

The Crystal Cathedral Ministries and its Demise

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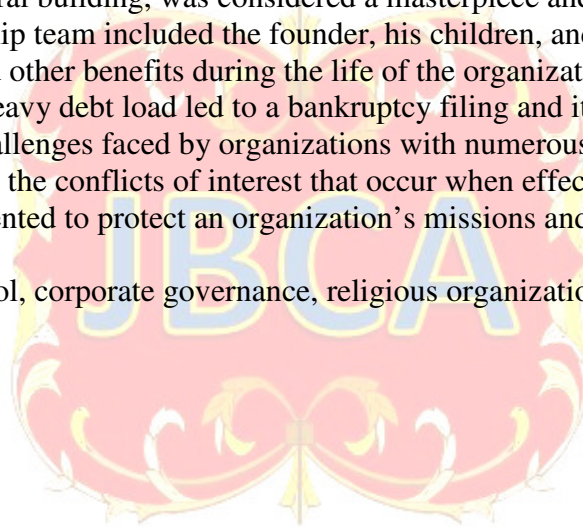
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ABSTRACT

The case concerns the Crystal Cathedral Ministries, a dynamic organization that started in the founder's home and eventually grew to include nine buildings covering 40 acres. The crown jewel, the Crystal Cathedral building, was considered a masterpiece and became a tourist destination. The leadership team included the founder, his children, and other family members who received salaries and other benefits during the life of the organization. Declining fortunes, internal disputes, and a heavy debt load led to a bankruptcy filing and its ultimate demise. The case demonstrates the challenges faced by organizations with numerous family members in positions of authority and the conflicts of interest that occur when effective corporate governance practices are not implemented to protect an organization's missions and objectives.

Keywords: Internal control, corporate governance, religious organizations, nonprofit, bankruptcy



INTRODUCTION

The “email incident” did not trigger the organization’s demise but it might have foreshadowed the end of what was once a unique and dynamic ministry. One church member summarized the email incident best by noting that “these are millionaires who have limos and chauffeurs...why in God’s name would they want the congregants to deliver meals? It’s ludicrous.” The email instructed members not to provide any get well cards to the ailing founder and his wife, but instead provide meals for the next three to four weeks. Ideally, the meals would be low in sodium and include fruits, meats, soup, and egg dishes, such as quiches.

However, the congregation was about to face news that rendered the email incident insignificant. The ministry was filing for bankruptcy protection citing \$48 million in debt - \$12 million to creditors across the country and a \$36 million mortgage to a California based bank. How could a ministry that started out in rented space at a drive-in movie theater now face such daunting financial challenges? The answer might be found in the overall corporate governance structure that existed at the ministry prior to the bankruptcy filing.

THE ORGANIZATION

The Crystal Cathedral Ministries (the ministry), a congregation of the Reformed Church in America, was founded in 1955 by the Rev. Robert H. Schuller. It had a humble beginning with its early worship services held in the family’s three-bedroom house, with the choir rehearsing in the living room. The ministry was subsequently moved to the sticky tar paper roof of a snack bar at the local drive-in movie theater where the weekly rental was a mere \$10. The ministry, initially named the Garden Grove Community Church, grew over the years and soon became known as the first “mega church” in the country. At its peak in the 1990s, it had more than 10,000 members attending its three Sunday services.

The Tower of Hope was one of the first additions to the permanent home based in Garden Grove, California. Built in 1968, the 13-story Richard Neutra designed building provided office and classroom space for the growing ministry. It also housed the world’s first church sponsored 24-hour suicide and crisis prevention hotline.

As the ministry expanded, the founder recognized the need for a new facility to serve its congregants. Renowned architect Philip Johnson was commissioned to design and develop a building to serve as the permanent sanctuary. One design goal of the building was for it to open to the sky and the surrounding world. The building, the Crystal Cathedral, was completed in 1980 at a cost of \$18 million. It was simply spectacular with 10,000 glass panel windows, seating for approximately 2,800 worshippers, and a marble chancel that could accommodate up to 1,000 musicians. As the largest glass building in the world, it housed the Hazel Wright Memorial Organ, which boasted more than 16,000 pipes. The architect was so impressed with the Crystal Cathedral that he referred to it as his ‘capolavoro’ or masterpiece. This masterpiece soon became one of the county’s top tourist attractions.

The Crystal Cathedral building was the centerpiece of what was referred to as “the campus” which included a total of nine buildings spread over 40 acres. The last addition to the campus was the welcome center, added in 2003. This five-level modernist building was designed by Richard Meier and built for approximately \$47 million. It contained an indoor-outdoor café, a gift shop and bookstore, a 300-seat performing arts theater with orchestra pit, a

chapel, a large visitors' information lobby, and a museum. It also featured a wall constructed with 20,000 crystal bricks engraved with donors' names.

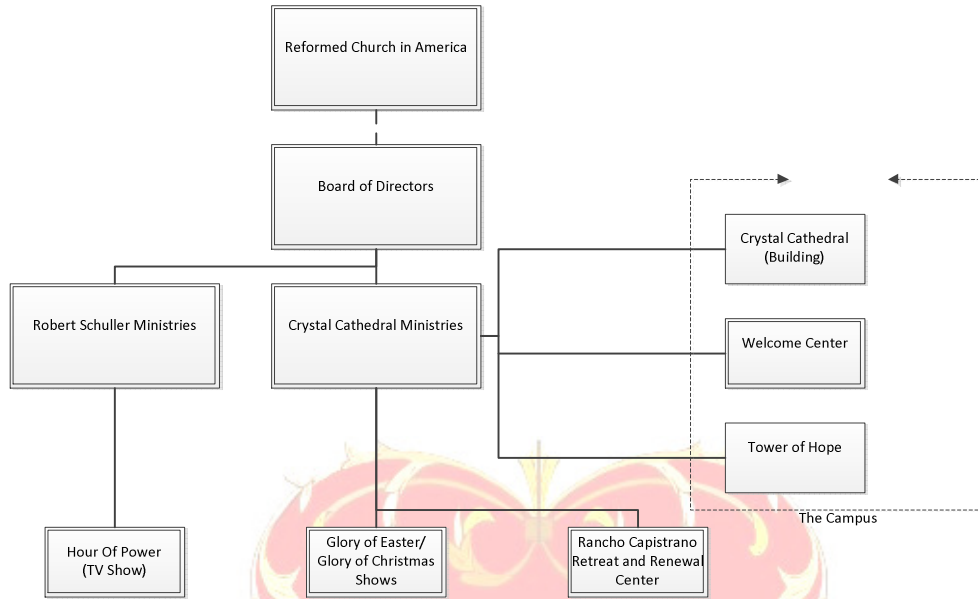
The Crystal Cathedral itself became the home-base of two musical stage productions known as "The Glories" – The Glory of Christmas and The Glory of Easter. These were both live-action pageants portraying the Christmas and Resurrection stories, respectively. They featured actors, numerous volunteers, elaborate sets, flying angels, and a parade of live animals including camels, sheep, horses, and a donkey. The shows were also recorded and sold to the public, including those unable to attend the live performances. The Glory of Christmas reached iconic status and became a holiday tradition for many families.

The founder's ministry was based on the concept of "possibility thinking" or self-esteem. Inspired by a fellow minister, Rev. Schuller agreed to take his popular Sunday services to the television airwaves. This led to the creation of the weekly "Hour of Power" (HOP), which was launched in 1970 and first aired as a church service at the Garden Grove Community Church. His spouse, Arvella, served as the show's executive producer, an unusual position for a female during this time period. The show was a resounding success and, at its peak, claimed 20 million viewers per week on 190 stations. The viewers hailed from over 156 countries, across all seven continents. The ministry provided subsequent video streams of the service via its website.

The last addition to the ministry was the Rancho Capistrano Retreat and Renewal Center. Known affectionately as "the Ranch," the ministry's south campus was a 100 acre property gifted in 1981 by an Orange County, California philanthropist. A church, a school (grades Pre K-12), and a retreat center with 12 suites were developed on the Ranch. The facilities were also used for retreat programs, weddings, and religious gatherings. The ministry also owned 126 acres of farmland in Michigan, a manor in Maui, and an office building in Sydney, Australia.

The ministry had two main components – Robert Schuller Ministries, the television and fund raising arm, and the Crystal Cathedral. It was guided by a board of directors, mainly composed of family members, and a few outside personnel including top business executives and Fred Southland, the chief financial officer. The ministry, its various entities, and significant products or buildings are depicted in Figure 1 below.

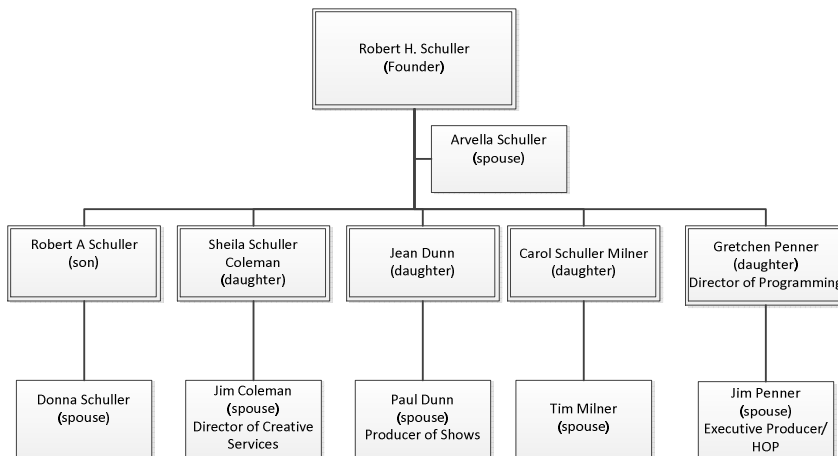
Figure 1: The Organization



LEADERSHIP ACTIVITIES

One unique feature of the ministry was the number of family members that were involved in the leadership team. The Schullers had five children who, along with spouses and other family members, were involved in the ministry’s daily operations and management. This interrelationship is depicted in Figure 2 below.

Figure 2: Crystal Cathedral Ministries Related Parties



The second oldest child and only son, Robert A. Schuller, became the senior pastor of the ministry upon the retirement of his father. He attempted to move the ministry into new directions and reduce expenses, but was rebuffed and fired by the family-dominated board. He was succeeded by his oldest sibling, Shelia, who served as senior pastor until the ministry's demise. Robert A. and Shelia faced similar challenges and continued to preach the same positive message as their father, but both lacked his charisma. (Robert A's role in the ministry will be discussed more in the next section)

Donna Schuller, a certified nutritionist, often appeared on the Hour of Power, while Sheila's husband, Jim, served as the ministry's Director of Creative Services. (One of Donna and Robert's children, Bobby, later continued the Hour of Power after the ministry's bankruptcy and served as the leader of Shepherd Grove, the remnant of the former ministry).

The responsibilities of two Schuller daughters, Jean and Carol, is not clear, but their husbands played important roles in the ministry. Paul Dunn, Jeanne's husband, served as the producer of both Glory pageants. Tim Milner replaced a longtime employee as the founder's traveling associate. As the title suggests, Milner traveled with the founder during his motivational speaking tours and joined him in meetings with prospective donors. Another family member, Louise Dunn, served as the director of the crisis center.

The fourth daughter, Gretchen Penner, and her family, appear to play significant roles in the organization. At least seven members of her immediate and extended family were involved in the ministry. This relationship is illustrated in Figure 3.

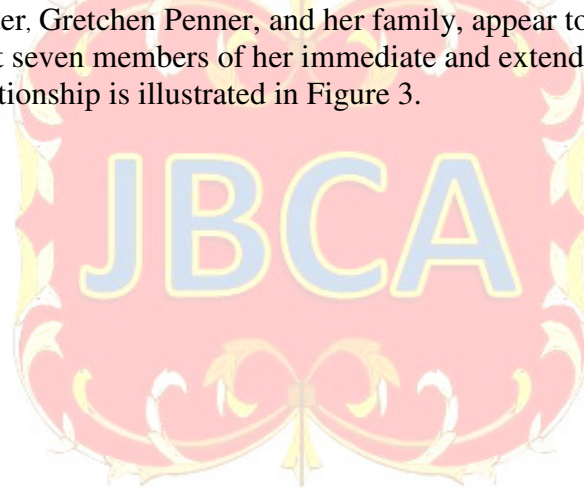
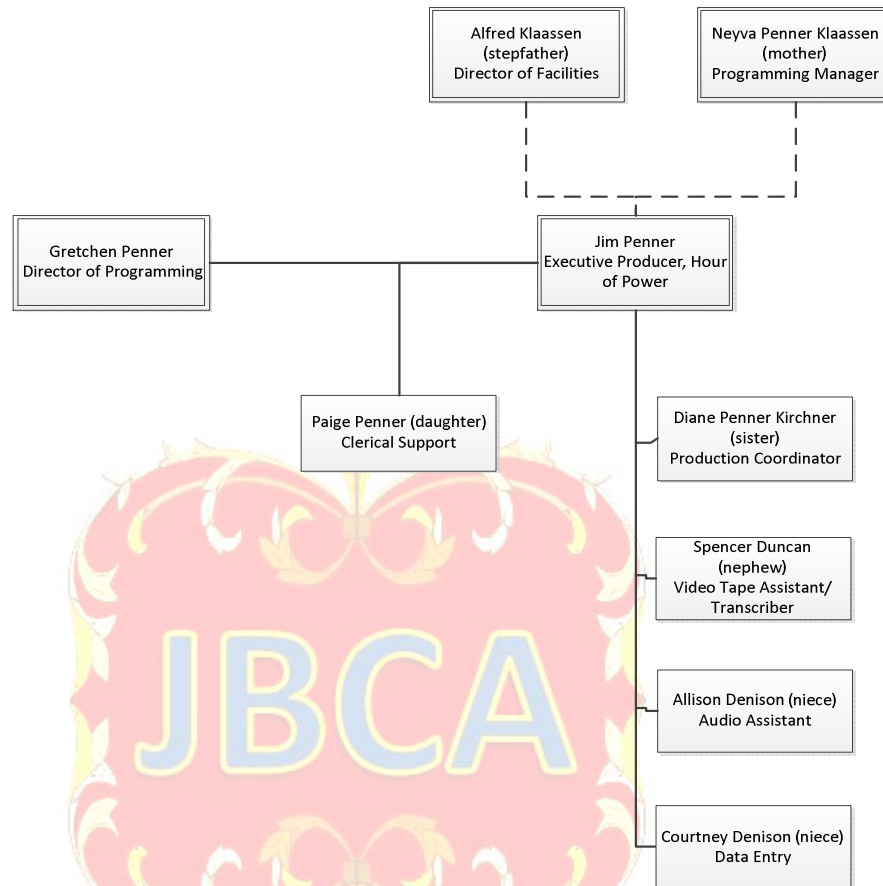


Figure 3: Related Parties – The Penners

Gretchen served as the Director of Programming, and her husband, Jim, was the Executive Director of the Hour of Power. The couple's daughter provided clerical support to the ministry. Jim's mom served as Programming Manager, and her husband was the Director of Facilities. Jim's sister was a Production Coordinator and several nieces and one nephew were employed in various positions.

ACTIVITIES OF THE MINISTRY

Leadership and Management

In 2006, the founder elected to turn the ministry over to his son Robert A. Robert was groomed for this role having served for many years as senior pastor of another congregation. To ensure a smooth transition, his father spent the previous two years introducing him to various donors across the country.

The new leader felt empowered to review the ministry's operations while setting new goals. One goal was to reach a younger audience. To achieve this, he planned on using new technologies to expand the ministry's capacities to reach new communities and expand missions. This idea was not well received and several board members objected on the grounds that the

approach was too vague and distracting. Some congregants did not embrace his preaching style since his approach was drastically different from his father. (The son's sermons were seen as more Bible-based versus his father's message of positive thinking.) Robert A. lacked the charisma and optimism of his father; his appearance was more of a golf professional than a minister. He also attempted to manage the ministry's membership roll and found a major difference between the reported numbers (10,000) and those that could be supported (approximately 900-1,000).

Perhaps the fatal flaw was Robert A.'s goal of instituting better governance practices to ensure accountability and transparency. The idea was to remove anyone with a conflict of interest from the board. This meant an autonomous board which would require the removal of family members such as his parents, his sisters, and their spouses.

These proposals created disagreements between father and son and eventually his sisters supported their father's point of view. In July 2008, family members rebelled and created a three-person "Office of the President" to run the ministry. Two of the members were his brothers-in-law. In October 2008, Robert A. was removed from his leadership position by his father citing a lack of shared vision. He was no longer allowed to preach on the HOP, and his role was limited to serving as pastor of the local congregation. Faced with these options, Robert A. resigned from the ministry.

The lead preaching role on the HOP was filled by a rotating cast of guest speakers including the founder, his daughter, and a son-in-law. The daughter (Schuller-Coleman) was named senior pastor of the cathedral in 2009. In July 2010, the founder retired as Principal Pastor of the cathedral and was replaced by Schuller-Coleman. He remained on the board.

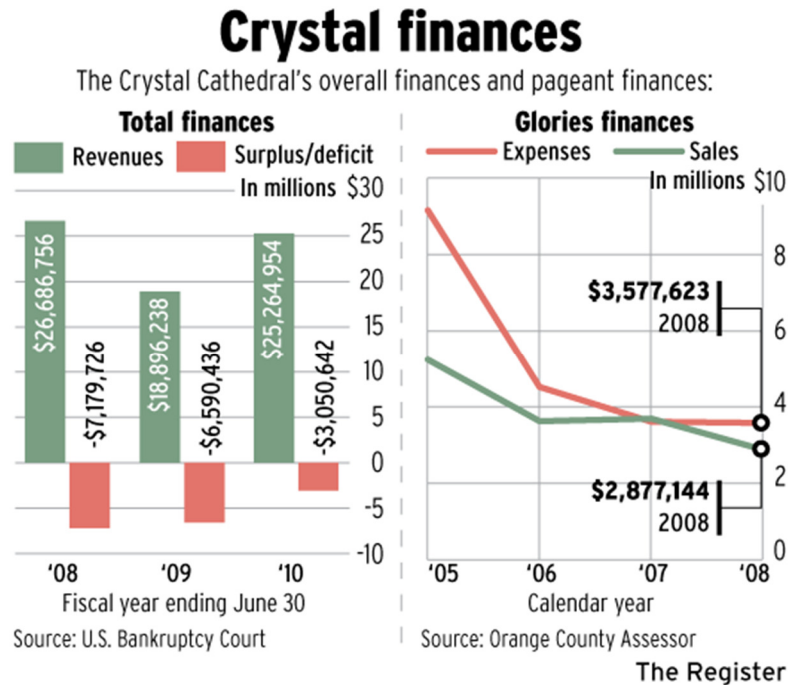
Financial Conditions

The ministry was a dynamic and successful organization during its peak years. For instance, in 1986, it reported a combined annual budget of \$42 million. The majority, \$35 million, was earned from the television ministry with the remainder from the Crystal Cathedral. By 2005, the budget had increased to \$80 million, which was only \$10 million lower than the budget of the local city in which the ministry resided. During those years, it had more than 400 employees and over 2,000 unpaid volunteers.

Like other religious organizations, the ministry relied on donations from congregants as its source of support. The typical donor was older (average age of 53), female, and provided small financial support (approximately \$21). The funds received were used to cover the debt load from the building projects and operating expenses, including compensation for personnel.

The last years of operations showed a mixed picture of the ministry's finances, especially the Cathedral's (shown in Figure 4 below). Its total revenue peaked at \$26.7 million in 2008 while it reported deficits in each of the three reported years. Meanwhile, its major assets, The Glories, had expenses that exceeded sales in each of its four reported years.

Figure 4: Crystal Cathedral Finances



(Source: Bharath, 2010)

The decline in the ministry's fortunes might be attributed to a number of related events. In 2005, the Cathedral spent approximately \$13-15 million to create a third Glory production – The Glory of Creation. It was a lavish show with giant digital screens, elaborate sets, and a red carpet premier. However, the show lost approximately \$5 million and was never restaged. Another pivotal event occurred in 2009 with the resignation of Robert A. from the ministry. This created a chain reaction when some of his supporters left the congregation which resulted in a decrease in donations and the elimination of staff positions.

A major source of the ministry's expenses and deficits were the salaries paid to family members and other insiders within the organization's leadership team. At the time of its bankruptcy, the ministry reported salaries and other benefits paid of approximately \$1.58 million. The details are shown in Appendix A. In addition to salaries, family members and insiders received housing allowance and other benefits from the ministry. Examples of such benefits are provided in Appendix B.

THE UNRAVELING

2010 proved to be a pivotal year for the ministry. In March of that year, The Glory of Christmas and The Glory of Easter shows were canceled after relations soured between the ministry and its vendors due to unpaid bills from the previous year. The Ranch was sold in May of the same year to Hobby Lobby for \$22.5 million in order to reduce debt. The new owners subsequently leased the property to another congregation. In October 2010, the ministry filed for Chapter 11 bankruptcy protection after creditors sued for non-payment. The ministry cited \$48 million in debt - \$12 million to creditors and \$36 million in mortgage loans.

The ministry had approximately 550 creditors which included a mix of vendors and laborers. Creditors ranged from the pageant's wardrobe manager who was owed \$11,000, to a consulting firm which was due \$318,000, and a publishing house was owed \$200,000.

A creditor committee was formed as a result of the bankruptcy filing and subsequently sued family members and other insiders for abuse of power. The lawsuit alleged that family members borrowed \$10 million from the church's endowment fund from 2002-2009 to support extravagant salaries and other church-related expenses. It also claimed that family members continued to receive generous salaries and perks while the church struggled financially.

Schuller family members and other insiders (mainly the chief financial officer) demanded unpaid salaries and other contractual obligations of approximately \$2 million. The fate of the once powerful ministry was now in the hands of the bankruptcy court.

EPILOGUE

The church buildings were sold to the Catholic Diocese of Orange County in 2011 for approximately \$57.5 million as part of the reorganization plan. The buildings were renovated and renamed the Christ Cathedral. The glistering buildings and related acreage that once housed the dynamic Crystal Cathedral Ministries is now home for the Archdiocese of Orange County (California).

In terms of the key players:

- The founder and his wife Arvella resigned from the church board in 2011 over non-payment of the use of the founder's likeness and sermons on HOP. In November 2012, he and his wife went to court seeking approximately \$5 million for breach of contract and copyright infringement. He was awarded \$615,625 by the bankruptcy court.
- Arvella Schuller passed away in 2014 after a brief illness, and the Rev. Robert H. Schuller died from cancer in 2015. Fred Southland, the former chief financial officer, suffered a heart attack and died in 2012.
- Schuller-Coleman resigned as chief executive officer from the ministry in February 2012. Most of the other family members were fired by the (bankruptcy) court-appointed board. In March 2012, Schuller-Coleman opened her new church in a movie theater. The church, now called Hope Center OC, eventually moved into new leased space in June 2013.
- Robert A Schuller became the chairman and principal of a media company in 2008 (Comstar Media). The company operates two TV networks that provide family friendly positive programming.
- In January 2013, Bobby Schuller (the founder's grandson) was named the new pastor of the HOP. In May 2013, Crystal Cathedral changed its name to Shepherd's Grove. The new congregation is now headed by Bobby Schuller.

DISCUSSION QUESTIONS

1. What is Chapter 11 bankruptcy protection and how is it managed for a nonprofit entity such as a church?
2. What corporate governance practices should be implemented to ensure appropriate oversight?
3. How does a ministry like Crystal Cathedral reduce the number of family members to avoid potential conflicts of interest?
4. How did the building boom create the excess leverage for the ministry? What steps could leadership have taken to better manage the construction process?
5. How should the bankruptcy court administer the Schuller family claims? What compensation, if any, should be provided to the founder? Provide justification for your response.
6. Describe the elements of a good succession plan. Identify strengths and weaknesses of Crystal Cathedral's plan of transition from father to son.
7. Were the salaries and benefits paid to family members and other insiders appropriate or excessive? Explain the rationale for your response.
8. Discuss the housing allowances provided to family members. Do they seem appropriate under the circumstances? How should they be treated for tax purposes?

Note: Interested faculty may contact the lead author (relson@valdosta.edu) for a copy of the teaching note.

APPENDIX A: SALARY INFORMATION FOR SELECT PERSONNEL CRYSTAL CATHEDRAL PERSONNEL

Principal Employee	Salary	Source
Robert H Schuller	\$108,415	Hour of Power
Robert A Schuller	196,478	Hour of Power
Donna Schuller	80,308	Hour of Power
Sheila Coleman	69,792	Church
James Coleman	156,710	Hour of Power
Gretchen Penner	69,792	Hour of Power
James Penner	156,710	Hour of Power
Carol Milner	108,415	Hour of Power
Neyva Penner Klaassen	55,000	Hour of Power
Louise Dunn	154,731	Church
Charles Smith ¹	135,519	Hour of Power
John Townsend ²	127,027	Hour of Power
Fred Southland ³	156,710 (includes 132,019 housing allowance)	Hour of Power
Total	\$1,575,607	

(Source: Campbell, 2010)

¹ Former traveling associate

² Guest preacher

³ Chief financial officer

APPENDIX B: HOUSING ALLOWANCE AND OTHER BENEFITS

Personnel	Benefit Type	Amount (if known)	Year(s)
Robert H Schuller	<ul style="list-style-type: none"> Discretionary fund after handling over the ministry to his son 	\$300,000	2006
“	<ul style="list-style-type: none"> Compensation and housing allowance 	\$257,000	2009
Robert H & Arvella Schuller	<ul style="list-style-type: none"> Health insurance, staff and travel staff, for the rest of both their lives 	-	-
Robert A Schuller	<ul style="list-style-type: none"> Reserve fund to help establish a new church. 	\$235,000	2008
“	<ul style="list-style-type: none"> Church would receive a Mercedes Benz and \$1 million in seed money 	\$1,000,000	
Robert & Donna Schuller	<ul style="list-style-type: none"> Salaries and benefits for a year after his resignation 		
Paul & Jeanne Dunn	<ul style="list-style-type: none"> Compensated until the bankruptcy filing for producing the Glories although pageants were not produced in 2009 and 2010 		
Paul Dunn	<ul style="list-style-type: none"> Retirement benefits; life, medical, and disability insurance; paid staff; business, housing, and car allowances per 1992 agreement. Plus, eight round trips per year from his home in Hawaii to California 		
Tim Milner	<ul style="list-style-type: none"> \$10,000 per month in salary for 2006 to provide discretionary services to his father in law (the founder) 	\$120,000	2006
Carol Milner	<ul style="list-style-type: none"> Salary and housing allowance 		
Fred Southland (CFO)	<ul style="list-style-type: none"> Tax free housing allowance of \$132,000 per year 	\$132,000	
Source: Coker, 2011			

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