



Religion
IfS Strategy

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The identity crisis behind financial problems
Conclusions of an analysis of strategy consultancies working for
German dioceses

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Abstract:

Ignoring economic facts is a huge danger for the Church's ministry. If Church wants to engage for the people in pastoral care and charity, it needs a balanced financial budget. Yet, an imprudent adoption of methods from the business community can also be problematic because the true objectives of Church cannot be described in business vocabulary or expressed in Euros.

Although the Catholic Church in Germany keeps a much more distant relationship with the private sector than in the U.S., a quarter of all German dioceses has engaged management-consulting-firms. This cooperation has often lacked sustainability: either in pastoral sustainability, i.e. the results were not fully consistent with theological objectives, or the implementations of the elaborated consequences of action were not sustainable financially.

A cooperation with external consulting firms must ensure that the economic proposals for action are aligned with the substantive goals of Church. Additionally, a long-term cooperation with the consultants - from joint solution development to implementation of the decisions - is necessary.

The analysis of different consulting processes in German dioceses reveals a deep identity crisis within the Church. In the change processes and all decision about the future that have to be made, different understandings about the Church's core missions. Without unity in central questions among the faithful a future concept about the Church's future core areas in pastoral ministry is not possible.

The economic situation of the Catholic Church in Germany

The Catholic Church in Germany is an important economic player. Due to the charitable organizations it administers, with about 500,000 employees it is the largest nongovernmental employer in Germany. But beyond the *caritas*, the financial resources allow dioceses also a broad engagement in pastoral ministry. The budget of the German dioceses for this pastoral ministry comes to an annual total of approximately six billion Euros, the majority of the money generated by the church's tax, which accounts of two thirds to three-quarters of total revenue depending on the diocese. The state-canonical laws in Germany enable the religious communities to assign the government to collect taxes for them and forward the money to the dioceses. The tax is based on the amount of income tax and amounts to about 500 Euros per family per year. The parishes in turn are financed by the dioceses.

Between the nineteen-sixties and the turn of the millennium, the church tax revenues increased inflation-adjusted from 1.9 billion Euros to 5.0 billion Euros. Since that time, the volume has decreased constantly. The high numbers of Catholics seceding from Church after the publication of abuse cases in 2010 and 2011 reinforced this trend. Unlike in the United States, fund-raising plays a minor role in financing the ministry. But in the wake of declining tax revenues, fund-raising is gaining more attention. Traditionally, ecclesiastical administrations are organized as public administrations, especially characterized by the fact that they do not have to concern themselves about the origin of the necessary finances.

The difficult situation is a side-effect of a fundamental change in the positioning of Church in society. As in other Christian churches in Germany the number of members in

the Catholic Church decreases. This leads to far-reaching structural changes in church life, especially in the pastoral landscape.

Meaning of church financial policies

The theological approach to financial issues within Church is characterized by fundamental considerations on the relationship between God and money, but ultimately Church has to follow the same rules as any other non-profit organization dedicated to charitable work feels obliged to:

Church does not fulfill its objectives sufficiently just with a balanced financial budget, but financial sustainability is necessary. Based on the parable of the Good Samaritan church management should identify itself more with the host at the inn, as the man from Samaria, when providing services. Money from contributors is assigned to Church and used for the ecclesiastical ministry.

Almost all facets of church ministry and pastoral services are in need of financial resources that are by nature limited. In short, Church is not a cow being milked on earth and fed in heaven. The distribution of dwindling church resources has a major impact on Church services and the understanding of how she perceives her objectives. Against this background, the statement of the Swiss theologian Leo Karrer gains relevance: "No synod or pastoral plan changes Church as extensively as financial crises."

In a situation in which the financial situation exacerbated, several German dioceses hired economic strategy consultancies, mostly McKinsey. The research project this article bases on analyzed seven significant consulting processes with far-reaching consequences in the dioceses of Aachen, Berlin, Cologne, Essen (two subsequent processes), Mainz and Osnabrueck and a cost volume of each approx. 1 mio. €. Source of informations were focus-interviews with involved church dignitaries, consultants and church employees. Additionally insight into the internal consulting documents was given.

The Catholic Church in the United States engages consulting firms, too. One example is McKinsey's financial reorganization of the Archdiocese of Boston, accomplished in 2003 after the latter had to pay high compensation payments to victims of abuse. A different project focus had the work for the Diocese of San Jose, as Harvard Business Review described: „Patrick J. McGrath, the bishop of the healthy and growing San Jose diocese, is pioneering the use of long-term, business-like strategic planning to better deliver on his churches' core mission. [...] Can the culture of a 2000-year-old organization successfully merge with approaches to management developed by McKinsey?"

This question guides the investigation of six consultation processes in German dioceses, whose results will be presented here.

Reasons for diocesan financial crises

Financial crises have occurred in various German dioceses in recent years. Their reasons lay not only in the slowly declining revenues, but often also in the inability to respond to foreseeable future revenue declines. Besides the dioceses of Aachen and Essen, one example is the Archdiocese of Berlin, which was confronted with serious financial challenges in the year 2002.

Before the fall of the Berlin wall the Archdiocese consisted of one part in West Germany and another part in the GDR, accordingly it required two separate administrations. These structures were not merged after the German reunification due to the employees.

At the time of the Berlin-boom in the early nineties, up to five million inhabitants were expected and the religious infrastructure was extended and huge investments were made.

A detailed overview over the finances was not possible before the fall of the Berlin wall, because in the eastern part of the diocese no central accounting system existed since the communist government should not have a chance to take a look into the books. The establishment of a central register of possessions and a central controlling and bookkeeping system also failed in the nineties.

1995 the first credit of 20 million DM was taken to cover the budget. The financial situation of the diocese worsened steadily over the following years. The banks threatened to stop lending money to the archdiocese

At the beginning of the century the archdiocese was on the brink of bankruptcy and it was a matter of time until it could not pay its bills and wages anymore. Following the suggestion of the German Bishops 'Conference, the archdiocese hired McKinsey in 2002, who had previously worked for the Secretariat of the German Bishops' Conference and four other German dioceses.

To support the restructuration in Berlin, after a public admission of guilt by Cardinal Sterzinsky the other German dioceses brought themselves to a 50 million-euro loan promise. With the loan commitment the financial policy of the Archdiocese was monitored by a trust committee of the lending dioceses. The installments of the loan were paid depending on the restoration progress in the Archdiocese.

The cooperation of employees in the diocese and the consultants within the project was extremely difficult. This is not surprising, since the consequences of the restructuring process were very painful: 440 layoffs, the number of parishes halved.

Even if the economic recovery has been achieved in the diocese, Church life in Berlin was badly damaged by the financially motivated restructuring: Many areas of faith do not exist anymore and will not reverse. Nevertheless, the testimony of the former vicar general in Berlin is important: "The very spectacular and painful cuts in this form would not have been necessary if the leaders in the archdiocese had made appropriate decisions in the nineties."

Conceiving a sense of urgency the responsible persons in Berlin and other dioceses trusted the top-down approach of the management consultants, who promised quick results rather than long discussions.

With all respect to the urgency of solutions, it has to be emphasized that a hierarchical top-down change-process only partially aligns to the ecclesiology of Vatican II.

The members of the parishes had no opportunity to participate in the basic decisions on future priorities. All resolutions were passed by a small committee of the diocese administration. The parish priests were not involved in decisions.

The lack of participation led to intense protests in the parishes. In fact the fear of the diocese leaders is understandable: Not everybody could be convinced of the necessity of the cuts, especially those who are engaged in sectors, whose priority is now questioned. Yet, involving a large group of representatives of the faithful would not be successful,

because they would lack the financial knowledge and there would not be enough time for the foreseen debates.

But the intransigence of urgency among the faithful is not as great as feared in some diocese administrations. And in order to reduce it, a consistent transparency is required.

An excessive attitude of dependency found within believers could also be reduced by putting the cards on the table. The widespread prejudice that Church in Germany is very rich and does not have to save money and reduce its expenses is not limited by the fact that only two out of 26 dioceses publish the asset level of the Episcopal See.

The first line: Everything is economical

Many dioceses in Germany currently still have a reliable and strong financial budget with no deficit and the reserves are adequate and include future pension obligations. Despite this background, some dioceses like Cologne, Essen, Mainz and Osnabrueck have engaged external consultants: On the one hand to outline plans to handle future revenue declines, on the other hand to review administrative structures. The consultant should oversee this process and bring in their business know-how.

Structural changes and pastoral priorities have a major impact on the essence of Church. The consultants therefore influence Church and its content. This becomes a problem:

In all analyzed consulting processes, the consultants denied worked theologically and played down their direct influence, the involved people of the diocese also stressed that external consultants had made no substantive decisions. Distinguished by the consultants was always a pastoral and an organizational-economic component of the church. This is a de facto separation of content and form and leads to a separation of theological and economic issues and in consequence to a definition of theological questions from an economic point of view. In addition, the consultants appeared neutral as overall strategy consultants, but were nonetheless judging from a mainly economic perspective and their results influenced the content, the theology.

This "implicit theology" comes into play when the consultants, influenced by their professional background, identified the diocese as a commercial company with appropriate internal structures, and its objective as an efficient and effective provision of services.

Such a view must not be necessarily bad; one just has to realize the implications of it. If one wants to allow stimuli from economy, then one must also be aware of their limitations.

Popular terms like "core competencies" are of a genuine economic nature, which has to be reflected when translated into a theological context. Business logic and theological logic must be brought into a real dialogue, even and especially in financial and structural issues.

The purpose of Church -- participation in self-communication of God and the anticipation of the eschatological community -- cannot be operationalized in mutually comparable services. The very essence of Church is ignored in this implicit theology by the fact that it cannot be expressed in terms of business logic.

It was a problem that in many dioceses a pastoral vision that could guide the strategic decisions was missing.

You could quite often find the perception that the leadership of the diocese could not translate the general objectives of Church into conclusions for the specific and momentary situation of a certain diocese, so that structures and priorities can be built on this.

The results of the one-day "Prioritization Workshop", facilitated as part of the consultation process about the strengthening and reducing of future pastoral services, were often not sustainable: Too complex were the dimensions of the on the first glance simple question, too profound the consequences for the design of the Church's mission and too short the scheduled time for deep discussions.

The consultants were able to fill this vacuum by participating in decisions that were not actually in their mission field. This was supported by the personal overload of the diocesan leaders that struggled to find solutions for the actual challenges.

The second limitation: the implementation fails

On the other hand, it was observed that especially in dioceses with no present need for cost-cutting measures a surprisingly high number of suggestions of the consultants remained unheeded or decided measures were not implemented consistently.

Mostly, implementation failed because in retrospect the suggestions were regarded as pastorally questionable, but because church leaders feared the resistance of the people. Saving programs have been implemented only half-heartedly, existing structures changed only slightly, ignoring financial developments.

To claim that any structural change of working methods and fields in Church has to be prepared by an embracing dogmatic reflection can lead to freezing the status quo - with negative impacts on pastoral work. Suddenly everything has to stay the way it is.

Two facets of this observation should be mentioned here:

Firstly, the stagnation and immobility can go in line with satiation. Administrations for example have a tendency to rigidity and willingness to maintain power. This also applies to Episcopal administrations. While the number of full-time pastoral staff has remained constant, the number of ecclesiastical administration employees increased rapidly over the last thirty years, despite increasing digitization and standardization of processes. If the number of Catholics and resources decrease, would not a reorganization of the administration be necessary, to prevent consuming disproportionate amounts of resources and complicate processes unnecessarily?

The economically meaningful and theologically objectionable proposals of the external consultants often were not implemented. The same is true for other unpopular proposals, often in conjunction with savings. The reluctance to accept the consequences of the implemented proposals reinforced a bureaucratization within Church.

Especially the dioceses that do not have acute financial problems are very cautious when it comes to the sustainable implementation of restructuring and cost saving.

Secondly, very few dioceses have effective supervisory bodies, which can exert pressure on the responsible persons in the diocese administrations.

Often exclusively executive employees of the dioceses are appointed to the supervisory bodies by the bishop and this creates the absurd situation that they must control themselves, the vicar general and bishop.

Corresponding legislations can distract the bishop from the temptation to give up an effective and independent financial supervision.

Other mechanisms for financial supervision are often not used as canon law actually provides. The canonically prescribed economist has to monitor compliance with the annual budget and maintain fiscal discipline in every diocese. Many diocesan bishops appoint their vicar general for the job and as the economist, and therefore reduce the effectiveness of this function.

A matter of principle also for the supervisory structures in the Church's financial activity seems to be: Trust is a Christian core concept, but sometimes controlling and monitoring can be a protection. Enabling an appropriate openness and involvement of local communities could also increase transparency about the financial situation that could serve as a basis for stronger cost-consciousness.

If you only to warn of an impending commercialization of the economics by external consultants in this context, you ignores the reality of Church.

Chances of consultation

As in other human and social science disciplines, the economic influences are a chance for the outline of theology, but limits are set. Cost transparency through modern methods of accounting, the publication of an annual balance sheet and the implementation of effective supervisory structures in the financial management can help in many ways the religions communities in their work with and for the people.

These methods do not necessarily go in line with the image of Church as a sacred service company that would automatically do away with its ethical claims. The authority of the church offices also would not be undermined by regulatory bodies. One should not close one's eyes to deficiencies that exist within Church organization, for example in financial management and supervision, staff development, administrative organization and fields of IT.

If external consultants are involved in the development of solutions there must be a close and long-termed cooperation: It must be close to develop solutions that meet both theological claims, as well as the business limitations and long termed to ensure consistent implementation of the changes and possible modifications. Otherwise, consultants are hired for a lot of money, whose work is useless or even harmful.

Open questions in church management

Behind the financial crises of the dioceses lays an identity crisis. Without a fundamental ecclesiological reflection no overall long-term solutions can be developed. In dialogue with the business consultants, questions appeared on how the church should look like in the future. These questions need a theological answer:

- Can a diocese determine its objectives with a concentration on core competencies?
- What are the church's core competencies?

- To what extent does the diocesan leadership fulfill the same role as a corporate management?
- How important is efficiency in the work of a diocese?
- To what extent can economic steering instruments support the administration of pastoral processes?

The fundamental challenges of the German church

Studying the cooperation between economic consultancies and Catholic dioceses has shown exemplarily that the Catholic Church in Germany has to deal with three orientation conflicts:

- The Catholic Church in Germany is no socially mandatory organization and its number of members is not constant. Due to the dependency on church taxes and the sinking tax revenue it is forced to perform resource-saving actions and ensure economic sustainability.
- At the same time, Church is not just an organization, but with an original and focus structure, a double structure. It concentrated on its traditional mandate as well as on the actual needs of the people. This causes structural tensions within its overall organization. As an intermediary organization, it can enter dialogue with modern society, but requires the necessary internal structures therefore.
- A solution to this structural tension is further hampered by different positions in Church politics, which are based on different ecclesiological understandings.

These challenges are by no means limited to the dioceses that have used the services of external consultants; the other dioceses in Germany have to answer to these questions, as well. The origin of these challenges lies in the social and religious changes in recent decades, which have altered the relationship between society and church and between people and church.

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