God, Holistic Funding and the Credit Crunch

Our writer looks on the bright side of the credit crisis and suggests solid business plans, including holistic funding sources, is the way through.

by Michel A. Bell

Thank God for the credit crisis. Gone is the temptation to expand businesses with cheap funds; to grow sales because exuberant customers exist, and unwittingly, to move away from God's call. These days, more than ever, we need to focus on Jesus. What an incredible opportunity to grow closer to Him, and be His witness to a world with little hope!

Today, our nation and people are at crossroads. Politicians, central bankers and economists who believe they know how to fix our problems are panicking. Business leaders fret because the future is murky. The markets are unpredictable, funding is scarce, tough decisions must be made. The media spews negative news constantly. Meanwhile, Christian voices are muted; we don't hear the comforting message in Hebrews 10: 35-37: "So do not throw away your confidence; it will be richly rewarded. You need to persevere so that when you have done the will of God, you will receive what he has promised. For in just a very little while, "He who is coming will come and will not delay."

As we persevere, let's review our businesses' goals, plans, and structural adequacy.

Goals

Jesus withdrew often to commune with His Father (Luke 5:16). We too need to withdraw often to be with Him. In Luke 12:48, Jesus tells us to sit down and count the cost of discipleship. Today, each of us needs to withdraw, sit down, and contemplate her business goals — what is the business trying to do? Ask God to confirm goals; each should be clear, complete, concise, measurable, and with a specific execution plan.

Values, goals, and policies should show you have (a) dedicated the business to serving the Lord (Joshua 25:15), (b) purposed in your heart that the business will do what's right and pleasing to God (Daniel 1:8), and (c) committed explicitly to accepting only equity partners who share your values.

Corporate Goals

To monitor financial health, two specific corporate goals will help. Debt ratios (debt as a percentage of debt plus equity) should be 25-35 percent maximum, outside boom periods. Ask yourself, without compromising its viability, what debt level can this business carry during a prolonged recession? Eliminate debt during boom periods: In good times repay debt and strengthen the balance sheet. The second goal is built around a debt repayment period. Your goal should be to repay each financing in less than seven years. Since the Great Depression, economic and business cycles recur about every seven years. These cycles could strain the business significantly. When feasible, structure projects so the business repays borrowings in seven years or less. As you ponder this, seek God's PhD: Patience (Isaiah 30:18); Humility (1 Peter 5:6); Dependence (Isaiah 24:4).

Business Plan

Settle business goals and then develop or update a business plan to reach them. The plan should include ownership structure, economic and other assumptions, corporate goals, products, services, market analyses, financial statements such as cash flows, balance sheet, and specific financing needs. If you don't have a business plan, write one. As you develop the plan, test major assumptions; ask the Lord to guide you with this three-step evaluation:

Structural Adequacy

Corporate, organizational, and financial structures must fit business goals. A legal corporation needs competent folks to fulfill corporate compliance. Similarly, an unincorporated entity must comply with accounting, tax, safety, environment, and privacy regulations. For prayer support, financial and general business guidance, a small business especially, would do well with an advisory board of few matured Christians with business experience.

Business leaders need to know key variables that drive their businesses' performance. They need to check their businesses' "temperatures," and respond quickly. That's why each business needs a simple Management Information System (MIS) as its thermometer to isolate and report to senior management, key control variables such as unit energy consumption, material usage per output, receivables day sales on a regular basis. If you can't measure a variable you can't manage it.

Remember, reported funds' shortage doesn't necessarily signal a financing need; it could flag a structural problem, which more money won't fix! No MIS or a poor MIS will mask true performance such as declining markets, shrinking margins, and slow working capital turnover.

Biblical Borrowing View

I coined the term GAS Principle as the foundation of Managing God's Money, a private teaching organization I founded and run as a cost centre.

God Owns Everything (Psalm 24:1-2)
Accept What You Have (Hebrews 13:5)
Seek First His Kingdom (Matthew 6:33) and Submit your Requests to Him (Proverbs 19:21)

Jesus' ownership of everything means you manage His business for His purposes, and you should apply His principles. The Bible shows when God calls someone to do something, He provides what he needs. So, don't panic if you see a financing need. Withdraw, seek God's guidance. Mull over Mother Teresa's words, which apply to His businesses: "We do our work for Jesus. He looks after us. If He wants something done, He gives us the means. If He doesn't provide us with the means, then He doesn't want that work done."

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How does a Christian business owner raise funds? Should he or she borrow for the business? The Bible doesn't forbid borrowing; it views it, and co-signing loans, negatively: "... the borrower is servant to the lender" (Proverbs 22:7), and the co-signer of a loan lacks judgement (Proverbs 17:18). Though not referring to financial debt, the principle in Romans 13: 8 applies: "Let no debt remain outstanding, except the continuing debt to love one another ...." Besides, when you borrow, you must repay (Psalm 37:21). The Bible's borrowing message? Borrow for specific needs, but borrowing should be neither permanent nor burdensome, and shouldn't be a crutch distracting you from depending on the Lord for your needs.

When the business plan shows a funds need, before deciding to raise funds, separate personal from business finances, and look for productivity and cost reduction opportunities. Next, decide the fund raising form: debt or equity. The reason for raising funds, the health of the business, market conditions and the economic outlook are all factors that need to be considered. Follow a rigorous funds justification process.

Best Practices

An updated business plan, a well designed, functioning MIS, and a structurally adequate organization applying best practices are your business' healthy diet and fitness programs. Stick with them. The business plan is neither a strait-jacket nor a panacea, merely an early indicator of probable outcomes from realistic assumptions. It's your road map and key communication document with funding sources. Before you need funds, invest time identifying potential sources; use business plan data to build relationships with these sources. Established relationships will allow you to arrange funds early and get optimal solutions.

Look beyond traditional banks to Credit Unions and online banks. Funding from family could be an attractive source, but could also tarnish relationships. Before tapping this source, be unequivocal about values, goals, key terms, and a dispute resolution procedure. As well, formalize agreements.

If a financial institution wants a personal guarantee for a loan, perhaps the proposal is too risky! Reexamine it; understand the risks; seek God's guidance. Accept Government grants or loans only if they won't compromise values and goals, or constrain the business. Beware; grants shouldn't be the sole reason for project profitability. And remember, it's God's business.

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Need	Funding Sources
Fixed Capital -Start up, expansion, restructuring, projects, property, plant, equipment	**Long Term:** **1.New Equity** **Source:** Family or others with values similar to yours. Use the business plan as the offering document. Sign a formal agreement covering, at least: values, goals, equity contributions, dispute resolution procedure. Tap this source for start up, expansions, and longer pay-back projects. **Caveat:** Goal congruence is essential. Be transparent and formal especially with family, retired executives, and venture capitalists. Their expectations might differ from yours. **2.Retained Earnings** **Source:** Reinvested profits. Business grows without borrowed funds. Caveat: Reduce owners' dividends; need prior approval. **2.Grants** **Source:** Federal and Provincial Governments. For certain expenses and specific businesses, they give grants, small business loans, and tax breaks. Visit: http://www.grants-loans.org/; http://www.ic.gc.ca/eic/site/csbfp-pfpec.nsf/eng/home **Caveat:** Grants and loans could compromise values and constrain the business.
	Medium Term: **Term Loan (Mortgage) or Lease** **Source:** Financial Institution Decide on the asset or project and then look at financing alternatives that fit your business and financial goals. You could get a secured term loan to buy property, plant or equipment, or you could arrange a lease, which is a borrowing form with some ownership features. Before choosing lease or buy, examine your goals, the numbers, especially the effective financing cost under the lease, and responsibilities under each scenario. **Caveat:** Don't choose a lease merely because "payments are tax deductible." Don't exceed predetermined cyclical debt ratios, which should include lease obligations as debt. If it's unlikely the business will repay loans in less than around seven years, reexamine projects; consider discrete steps.
Working Capital -Inventories, receivables, payables	**Short Term:** **1.Source: Working Capital Optimization** Effective receivables, inventories, and payables' control are your best financing sources; people, your best resource. Select managers carefully; train, empower them to use best practices, and to seek continually to improve performance. **Caveat:** A sale is complete when you get funds. Ensure compensation and incentives reflect this. Also, if income and costs are in different currencies, get proper advice. Don't let the urgent distract from this important working capital optimization process! **2.Source: Financial Institution** **(a)Overdraft:** Meant to cover occasional, unplanned funds shortage. **(b)Credit Card:** Designed for on-going working capital needs, with interest accruing with each charge. **(c)Line of Credit (LOC):** Often linked to a bank account. When needed, funds transferred to account automatically; balance reduces with deposits. For similar credit profile, LOC is more flexible and probably the cheapest. Caveat: Could be expensive; from prime to prime plus 7%. **3.Source: Conventional & Specialized Financial Institutions** **(a)Factoring Receivables:** A company advances 80% or more of receivables for confirmed sales. For exports, Export Development Corporation (EDC) insures trade receivables discounted through certain financial institutions. **(b)Exports:** EDC provides other export financing support through financial institutions. **Caveat:** Costs vary; factoring could be over 20% yearly.