Power vs Accountability:

What can good Corporate Governance teach the Church?

by Stephen Copp

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Stephen Copp suggests that good corporate governance has important lessons to teach the churches, notably with regard to greater readiness for risk-taking, having clearer goals and using the equivalent of non-executive directors.

Church on road to doom?

On 3rd September the Daily Telegraph gave front-page coverage to its article "Churches 'on road to doom if trends continue'"[1]. It drew attention to a Christian Research report predicting that Britain's churches would be well on the way to extinction by 2040 with just 2% of the population attending Sunday services: it said 18,000 churches would have closed. The response to this from the Bishop of Manchester, the Rt. Rev. Nigel McCulloch, was to stress the need for the church to communicate the gospel rather than to expend energy on relatively trivial matters, such as reforming Synodical government or liturgy. While one sympathises with the governance problem presented by the Church of England, church governance may in fact prove to be far from trivial in the church(es)' decline. Indeed, the oft-made comparison between George Whitfield and John Wesley indicates the difference good governance can make in the (re)building of the church: Whitfield was regarded as the better orator but Wesley was the more effective organiser[2].

The response to major corporate collapses in business has led to attention being focused on the very issues of governance to which churches seem indifferent. The pursuit of "good governance" has become a worldwide phenomenon, affecting not just large companies but large organisations of all types, including NHS trusts, housing associations, schools and universities – even the police and the military. Whilst the impetus and subsequent fuel for this may have been scandals such as the Maxwell Group, BCCI, and later Enron and Worldcom, the lessons learnt have much wider implications: hence their widespread acceptance in widely differing cultural contexts. This emphasis on accountability for corporate power is broadly to be welcomed by Christians.

Nonetheless, in passages such as Romans 13:1-7 and Colossians 1:15-20, Paul has plenty to say about God's role in creating powers (*archai*) and authorities (*exousiai*) and the need for Christians to submit to them. If he had been writing today, it is quite possible that he would have included corporations as well as governments within his understanding of these words.

The purpose of this article is to examine some of the major themes which have emerged in the corporate governance debate, evaluate them from a Christian perspective, and ask whether they contain any wisdom which might usefully be applied in arresting the potential decline of the church(es) in the UK.

Good corporate governance: reflecting Christian values?

The concept of corporate governance is rather an abstract one and so suffers from the problem that it can be defined very differently. Probably the most widely used definition is that of the Cadbury Committee: "the system by which companies are directed and controlled"[3]. The word for governance has its classical origins in the Latin *gubernare*, meaning to rule or steer, and the Greek *kybernetes*, meaning steersman. Paul uses the latter in 1 Corinthians 12:28: the gift usually translated as administration actually refers to the skill of piloting a boat. Governance is different from management. Whilst both involve strategic management, the functions of accountability and supervision are seen as governance activities, whereas executive management and operational management are seen as management activities[4]. This distinction was not in the past sufficiently observed in many UK listed company boards. However, the meaning of the term was subtly transformed in 1992 with the publication of the Cadbury report, which included a *Code of Best Practice*. Since then, such codes of practice have been irrevocably associated with corporate governance, to the extent that the Netherlands *Peters Report* went so far as to define corporate governance to mean a code of conduct[5].

The present position in the UK is broadly that listed companies have to comply with the "Code Provisions" of the *Combined Code on Corporate Governance* or explain their reasons for not doing so, and further report on how they apply its "Main Principles" and "Supporting Principles"[6]. It was the product of seven bodies – Cadbury (1992), Rutteman (1994), Greenbury (1995), Hampel (1998), Turnbull (1999), Smith (2003) and Higgs (2003), and has since been followed by the work of a further two – Tyson (2003) and Flint (2005). These bodies were established on an *ad hoc* basis, some effectively independent of the government, others appointed directly by it. Most of them were appointed in response to specific scandals (e.g. Maxwell, BCCI, Enron) or particular problems (e.g. privatised utility company directors' remuneration), but some were more reflective in nature. The *Combined Code* itself is now an impressive looking document, focussing on directors, remuneration, accountability and audit, shareholder relations and institutional investors. However, it would be mistaken to assume that it constitutes a self-contained guide to good governance. It builds on the foundations of company law and the *Listing Rules*, and by implication assumes the presence of shareholders and markets and their valuable disciplinary effects. Such foundations may be very different in other types of organisation and therefore caution must be exercised in transposing its principles elsewhere.

When we turn to the reports of the corporate governance bodies, it is very tempting to see in them echoes of Christian values. For example, the values of the Cadbury Committee, which may reflect on the Cadbury family's Quaker background, are well known– notably openness, integrity and accountability. The concept of **openness** receives a qualified welcome in the New Testament in such statements as "…whatever is hidden is meant to be disclosed, and whatever is concealed is meant to be brought out in the open" (Mark 4:22); there is a measure of concealment and mystery about the Kingdom and Jesus' Messiahship, but Jesus also gives a straightforward endorsement of plain speaking in his 'Let your

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yes be yes and your no be no" (Matthew 5:37). The concept of **integrity** rarely appears, being used ironically in a less than transparent vein by Jesus' opponents when they were seeking to trap him (Matthew 22:16, Mark 12:14); but note Titus 2:7 where Titus is encouraged to show integrity in his teaching. **Accountability** is strongly emphasised, both in relation to God (e.g. Matthew 12:36, Romans 14:12, 2 Corinthians 5:10) and to others in positions of authority (e.g. Jesus' various parables about stewards – Luke 12:42-48, 16:1-9). The value of **diversity**, introduced by Higgs and Tyson[7], can also be supported from the New Testament, as in Paul's robust declaration that in Christ there was "neither Jew nor Greek, slave nor free, male nor female" (Galatians 3:28).

However, there are numerous caveats in seeing echoes of Christian values in the work of the corporate governance committees. First, there is a question about whether broad concepts such as integrity are used in the sense that a Christian might use them. A Christian understanding of integrity is likely to be holistic, seeing it as the sum of the virtues working together to form a coherent character, and therefore extending its use to cover areas of private as well as public morality[8]. Second, some Christians may still feel that the context within which these values were affirmed, of furthering business prosperity and corporate performance, simply serves to legitimise greed. Third, it is not always clear how effectively these values have been put into practice in the *Combined Code*, which is e.g. relatively weak on issues of integrity[9]. Finally, the emphasis on self-regulation compared with state regulation may seem to be inconsistent with the responsibility of a government to legislate to protect often vulnerable categories of investor, such as the elderly.

Corporate Governance – some key concepts

I shall now address a few key concepts from the *Combined Code*, focusing selectively on those likely to have the greatest potential for application to the churches.

Defining the role of the board

Companies make a huge contribution to global prosperity. The danger with corporate governance reform, the impetus for which lay with large corporate scandals, was that it would ignore this and focus on bureaucracy. The *Combined Code* recognises this by stressing that the board should provide "entrepreneurial leadership" albeit within a framework of controls, so that risk can be assessed and managed. This linking of entrepreneurship and risk management is logical since the dictionary meaning of entrepreneurship is the taking of risks. This leadership finds its expression in another function laid at the door of the board, that of setting the company's strategic aims, values and standards.

Taking risks is embedded within a Christian perspective. The central doctrines of Christianity reveal a God who is continually taking apparent risks, from the creation and subsequent fall of humanity to the incarnation and subsequent crucifixion. The resurrection and Pentecost demonstrate how faith trumps risk. Can risk management therefore be justified from a Christian perspective? Jesus clearly recognised the need to assess risk when speaking on the cost of becoming a Christian. He used the analogy of how someone wanting to build a tower would look ridiculous if they failed first to sit down and estimate the cost to ensure they had enough money to complete it (Luke 14:28-29; compare the *Combined Code* which says the board should ensure that necessary financial and human resources are in place for the company to meet its objectives). In Jesus' teaching, however, there

Building a tower
30 St Mary Axe, built to budget but resulting in revenue problems due to impractical office space

is always a larger picture in view. The taking of risks and the management of risk are actively encouraged, but the greatest risk of all – and one incurred at our peril – involves taking chances with one's eternal destiny (see in particular Jesus' parable of the rich fool, Luke 12:16-19). Jim Elliot, who was later to be martyred in South America seeking to preach the Gospel to the Auca Indians, wrote, "He is no fool who gives what he cannot keep to gain what he cannot lose"[10].

Risk-taking entrepreneurial activity presents problems for all types and sizes of organisation. Anecdotally, governance problems seem to arise at two points in churches' growth: at about 150 people, where personal relationships cease to make things work, and where resource problems, e.g. building size become acute – potentially at any size, but there are relatively few churches which manage to exceed, say, 1000 people. Whilst in theory churches shouldn't have such problems if their leaders are hearing God, in practice they often share identical problems and it is governance which plays the critical role rather than spirituality. Even where leaders are "hearing", ineffective governance procedures may stop them from "doing".

Small, new companies are good at spotting opportunities and responding, but are often weak at assessing and managing risks, make mistakes and a disproportionate number therefore fail. Bob Jackson's research shows that while 4 in 5 Anglican churches are stagnating or declining, 1 in 5 are growing; and on the whole they are small[11]. This is unsurprising. Small groups of people are more likely to share in and be committed to a common vision – as well as being less likely to be constrained by resources, such as building size. They can also be prone to failure through poor governance, not least because small organisations of all types, e.g. schools, have limited access to resources, and may, therefore, be unduly dependent on a small number of individuals. In the case of the Church of England, this problem might be redressed in part by bishops who could legitimately decide to focus the bulk of their attentions on helping such smaller churches. In non-denominational settings analogous support may be more difficult to find and problems can arise[12]. NED's, discussed below, might be a more effective solution for both.

Tesco's architecture is decidedly ecclesiastical at times - will this seat 25,000?

In contrast, just as established large companies tend to be bad at spotting opportunities and responding quickly, so do established large churches. Appropriate risk-taking in such a setting might take the form of making severe 'cuts' and thinking big. Wouldn't it be risky for the Church of England to decide that it should close the majority of its failing churches, dispose of their assets (perhaps to the National Trust) and invest in new cathedrals capable of seating, say, 25,000 people in the spiritual equivalent of Tesco's? Actually, such a seating number would be conservative by comparison with the original vision of the builders of our current cathedrals compared with local population. Such sizeable churches are not unusual in other countries. A recent analyst who pursues this line of thinking is Nick Spencer, author of *Parochial Vision*. He advocates the creation of large 'minster' churches in major centres of population with ministers working as a team going out to serve smaller churches[13]. The problem is getting entrepreneurial leadership into such churches.

Finally, like companies, the leaders of our church(es) should be required to set strategic aims, values and standards. No company can survive and flourish without a clear sense of direction; neither can the church. No-one will ever be able to assess the extent of the self-inflicted damage on the Church of England or Methodist Church in failing to set the right balance between dry orthodoxy and excessive freedom in doctrinal matters.

Improving the quality and effectiveness of the board

Whilst in companies the quality of the board is ultimately a matter for shareholders, who have the power to appoint and remove directors, in practice the board has dominated such decisions. The *Combined Code* recognises the need to get the board of directors right. Its methods include the use of nomination committees, succession planning, refreshing board and committee membership, not placing undue reliance on particular individuals, and – controversially – limiting the period for which directors may serve. It insists that independent Non-Executive Directors ("NEDs") should play a prime role. The concept of independence is defined in detail (for example, someone who has been an employee within the last 5 years would not usually be regarded as independent). The *Code* says that the board should be of sufficient size to have an appropriate balance of skills and experience, and that board appointments should be on merit and against objective criteria.

The effectiveness of listed company boards is ultimately tested by the market. However the *Combined Code* does much to improve board effectiveness. It provides for directors to receive an induction, ongoing training (though the *Code* rather sensitively avoids calling it this) and access to both the company secretary and independent professional advice. There is a considerable emphasis on improving information flows and relationships within the company, e.g. major shareholders having the opportunity to meet new NEDs. More fundamental is the attempt to build in greater accountability within the board, through the use of more or less independent board committees and performance evaluation.

Many of these expectations of listed company directors are not rocket science, and the surprise is that they have not been introduced until quite recently. The need for ongoing training is hardly revolutionary and is recognised in the Bible (e.g. 1 Timothy 4:8). What has been more controversial are those principles which relate directly to the composition of boards and their committees. Indeed, some prominent Christians with non-executive type responsibilities with large organisations such as housing associations, which have adopted similar corporate governance practices, resisted proposals that NEDs should step down after giving long periods of service[14]. From a Christian perspective the guiding principle would often seem to be that it is

> In the multiplicity of details and in the pressure of business, a committee may lose the keen sense of mission to attempt and achieve great tasks. The committee, like the individual, needs time to think and it needs an attitude of mind and soul which can make it able to receive increasingly what is of God about its work. We cannot be too clear that it is nothing less than 'a new thing' which will meet the situation. Individually the faith of most of us is too weak sufficiently to grasp the promise 'Behold I will do a new thing' (Isaiah 43.19) but a committee which grasps with corporate faith such a promise is the committee which will have a spirit of adventure in attempting the humanly impossible. And those who thus trust God discover God.
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> Society of Friends (Quakers) Prayer League, 1914

essential in designing a system for corporate governance to recognise that people are sinful, and therefore to minimise the opportunities otherwise provided for cronyism, collusion or corruption[15]. Sadly, this may appear unsatisfactory. Where people are well motivated, often by a desire to serve (and Christian faith accepts the best in people as well), then such rules are harsh; they break relationships forged over time and waste experience and wisdom, again gained over time. Such is the price to be paid for the scandals caused by the few.

The need for an effective board is assumed almost as a *sine qua non* of good corporate governance. It is quite difficult to make a direct comparison with church decision-making practices since these can be quite arcane both at a denominational and local level[16]. There is a strong case for the churches to adopt much clearer corporate-style board practices, because of their proven adaptability and effectiveness at facilitating collective, participative decision-making. How the composition of such a 'board" should be determined is, of course, highly problematic given the very different systems of church governance, varying from highly "top-down" to "bottom-up". A variety of options for church government can be identified, whether episcopalianism, presbyterianism, single-elder congregationalism, or plural-elder congregationalism (but note these labels do not correspond neatly to established denominations which bear their name) and each option can be justified theologically[17]. In practice, at a local level, most leadership functions within churches are similar whatever the structure. Individuals will formally or informally have responsibility for buildings, finance, pastoral care, worship and children's activities. A "board" structure can make them much more effective.

Barchester - long service or young blood?

Once a proper "board" is in place, the churches could usefully follow the approach of the *Combined Code* and introduce the ecclesiastical equivalent of NEDs to provide an independent voice in decision-making. They could be of particular help in dealing with succession problems. At a national level, recent appointments to Canterbury have been controversial and call into question the wisdom of state involvement. But succession problems within independent churches can be no less difficult, e.g. at Westminster Chapel following Martin Lloyd-Jones' retirement after 30 years of ministry. Who would make suitable NEDs? A person's character is more important than their title: it would be undesirable to see church leadership populated with local "worthies". In the current church context, some NEDs should be those with a track record in successfully growing churches. Some might consist of lay people with demonstrable skills of developing and testing strategy and holding others accountable, probably drawn from business, but perhaps including suitable people with a background, say, in the health service, education or housing. Others might consist of local church leaders from different persuasions: in too many towns and cities there is a sharp polarisation between traditional, charismatic and evangelical churches. However, they should always be independent if they are to be effective.

Whether church governance could be improved by restricting the length of leaders' service and insisting that board and committee membership should be refreshed would almost certainly prove as controversial as in the voluntary sector. At a local level, particularly in rural areas, much church government appears to possess a "Vicar of Dibley" flavour, dominated by families who have lived in an area for generations and with that averse to change. Even in seemingly more progressive churches, leadership teams will often have been fairly static for as long as 10 to 20 years. Unsurprisingly, some criticise the age of the churches' leadership. Jeremy Taylor, George Whitfield and Charles Haddon Spurgeon held and moved great crowds at the tender age of 20; now there is much greater caution in trusting the young. It is no coincidence that in a period of overall decline the average age of Anglican clergy has risen at the same time as the average age of Anglican membership. Older leaders may have more wisdom and maturity to offer, but it is younger leaders, with their enthusiasm, energy and spirit of adventure, who are more likely to attract the young. Research

Dibley PCC - reality or parody?

shows that clergy mainly attract people ten years either side of their own age. The need to attract younger ordinands emerges clearly in Bob Jackson's forthcoming book, *The Road to Growth*[18]. We should not be surprised if a leadership dominated by middle-class, middle-aged males drawn chiefly from the professions is risk-averse in its decision-making. A corporate style board with NED support might enable youth and experience to be brought together.

Diffusion of power

The lingering fear of high profile scandals caused by dominant board directors such as Robert Maxwell, with the personality to enable them to dominate the board and override internal controls, has haunted the corporate governance bodies. The solution of the *Combined Code* is, in effect, to diffuse power widely in the company: hence the emphasis on an effective board, with collective responsibility, splitting the roles of chairman and CEO, requiring the appointment of NEDs led by a senior independent NED, and requiring more or less independent committees to deal with issues where executive directors may have a conflict of interests. This is supplementary to company law and the *Listing Rules*, which require many key decisions to be reserved to shareholders.

The principle of diffusion of power is problematic. Jesus dealt with the problem of leadership in the context of a rather prima-donna-ish power struggle between his disciples by reminding them of how their Gentile rulers lorded it over them. Typically counter-intuitive, Jesus pointed out that this was inappropriate for them and that instead "whoever wishes to be great among you must be your servant, and whoever wishes to be first among you must be your slave" (Matthew 20:26-27). As Richard Higginson has pointed out some in the business world have sought to commend a similar approach[19]: there is a limited fashion for servant leadership. But in reality, expecting servant leadership of someone whose life has not been transformed by an encounter with God is an unlikely prospect. With its implicit acceptance of human sinfulness in recognising the dangers of conferring substantial power on directors, the *Combined Code* is justified from a Christian perspective.

In the context of the church, servant leadership should be the norm[20]. This is after all why the words minister and ministry are used: they are a synonym for service. If servant leadership *was* always pursued, there would simply be no need to diffuse power within the church. The picture presented by the church(es) and their divergent denominational structures is both complex and confusing. At a national level, church leaders often have a bewildering array of responsibilities but surprisingly little real power. At a local level, some church leaders appear to live on their nerves before a powerful congregational body; others enjoy almost unfettered decision-making provided that they do not want to do anything truly radical, such as replace the pews! Given such diversity it is difficult to draw general conclusions as to the diffusion of power in the churches, save to observe that corporate decision-making structures - for all their failings - present a breath of fresh air.

Conclusion

The present crisis in the church(es) in the United Kingdom may simply serve in the light of history to prove that the seeds of renewal lie in times of weakness. Good church governance can do little to bring about renewal in the Church – that is the work of the Holy Spirit. But there is no doubt that bad church governance can quench the Spirit. The lessons that have been learnt in terms of good governance now enshrined in the *Combined Code* have been hammered out in a context very different from that of the church: the need to prevent major scandals caused by greed and rapaciousness. This is not the environment of the churches. However, the principles devised have been based on sound values and are broadly consistent with Christian principles. Their basic message is that if the churches are to prosper they require a risk-taking – and probably more diverse – leadership, operating within an effective decision-making structure and held accountable only in a relevant and meaningful way. Faced with potential extinction, this is not a message the churches should ignore.

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Notes

1 Petre, J. "Churches 'on road to doom if trends continue':, Daily Telegraph 3rd September 2005, p.1. See also Barnwell, M. and Iggulden, A., "Religious belief 'falling faster than church attendance'", Daily Telegraph 17th August 2005. See generally http://www.christian-research.org.uk.

2 See e.g. Cragg, G.R, *The Church and the Age of Reason 1648-1789* (Harmondsworth, Penguin, 1976), pp. 145-146.

3 Report of the Committee on the Financial Aspects of Corporate Governance ("The Cadbury Report").

4 See Tricker, R.I. "Corporate Governance" (1984).

5 See Weil, Gotshal and Manges, *Comparative Study of Corporate Governance Codes Relevant to the European Union and its Member States* (European Commission, 2002).

6 For detailed references, see http://www.fsa.gov.uk/pubs/ukla/lr_comcode2003.pdf; and for its review by the Financial Reporting Council review see http://www.asb.org.uk/corporate/combinedcode.cfm. There are exemptions for smaller listed companies and this article will not distinguish between the different effect of Code Provisions, Main Principles or Supporting Principles.

7 The Tyson Task Force Report p. 1 speaks of diversity in terms of "backgrounds, skills and experiences of NEDs".

8 See Copp, S.F. "Sex, lies and corporate governance" (2005), 135 *Accountancy* 27. The Cadbury Report (para. 3.3) defined integrity as "…both straightforward dealing and completeness. What is required of financial reporting is that it should be honest and that it should present a balanced picture of the state of the company's affairs. The integrity of reports depends on the integrity of those who prepare and present them."

9 See Copp, S.F. "Sex, Lies and Corporate Governance" above.

10 Elliot, E. *Through Gates of Splendour* (London: Hodder & Stoughton, 1957), p. 148.

11 Jackson, B. *Hope for the Church : Contemporary Strategies for Growth* (London: Church House Publishing, 2002).

12 See e.g. Walker, A. "Restoring the Kingdom" (London: Hodder & Stoughton, 1985).

13 Spencer, N. *Parochial Vision: The Future of the English Parish* (Carlisle: Paternoster, 2004).

14 There has been a discussion of this in *Housing Today*. See issues of 30 January, 6 February, 13 February and 18 June 2004, initiated by an article from Rt. Rev. David Walker, Bishop of Dudley, "2nd opinion: Experience is golden".

15 See my earlier article "CS Lewis's Concept of the Inner Ring and the Problem of Evil in Corporate Governance", FIBQ 6:3, 2002, which identified the motivation that for many the need to participate in the "inner ring" may be a dominating factor.

16 See e.g. the excellent summary of the Church of England's decision-making processes on http://wwwcofe.anglican.org/about/gensynod and related links.

17 S.B.Cowan proposes this categorisation in Toon, P. et al. *Who Runs the Church?* (Grand Rapids, Michigan: Zondervan, 2004), pp.12-15.

18 Due for publication in November 2005 by CHP.

19 See Higginson R, *Transforming Leadership* (London: SPCK, 1996), pp.44-48 and *Questions of Business Life* (Carlisle: Spring Harvest with Authentic Lifestyle, 2002), pp.324-328.

20 It is worth noting, however, that though servant seems to have been Jesus' primary image of leadership, several others can be found in Scripture, e.g. shepherd, steward and overseer.