

# Planning Your Family Business Transition

*Adapted from a presentation given by Richard Shank at an AF business seminar*

I received a call one day from a man in a Midwestern state who was seeking advice. His dad had promised that once he retired, this son would get the family business. The son was now fifty years old and the father seventy-five. No transition had yet taken place. In fact, not only did the father still have the final say in all the decisions, he also wasn't interested in his son's ideas for stimulating the stagnating business. What should the son do? At this age, if he was ever going to have his own business, he needed to get started.

So, I advised him, "Go to your father and respectfully explain to him that you're at the age that if you're not going to get the family business soon, then you need to get started on your own. Tell him if he still isn't interested in selling, you are going to leave and start your own company."

The son did this, and the father refused to sell. Two years later, the son had started his own successful business—and the father's had gone bankrupt. This is a sad example of what can happen if you are not planning your family business transition according to biblical principles. To ensure that a story like this won't be told about your business, stop postponing, create an exit plan that is honoring to God, and take the steps needed for a reasonable and timely transition.

## **Stop Postponing**

People often think the tough part is starting a business and the easy part is disposing of it. This isn't generally the case. When starting out, we knew where to start, when to start, and what to do. But *when* do you start bringing the business to a close? And *how* do you start bringing it to a close? This ambiguity often causes people to postpone planning for transition. In fact, many people haven't even given it a thought because they don't like to think about what might happen when they are no longer in control. This procrastination, however, doesn't take into consideration how the lack of forethought can affect a family.

Sometimes transition is inhibited by a lack of resources. Perhaps you've heard the financial expression that the business is underwater. This expression is used when the business or farm debts are greater than the assets. In other words, even if you sold everything, you couldn't pay off your debts. This, of course, is a bad time to plan a transition for various reasons. First, you want your successor to be successful. If the business is underwater because of the economic climate, then whoever takes over is going to have the same struggle. You wouldn't want to set anyone up for failure, and it would not be honest to sell knowing that the business may not be able to make it, even if you sold it at a reduced price. You may want to wait until the economy changes and the new owner has a better opportunity for success. In addition, waiting may give you

a more adequate cash flow to provide for you and your spouse according to Paul's instructions in 1 Timothy.<sup>1</sup> If the business is underwater because it has not been managed well, then someone who could turn it around and would use stewardship principles should be found to prevent it from being a complete loss.

This is why it's important to begin planning far in advance. Although it's necessary to look at how much money you will need after transition, there are other items to consider for a kingdom-focused businessman. "Where there is no vision, the people perish"<sup>2</sup> is true in all areas of our lives. We must have a vision for where we want the business to end up, so we can plan how to get there. This includes ensuring that not only our business but also our values are transferred to the new owner.

## Create an Exit Plan

Some sort of exit plan should be part of your initial plan as you go into the business. You don't need to have all the details worked out, but you should at least have a general idea. For example, in the last business I was in, I had planned that by a certain age I wanted to be out of the business. Since I had determined this from the beginning, it played a role in all the important decisions I made throughout the life of the business.

When the business reached full capacity, for example, any thoughts of expansion were evaluated according to my exit plan. I knew I wanted to sell a business that was both profitable and saleable. I also knew that expanding facilities, hiring more people, or even relocating can take a couple years during which profits plateau or decline. Without that exit plan, I might have made decisions that meant I couldn't exit the business at the age I had planned.

If you don't have a general plan in place from the beginning, you should take time to develop one by the time you reach age fifty. This doesn't mean you can't keep working for another thirty years or that you can't start up in business after the age of fifty—many people do. The point is that you need to allow adequate time to find and develop a successor and see how they function in your business with the principles you deem important. Over

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<sup>1</sup> 1 Timothy 5:8 "But if any provide not for his own, and specially for those of his own house, he hath denied the faith, and is worse than an infidel!"

<sup>2</sup> Proverbs 29:18a

time you can also see how much income you are going to need after selling so you can determine how much from the sale could be directed into other kingdom-building endeavors.

Once you have a plan in place, evaluate it every five years and tweak it. And then five years before your exit, develop an explicit plan. But no matter your age, there is no promise of tomorrow, so *now* is the time to prepare.<sup>3</sup>

Exit strategies fall into three main categories:

- Working in your business until death
- Selling to the highest bidder
- Transitioning to family

Working until death seems fairly simple and might be a good choice if your bills are paid and things are running smoothly. Even so, this category requires some planning if you are considering how your estate could be divided between family members and charitable giving. Selling to the highest bidder, on the other hand, requires more work. But transitioning to another family member tends to be the most complicated of all.

The way this kind of transition usually plays out is the father becomes advanced in years and the older children get married and leave home. When the youngest child finally gets married, he or she takes over the farm and the parents move into their retirement home. Sounds easy. But you would be surprised at how complicated this can become.

Between legal complications and the tensions and misunderstandings that can arise among family members, this strategy may benefit the most from the advice of an expert who has experience in both the laws of the state and working out fair buy-sell agreements within the family. The advisor should be someone who understands not only the laws of the land but also the biblical principles by which you operate. It is very unfortunate when problems arise between siblings because of how a transition is handled. The results can be good, or they can be reminiscent of the feelings between Jacob's sons.<sup>4</sup>

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<sup>3</sup> James 4:14 "Whereas ye know not what shall be on the morrow. For what is your life? It is even a vapour, that appeareth for a little time, and then vanisheth away!"

<sup>4</sup> Genesis 37:3–4 "Now Israel loved Joseph more than all his children, because he was the son of his old age: and he made him a coat of many colours. And when his brethren saw that their father loved him more than all his brethren, they hated him, and could not speak peaceably unto him."

## Developing a Transition Plan

**Deciding What's Important.** The first step in developing a plan is to consider what's important to you. For example, how important is it to you that a family member takes over the business when you step aside? If you don't have children, who will that family member be? Is it important to you who the successor is?

Here are other questions to consider:

- Is the legacy important to you? What sort of values or lifestyle do you want to promote?
- Do you care if the successor keeps the business name, no matter how it is used?
- Is the standard of living provided by the business important to you?
- Are there other goals that are more important to you than income?
- What do you hope will happen through a transition to a successor?
- What do you fear will happen through a transition to a successor?

Take these questions (and others you may have) and write down your thoughts about each one. This can help you sort through what is most important to you. For example, our family once sold a good business which, within three years, went bankrupt under the new owner. That fact wasn't traumatic for me, because I had received full payment, plus my identity was not tied to the survival of that enterprise. For some people, however, that would have been a tragedy.

At the same time, as believers, we understand that we are to be stewards of the businesses God has given to us. If we have tried to operate them according to His principles, we don't want to be careless about who takes over after us. If it's important that your business continues into the future, you will need to take into consideration whether the successor you choose has the same understanding as you do about being a good steward of God's business. If

not, then you should look for a different person to transition your business to. If people have come to know your business as operating on biblical principles and you sell it to someone who changes that, it could hurt not only the business but also the witness of the church community where it is located. As Christian businessmen, values and principles should be our first concern.

**Choosing a Successor.** As you form answers to these important questions, new questions will arise. For example, if you choose to have one of your children be your successor, how will you decide which one? Will you go by age or by leadership qualifications?

Children don't always succeed in the business the way you did as the founder. Will you allow this successor to make changes in the business as he or she wishes, even if the business fails? Is your child presently working for you because you demand it, or because he or she wants to? It's not unusual for a father to want his son to follow in his career path: the physician wants his son to be a physician, and the farmer wants his son to be a farmer. Because that desire is so strong, parents will sometimes imply that a child is being disobedient or rebellious if not following in the father's career. We shouldn't do that to our children. Instead, we can show them what is involved in the business or farm, allowing them to decide if it's what they want for themselves. We must keep in mind that not everyone is gifted the same way.<sup>5</sup> We seem to be able to accept this in the church, but we must also apply it in our business and family life too.

Other angles to consider when choosing a successor include the changes that have occurred since your business began.

- **Stress level.** Many people start out with a small business that grows into something much larger. Businesses often grow from a small sales volume and one or two employees to twenty employees, multiple vendors, and a lot more competition. You may have a lot of balls in the air at once. Can your successor handle that stress level and keep juggling those balls?

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<sup>5</sup> 1 Corinthians 12:7, 11 "But the manifestation of the Spirit is given to every man to profit withal . . . But all these worketh that one and the selfsame Spirit, dividing to every man severally as he will."

- **Investment.** It's probably riskier for your successor to invest in the business than it was for you when you started. You might have invested thousands, but he might have to invest millions. One way to make it more affordable is to reduce the money in the business. This can be done by giving to the church, charities, or projects that are kingdom focused.
- **Relationships.** If the successor is from your family, how do you and he get along? How do the siblings get along? What is going to happen when one of them takes on a role of leadership to which others need to be subservient? Because of this, a businessman with a young family needs to be thinking about how he is training his children while still at home. Being a role model of submission to authority goes a long way in teaching our children how to submit to others.

**Preparing a Strong Future.** One of the difficult things for many owners is to find the exit door once the transition is implemented. Are you prepared to get out of the new owner's way—and stay out of the way?

The buyer of one business I sold asked me to stay with the company and continue to work. I could understand why he saw a benefit to having me around, since I was familiar with the facilities and the process. But I also knew it would inhibit the transition. I had hired most of the employees, and they were accustomed to my leadership. If I remained there, they would likely come to me for answers to their questions rather than to the new owner. To solve this, I made an agreement with the new owner that I would not continue as an employee, but I would be available for the first few months to help solve problems as often as needed. It is important to be available to continue to mentor and grow the new owner in his or her role as leader of the company. Although getting out of the way is critical to building the strength of the new management, leaving them to flounder is not the Christian way. For the sake of the new owner, the employees, and the business as a whole you need to be willing, if possible, to continue to

answer questions and advise for a period of time after the transition.

Not only do you need to plan to get out of the way, but you need to stick to what is most important to you in transitioning. As God's steward of the business He has entrusted to you, the values of the new owners should be of utmost importance. You might discover, for example, that you could sell your business for a better price if you don't sell it to your children. This could weaken your resolve if you had planned to pass on the business to the next generation. Profits, however, should not be what makes the decision. If selling the business to your children would provide them with a good income and working environment and ensure the business continues to operate according to kingdom principles, then that should be the deciding factor. Sometimes it is more important to take less for yourself, so you can be more of a blessing to others.<sup>6</sup>

To strengthen the prospects, you should also take note of the cycle of ebb and flow. A business often has strong years and then softer years. It can make a tremendous difference if you sell the business when it is approaching a slow period versus selling it when it is approaching the upswing. The selling plan should take into consideration the company's ability to weather a financial crisis. You don't want to inadvertently set up the next owners to fail.

Also, if the successor will be one of your children, it's important to pay him or her based on their actual contribution rather than on the fact that he or she is one of your offspring and will be the successor. It is tempting to have your children be the highest paid employees in the business regardless of how much they contribute, but this favoritism can greatly weaken a company.<sup>7</sup> Also along this line, encourage your successor to go out and work elsewhere for a couple of years. This gives them the opportunity to experience what it's like to be a nonfamily employee, to see how other companies are run, and to collect new ideas.

Train your successor to relate well with their employees. When the successor is "the boss's child," it can be hard for employees to have the same respect for him or her as they had for their previous boss. Teach your successor

<sup>6</sup> Philippians 2:4 "Look not every man on his own things, but every man also on the things of others."

<sup>7</sup> Colossians 4:1 "Masters, give unto your servants that which is just and equal; knowing that ye also have a Master in heaven."

to earn the respect of the employees by showing ability rather than just having a connection to the former boss. One Anabaptist company had the potential successors manage it before the fathers made the final decision about who would become the majority owners. This allowed everyone to see how these men would work together as well as how they would lead the company. In the end, adjustments were made based on what they saw. This trial period allowed for mentoring and training, as well as for the potential new owners to see whether ownership was a fit for them.

Another important discipline is to meet at least annually with your family to discuss your succession plan, the business, and what changes are being made. This keeps the family abreast and averts the temptation to sweep issues under the rug that the successor will later have to deal with. The possibility of business continuity is strengthened by evaluating regularly what you want the business to look like in five years. Also ask, what are its strengths and weaknesses? Should it grow or stay the same? Regularly evaluating the business reduces the overwhelming details that need to be understood when the time comes for the transition. These meetings are also a good time to clearly communicate your values and the principles you use in operating your business. Although example in living out your convictions is critical, teaching them is also necessary.<sup>8</sup>

Also, keep in mind that cash in a business is like blood in a body—you can have too little and you can have too much. Make sure there is sufficient cash put back into the business each year, but do not allow the cash to build up to the point that it will be too hard for a potential buyer to buy in. If the company is making large amounts of money, take the extra cash out and invest or give it elsewhere. Remember, the Lord has blessed us with more than we need so we can share it and bless others as well.<sup>9</sup>

The crucial goal in all of this is to invest the time and detail necessary to maintain healthy family relationships. In

the long run, you want to be able to get together for family events and have joyous times together. Too often, the transition of family property can boil over into family feuds and spoil something that is worth far more than money or a successful company. For this reason, you must go to extra lengths to plan early, plan well, and plan fairly. If you are not willing to do this, it is probably better to sell outside the family.

And, finally, when the time comes for transition, close the door on your way out. You may have to forego some ownership entitlements; you'll now have to drive your own personal vehicle and buy your own postage stamps. But these are only earthly privileges. The greater blessing will come in knowing that the stewardship of the business has been transferred to another who will carry on the work according to biblical principles.

Plan for retirement, but when you reach it, don't set your parking brake like the rich man in Jesus's parable in Luke 12.<sup>10</sup> Although life may be a bit slower for you, there is still kingdom work to do. As the Lord gives you strength, there are people and organizations to help, places to go, and new plans to make after you have safely transitioned the business. Then when the final transition comes, you will hear, "Well done, good and faithful servant; thou hast been faithful over a few things, I will make thee ruler over many things: enter thou into the joy of thy lord." (Matthew 25:23).

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<sup>10</sup> Luke 12:19–21 "And I will say to my soul, Soul, thou hast much goods laid up for many years; take thine ease, eat, drink, and be merry. But God said unto him, Thou fool, this night thy soul shall be required of thee: then whose shall those things be, which thou hast provided? So is he that layeth up treasure for himself, and is not rich toward God."

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<sup>8</sup> Deuteronomy 6:7 "And thou shalt teach them diligently unto thy children, and shalt talk of them when thou sittest in thine house, and when thou walkest by the way, and when thou liest down, and when thou risest up."

<sup>9</sup> 2 Corinthians 8:14–15 "But by an equality, that now at this time your abundance may be a supply for their want, that their abundance also may be a supply for your want: that there may be equality: As it is written, He that had gathered much had nothing over; and he that had gathered little had no lack."



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