sovereign, and that the new steward of the business is accountable to Him.

Integrating Corporate Cultures

One of the most important contributors to the success of an external transition, whether a merger of operations or becoming part of a portfolio, is the strategy to integrate the cultures of the two organizations into a single, unified culture. By definition, division is created when two visions are in competition. Hoping the individuals within the two cultures will work it out is not a viable strategy. We have learned that intentionally creating clarity is key to successfully integrating these cultures together to accomplish the organization’s mission.

Clarity is created by assembling key stakeholders from both organizations and agreeing on the components of organizational clarity, leadership clarity and relational clarity under the new structure. This discussion should lead to generative thinking where the result is greater than the sum of its original parts.

Organizational clarity involves:

- Corporate clarity - clarifying the new mission, vision and values
- Structural clarity – clarifying the new organizational chart
- Role clarity – clarifying functions and responsibilities
- Process clarity – clarifying HR functions and systems, the HR handbook, employee expectations, etc.
- Communication clarity – clarifying the cadence to meetings and the flow of information
- Brand clarity – clarifying the name, logo, perception, digital strategy etc.

Leadership clarity involves a discussion around leadership expectations and how leaders will be developed and held accountable in the new structure. Relational clarity involves clarifying the expectations of the work environment and how people are expected to treat one another.



Process for Preserving Legacy

Up to this point, this white paper has focused on the qualitative aspects of a plan to help successfully preserve a company's legacy. The focus will now turn to the process to follow once the qualitative aspects have been put into place.

The process of implementing an external transition plan to continue the Kingdom impact of a business is not complex. Once the business owner's advisor has helped identify a buyer than can steward the business into the future, the advisor will guide the business owner through:

- Negotiating letters of intent
- Facilitating the due diligence process
- Negotiating the definitive agreements
- Managing post-closing items

There are biblical values that impact the effective execution of these processes. For example, advisors should have integrity in how they communicate with the buyer and seller. It is also helpful if they approach negotiating with humility and seek to find "win-win" solutions. Thankfully, the application of these values is common in the industry regardless of the advisor's beliefs

Conclusion

Accomplishing God's generational plan looks different for each company, but one constant is that it takes a lot of time. It's a good practice for business owners to start their transition preparations five to 10 years in advance of their desired retirement date. This time is critical for the successful completion of many of the initiatives described in this paper.

About the Business Consulting Division and Ronald Blue Trust

Ronald Blue Trust's Business Consulting Division focuses on helping companies determine purpose (developing mission, core values and vision), enhance value (conducting strategic planning and creating an engaging culture), and preserve legacy (preparing transition plans and financial forecasts). Ronald Blue Trust advisors apply biblical wisdom and technical expertise to help clients make wise financial decisions to experience clarity and confidence and leave a lasting legacy.