

# The Dispatch

## August 2021: The Transition Conundrum II

Last month we explored the challenges of family business transition, focusing on management hurdles. Equally important are ownership issues in transitioning the business. Lance starts off by examining common but difficult problems of timing, asset division, and selling or gifting the business to family members. Davon explores issues relating to readiness and training of the next generation to assume major responsibilities. Finally, Bill looks at the Biblical story of David's becoming King of Israel to ask what role the "heart" or character plays in transition. Please keep in touch with us about these ideas or other observations.

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### Navigating Difficult Ownership Questions

[Lance Woodbury](#)

Perhaps you've been a steward of land handed down from prior generations. Or, maybe you built your farm or ranch from scratch, surviving the trials of starting your own business. But now you've arrived at a point of figuring out how to move assets to the next generation of business owners. Consider the following three questions as you make the handoff:

1. When is the right time? Parents often struggle with timing: Should it be as early as possible, spread over multiple years, or at the current owner's passing? The answer depends on your own feelings about control, your sense of the next generation's readiness, and the tax consequences of your choices.
2. Do you gift or sell? The capital-intensive nature of agriculture makes it difficult for kids to buy out parents, so gifting is common. Yet there is value of the next generation having their own capital at play - some "skin in the game" - so that they appreciate the value of wealth. And some ownership interests, or assets, may need converted to cash for retirement expenses, blending both approaches.
3. How do you divide assets? If some, but not all, members of the next generation returned to the business, this can be a difficult question. And if they returned at different times, it adds even more complexity. Equal gifts can lead to conflict, stalemates, and buyouts. Unequal gifts may cause family rifts.

These questions can paralyze even the sharpest business owners, but the worst approach is to avoid the discussion, which creates uncertainty for you and your family. Most people who *try* to answer the questions make it through. The key is to walk through the pros and cons of each answer, while taking care to cultivate consensus with your spouse or partner. [Use your key advisors or trusted peers](#), and the answers will begin to emerge, and keep in mind the old Irish proverb, "A good beginning is half the work."

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### Are they ready for ownership?

[Davon Cook](#)

There are many nuts and bolts of ownership transitions involving legal documents and accounting. But just as with a transition in leadership, sometimes the people-oriented hurdles of ownership transition can also be daunting. Is the next generation ready for the responsibility? Will they devote the time and energy to manage it well? Do they have the skills to make wise decisions? Specifically, there is often hesitation around money and their readiness and maturity to manage it. We regularly hear concerns like, "They don't know how much we're worth because I don't want them to brag about it." Or, "they just aren't old enough yet." Or, "they don't have the context to understand the numbers."

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So, how do you determine when one is ready and able to manage the responsibility? Like any job in life, you define the expectations, and you train the skills to meet it.

First, define what engagement is expected of each owner. For heirs that don't work in the business daily, that could be a range from simply attending an annual meeting for financial results and tax planning to more extensively serving on the Board of Directors overseeing strategic (but not operational) decisions. For heirs working in the business, they must separate their "management" hat from their "ownership" hat. For both, define expected behaviors such as confidentiality or being prepared and prompt for meetings, and share why those behaviors are so important.

Second, build the skills needed. To address the most common concerns about money management, be intentional about teaching financial literacy at various life stages. For teens, future owners can manage a project-based mini business to start learning the basics. Some farm and keep the books for their own plot of land to see the financial transactions there. Some owners learn basic accounting and financial statements in their education or career choice, but some do not. We have designed young adult owner training programs that include accounting and finance 101 classes, and then we apply the concepts to their own business. Resources abound. If financial transparency gives you pause, create a multi-year plan to build *competency*. You may slowly reveal more financial information as your *confidence* in their readiness builds.

To be able to deem them "ready?", help them get there by communicating expectations and building the skills they need.

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## **A Successful Biblical Transition**

[Bill Long](#)

"God looks on the heart" (I Sam 16:7)

Last month I described succession problems in King David's family, ranging from the rape of his daughter by his oldest son to his third son's (Absalom) leading a revolt against David. This month I will look at a more happy time for David, when he was anointed King a generation earlier by the Prophet Samuel. If we examine that transition, we learn that the most important characteristic in God's eyes was what might be the most difficult to define: "God looks on the heart" (I Sam 16:7).

To set the stage: Kingship in Israel before David was a new institution. Saul had been chosen king but had made a number of strategic mistakes that made the people vulnerable to their neighbors. A change was needed. God let it be known to the prophet Samuel to go and anoint one of the sons of Jesse to be a successor to Saul.

Very little guidance was given to Samuel as to what characteristics to look for in a future king. So, not unexpectedly, Saul looked at the older sons of Jesse, saw their strength, handsome bearing and seeming ability to manage the family affairs well, and thought that one of them certainly was to be king. But, no, God had other ideas. David, the youngest, was God's choice.

The explanation is given very briefly in I Sam 16:7, "Do not look on his appearance or on the height of his stature. . .; for the Lord does not see as mortals see; they look on the outward appearance, but the Lord looks on the heart." How many times have we just looked at external indications or measurements of success in order to determine succession? If we listened to the Scripture just quoted, we might be more open to recognizing the intangible, but essential, world of the heart. May your successor have the heart, as well as the skills, for the job.