

# Legal Counsel

for Churches

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Corporate Governance for Churches & Their Leaders

M SMITH | LAW PLLC



## Ministry Agreements Help Church Management



Organizations often find it productive to divide their businesses into various departments. Departments often include functional areas such as accounting, human resources, and data processing. These divisions may act like mini businesses within the corporation.

Most churches have ministries that are charged with carrying out specific functions. Some ministries provide services to the community. Others focus on addressing the needs of the congregation. In both instances, the ministries operate as divisions within the church structure.

Ministries are like company subsidiaries. Each ministry has a separate purpose to manage. To fulfill their purposes, these ministries may be responsible for their own budgets, people, and strategies.

Ministries often share resources. Ministry support may be organized in the form of a spoke and wheel approach. Think of the center of the wheel as the church. The church shelters the common infrastructure needed for each ministry.

The church may take responsibility for data management, marketing, administration, legal, compliance, human resources, and accounting. The various ministries tap into the center of the wheel for the resources each need.

Church leaders may find it useful to formalize its ministry functions in the form of ministry agreements. These kinds of agreements are often called Service Level Agreements.

A Service Level Agreement outlines what services the church will provide to each ministry. Cost allocations for central functions may be specified in the agreement. The ministry will agree to withdraw what resources it needs from the church. In return, the church outlines its expectations for what the ministry will contribute to the church.

A Service Level Agreement is a legal document to be signed by all parties. The terms include the agency authority the ministry represents on behalf of the church. Also, the agreement identifies clear limits on the ministry's scope and assignment.

The Service Level Agreement creates clear, measurable guidelines. The ministry leaders are expected to be good managers of their divisions. Like many corporations that have adopted this model, the overall church is more efficient with ministries focused on specialized purposes.

In some instances, ministries may have Service Level Agreements between each other. This may occur when ministries work together and share a common pool of resource for their respective operations.

Take for instance a church that has a ministry charged with finding lodging for homeless families. The ministry may be organized as a nonprofit foundation. This ministry could outsource its outreach function to a fellow ministry that has boots on the ground in the target communities. This kind of partnership could benefit from a Service Level Agreement between the two ministries.

Churches that share back-office operations could use a Service Level Agreement to outline the arrangement. Take for example a church that outsources its media production to another church. A written contract between the two churches will showcase the terms and expectations each should have of the other.

The objectives in a Service Level Agreement should be clear and measurable. This will help when it's time to assess the success of the agreement.

Service Level Agreements should be reviewed periodically. Church leaders should expect the relationship between its ministries will evolve over time. The demands for ministry support could ebb and flow. The Service Level Agreement offers a channel for having these conversations.

Service Level Agreements between churches and ministries can benefit all parties. Everyone gains when the church and its ministries work together. ■

# Strategic Planning Is A Governance Matter

One of the most important responsibilities of corporate leaders is strategic business planning. Strategy planning is the forward-looking exercise that defines where a business is going and how it plans to arrive. This is a governance issue as a matter of reasonableness.

Church directors and officers have a fiduciary duty of care in their capacities. This duty is measured by the reasonable person standard. Courts look to what a reasonable person would do under the circumstances. The reasonable person standard applies to all organizational leaders, regardless of company or industry. It is reasonable for leaders to lead. In other words, plan. This makes strategic planning a governance responsibility for church officials.

Looking from a non-spiritual perspective, the church is an organization with many of the same risks and opportunities as any company. The governing board of the church is charged with addressing these concerns. This is the function of strategic planning.

Strategic planning for a church should be tailored to the needs of its ministry. Each church faces individualized financial demands, operational risks, and market challenges. Church leaders should use their experience, knowledge, and insight to craft a strategic plan.

Strategy is an exercise that should always be on the agenda. Every church leadership meeting should include an agenda item for strategic planning. Here, leaders should pause to look ahead and consider what must be done today to reach an intentional future.

While routine strategy sessions can be helpful, there comes a time when church officials should remove themselves from the ordinary pace of business to focus just on

strategy. This discussion often takes place during a strategic planning session.

Strategic planning sessions may be held off-site from the church to avoid distractions for the participants. Often, strategic planning sessions occur over a course of 2-3 days. Some organizations incorporate recreational or social time for bonding. This can not be overstated. Relationship building is a key factor for good governance.

Some churches find having a planning facilitator useful for their strategic sessions. The facilitator allows all church officials to step back and openly discuss the issues. The facilitator's role is to keep everyone engaged, record progress and organize the discussions.

A good planning session facilitator will not take sides. The facilitator will be a neutral participant. He/she will help church leaders reach consensus on its direction. If a disagreement surfaces, the facilitator will act as a mediator to reach a settlement.

During the planning events, church leaders should seek to tackle big issues that can affect the future of the congregation. It is up to the church leaders to select subjects that are most relevant. The side panel list topics that may be useful for a strategy session.

The pandemic and recession have created uncertainties for churches. Navigating these times requires a board and management team that has the situational awareness and prowess to maneuver ahead. Church leaders should make planning a regular exercise. ■

## Planning Session Topics:

- Information Security Threats
- Compensation Options for Employees
- The Future for Community Ministry
- The Local Economy in 2022 & Beyond
- Impact of the Pandemic on Ministry
- Accountable Ministry Culture
- Agile Business Practices
- Managing Projects and People
- How Innovation Fuels Results
- Rethink HR Practices & Styles
- Investment Strategies
- Managing a Ministry of Influence
- The Political Landscape
- Ethical Leadership
- Turning Uncertainty into an Asset
- Business Continuity in a New World
- Most Important Trends for Churches
- Establishing Strategic Planning Habits
- Leading Diverse Generations
- Payments and Financial Stewardship
- The Next Level in Digital Worship
- Talent for Tomorrow's Ministry
- The New Era of Church Branches
- Future of the Workplace
- Financial Projections and Planning
- Pandemic Impact on Ministry





# The Moment

You realized that good deal was really too good to be true.

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## How to Avoid a Church Failure

Churches are vulnerable to the same risks as other organizations. When negative conditions occur, churches can become unsuccessful. As leaders, you have a responsibility to the ministry to make strategic decisions that avoid failure.

When a church fails, this is a moment for sorrow. It may feel personally painful for church leaders to admit that their work in the ministry fell short.

Failure can also be a painful episode for a congregation. We believe it is safe to assume no group of church members want to intentionally collapse. Unfortunately, disappointments occasionally happen. To avoid facing this outcome, it may be helpful to observe how some organizations fail.

Astute business leaders make themselves students of other leaders' experiences. Others' successes may provide a road map of tactics to deploy. Just as important, studying others' failures provides keen insight on what risks to avoid.

We have studied several institutional failures to learn what happened. In some instances, the organizational failures were the result of unforeseen external factors. These are the causes no one saw coming.

For some situations, failures were caused by leadership negligence. Here are some avoidable reasons for organizational failures.

**Leadership Was Blind to Risks.** This happens when officials ignore the obvious signs. This has occurred when leaders were operating in a vacuum. They often dismissed the advice of colleagues. They lacked collaboration and overly relied on their own insight and biases.

Leaders who push aside others' opinions become careless. Carelessness creates opportunities for mishaps. Enough mistakes and failure follows. To avoid failing, leaders should seek others' insight to make better business decisions.

**A Lack of Diversity.** Most mistakes made occur during the formation of an ill-advised strategy. This is when the board had a bad idea from the outset. This often happens due to a lack of diversity.

A diversity problem arises when management does not have enough voices in a conversation to bring forth new ideas. Failed leadership neglects to invite the right people to the dialog. Diverse ideas can come from people with various backgrounds, professions, and experiences.

**Conflicting Loyalties Can Lead to Failure.** Leaders owe the church a duty of loyalty. In other words, a church official should not put his personal interests above the church's interests. This danger sign is usually called a conflict of interest.

Organizations that have failed from a conflict of loyalty have been those whose leaders confused their loyalties. The rights of the church trump all personal interests.

Out-of-place loyalties can also mislead leaders to believe that friendships are more important than their professional responsibilities. A misunderstanding of loyalty may cause a leader to lose sight for what's important. Loyalty is a binary equation. Our decisions are either good for the church or not.

**Ineffective Corporate Governance.** Church governance is a critical discipline for leaders. Church officials must ensure adequate record keeping, current policies, diligent management, and effective oversight. Organizations that have stumbled were those who lacked basic internal controls.

Churches that establish good board practices, up-to-date training, healthy dialog, and strong reporting habits improve their ability to be successful. These institutions avoid the perils that caused other organizations to flop.

Organization failures happen every day. The causes are often foreseeable and avoidable. Churches can escape the same fate by practicing good corporate governance today. ■

*Legal Counsel for Churches* is a service provided by M Smith Law, PLLC for members of the religious community. This periodical is intended to help churches and their officials become better prepared to address important legal and governance issues. We hope you find *Legal Counsel for Churches* a valuable resource. For each issue, we try to raise relevant issues and offer some practical alternatives. We welcome your comments and input.

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