



# Legal Counsel for Churches

Corporate Governance for Churches & Their Leaders

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## Questions Church Leaders Should Ask



One of the fiduciary duties of a church leader is to make prudent decisions. In order to make the best decisions, leaders should ask the right questions. The right questions are the inquiries that help an organization explore the most important issues.

Church leaders are faced with many kinds of decisions. Choices include which

vendors to use, policies to enforce and strategies to pursue. Church leaders approve budgets, manage risks and supervise the operations. In the normal course of business, decisions are frequently made that have an impact on the church.

Asking the right questions can help the church avoid costly mistakes. The right queries expose weaknesses in a proposal.

There are three categories of questions church leaders should pose. These are Fiduciary, Strategic and Defensive questions. Let's explore further how church leaders should approach each type.

### Fiduciary Questions:

Fiduciary questions are the inquiries that delve into whether a decision is in the best interests of the church. A church leader has a moral and ethical obligation to protect the church from any unfair situations.

Church leaders should put the church before any self-interest. This includes the self-interest of family members, business partners, friends or individual church members.

Here are some examples of fiduciary questions church leaders should ask.

1. Does this result create a conflict of interests for any of the decision makers?
2. Do any church insiders have an unfair advantage?
3. Are any church opportunities unjustly appropriated by anyone?
4. Are any church policies violated with this decision?
5. Is the price paid for the product/service fair for the church?

### Strategic Questions:

Strategic questions are the queries that help determine if a pending decision complies with the church's mission. This is an important exercise.

Failure to ask strategic questions may lead a church away from its more crucial mission. One consequence is the inefficient use of church resources. Another risk is the church may make a decision to do something that violates its charter or nonprofit status.

Here are some examples of strategic questions church leaders should ask.

1. Is the proposition consistent with the church's mission?
2. Does the church have sufficient resources to pursue this action?
3. Does the church staff have competencies to manage the course of action?
4. What are the risks to this decision should the church decide to take action?
5. Are there less expensive or more effective alternatives?

### Defensive Questions:

Every decision comes with risk. Defensive questions seek to identify the ways a decision can go wrong. This is a risk mitigation exercise meant to avoid negative results.

Church leaders should anticipate probable and foreseeable perils. In some instances, the probability of a decision going wrong can be calculated. Leaders should weigh the risks of a strategy mishap against the potential rewards of a successful execution.

Here are some defensive questions church leaders should ask:

1. Is there sufficient insurance in place to cover a financial loss?
2. In a worst-case scenario, how much will the church suffer?
3. What steps are taken to reduce the risk of failure?
4. What are the risks with dealing with this particular party?
5. Does the legal agreement unduly shift too much risk onto the church? ■



# The Moment

You realized your church policies have not been kept up-to-date.

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## 7 Habits of High Performing Church Boards

Over the years, I have had the opportunity to work with several company boards. The boards of successful organizations have a few traits in common.

High performing organizations are usually governed by high performing boards. This is because the directors are responsible for setting the tone, direction and strategy for the enterprise. This is also the case for churches.

A high performing church board understand its fiduciary duties. Church leaders often realize they are an integral part of the ministry's success. In order for the church to fulfill its mission, the governing body must seek its own excellence.

Here are a few habits I have observed in boards that perform at a high level.

### 1) Self-Awareness

High performing boards want to know how they are doing. These directors know that periodic feedback is an effective way to explore improvements, spot inefficiencies and ensure open dialog. One way boards take the pulse of their own performance is through self-evaluations.

### 2) Strategic Vision

One role of a board is to look ahead for challenges and prospects. Church leaders who think strategically about the ministry

often create a high performance culture for their ministry. It is up to the church leadership to define its objectives and measure its achievements. Church strategy includes an honest survey of strengths, weaknesses, opportunities and threats. However the church strategy is phrased, the board's focus on what's important can help assure success.

### 3) Education and Training

Church directors should constantly seek to expand their knowledge about governance to attain high performance. The law on corporate governance continually evolves. When the rules shift, so does the responsibilities of church leaders. Church boards who participate in education and training make the church better.

### 4) Succession Planning

Service on a church board does not last forever. Turnover happens on all boards. A high performing church board knows the importance of grooming successors. In order to ensure a smooth transition, procedures should be written for identifying and onboarding potential candidates. Such planning may include an inventory of the skills and particular talents needed to help the church make prudent decisions.



### 5) Risk Management

Directors of a high performing church board help the organization steer clear of risks. The directors should write policies that address crucial areas of concern. When followed, these policies keep the church on a safe path. High performing boards regularly review policies to ensure the provisions remain relevant and valid for today's risks.

### 6) Shared Values

Church boards should share the values of the ministry. This perspective keeps a consistent vision before the board. Shared values reduce friction and misunderstandings.

### 7) Policy Focus

High performing directors do not micromanage the organization. When the directors focus on minor tactical matters, they take their focus off strategic matters. This is often the role of management and staff. High performing boards know they should place their attention on the big picture. ■

*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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